

SM/04/343

September 30, 2004

To: Members of the Executive Board

From: The Secretary

Subject: **Operational Guidelines for Fund Support for Trade-Related Balance of Payments Adjustments**

Attached for the **information** of Executive Directors is a paper on operational guidelines for Fund support for trade-related balance of payments adjustments.

It is not intended to publish this paper on the Fund's external website.

Questions may be referred to Mr. Lankes (ext. 34598) and Mr. Nielsen (ext. 36467) in PDR.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

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INTERNATIONAL MONETARY FUND

**Operational Guidelines for Fund Support for
Trade-Related Balance of Payments Adjustments**

Prepared by Policy Development and Review Department
(In consultation with other Departments)

Approved by Mark Allen

September 28, 2004

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I. INTRODUCTION

1. On April 2, 2004 the Executive Board approved the Trade Integration Mechanism (TIM). The TIM provides added assurances of support for members that experience balance of payments problems caused by trade liberalization in other countries. The TIM is not a facility, and financial assistance in accordance with the TIM cannot be provided on a stand-alone basis; it is only available in the context of a Stand-By Arrangement in the upper credit tranches, or arrangements under the Extended Fund Facility (EFF) or the Poverty Reduction and Growth Facility (PRGF).
2. For a fuller description of the TIM staff is referred to *Fund Support for Trade-Related Balance of Payments Adjustments* (SM/04/63, March 1, 2004). For easy reference, the text of the decision establishing the TIM is included here in Annex I and the Board Summing-Up in Annex II.
3. The purpose of this note is to clarify various technical aspects of the TIM and provide guidance to country teams in their discussions with authorities on the possible application of the TIM in existing arrangements or new arrangements under preparation. The guidance note has benefited from the Executive Board discussion of the TIM. It is by necessity fairly general; when applying the TIM in specific cases staff is encouraged to seek the assistance of PDR at an early stage of program preparations. PDR will also support missions in analyzing the trade events that might give rise to requests under the TIM, in the context of both program and surveillance work.

Box 1. The Trade Integration Mechanism in a Nutshell

Under the TIM the Fund:

- stands ready to discuss with members facing balance of payments shortfalls due to trade liberalization measures undertaken by other countries—normally introduced under a WTO agreement or on a nondiscriminatory basis—the possible provision of financial support within its existing lending facilities (i.e., stand-by arrangements in the upper credit tranches, the EFF, or the PRGF);
- will take into account the anticipated impact of such trade events on the member’s balance of payments in determining the appropriate size of access under either new or existing arrangements (the “baseline feature”); and
- will consider augmentation of access (of up to 10 percent of quota) under simplified procedures if the actual balance of payments effect of trade events identified at the time of determining the baseline component turns out to be larger than anticipated (the “deviation feature”).

II. RATIONALE FOR THE TIM

4. There have been concerns among some developing countries, in particular in the context of the WTO Doha Round, that the liberalization of world trade might be associated with significant adjustment costs. The TIM addresses those concerns that relate to possible balance of payments shortfalls caused by liberalization in *other* countries. By tackling short-run adjustment needs the TIM aims to allow members to focus on the longer-term opportunities of a more open world trading environment.

5. While existing Fund facilities and policies continue, of course, to be available for countries requesting assistance to address balance of payments shocks, the introduction of the TIM broadens the menu of options available to members. It provides a focal point for dialogue with the authorities and, by encouraging early identification of vulnerabilities, may spur appropriate policy responses. The TIM may also help strengthen analytical work on trade-policy related issues among Fund staff as well as in member countries.

6. Although the need for a TIM stems from concerns raised by developing countries in the WTO's Doha Round negotiations, *any* Fund member—whether or not also a member of the WTO—is eligible for assistance in accordance with the TIM.

III. TIM-QUALIFYING TRADE EVENTS

7. **Nature of trade event:** At the core of a request for consideration of Fund assistance under the TIM is a negative balance of payments shock that originates in the implementation of a trade policy measure by other countries (and is, therefore, “exogenous” from the perspective of the member). The shock will normally be related to changes in trade policies under WTO commitments, or made outside the WTO context on a nondiscriminatory basis, that either result in more open and nondiscriminatory market access for goods and services or remove trade-distorting subsidies. The nature and timing of the shock can usually be predicted, even though its size will be uncertain.

8. **Examples:** As discussed in *Fund Support for Trade-Related Balance of Payments Adjustments*, balance of payments shocks that qualify for consideration under the TIM may include:

- lower exports as bilateral textile and clothing quotas are eliminated in connection with the expiry of the WTO Agreement on Textiles and Clothing (ATC) in early 2005, and EU, Canadian and U.S. sourcing of textiles and clothing imports shifts toward the most competitive suppliers;
- lower exports as reductions in MFN tariffs compress the value of developing countries' tariff preferences in industrial country markets, for instance as a result of a Doha Round agreement in the WTO or of unilateral reforms of sugar and banana import regimes in key countries; or

- deteriorating food terms of trade in net food importing countries as agricultural subsidies are being reduced abroad, thus relieving excess supply on global markets.

9. **Whose reforms?** The change in the trade policy environment (“trade event”) can originate in a country that may or may not be a member of the Fund—although in practice no non-member would appear to have a significant enough impact on world trade to affect members’ balances of payments. The trade event can also originate simultaneously in several countries. Apart from the implementation of commitments in the WTO this may be the case when members of a customs union reform their trade regimes. If the trade event stems from the action of such a country grouping, membership in the country grouping will not preclude a country from requesting Fund support in accordance with the TIM.

IV. IDENTIFYING AND PRESENTING THE BALANCE OF PAYMENTS IMPACT

10. **TIM baseline:** The staff report for a request of assistance in accordance with the TIM needs to identify the *major* channels through which the change in the trade policy environment will affect the balance of payments. The *TIM baseline* is defined as the projected value of the balance of payments item(s) subject to the shock, prior to any adjustment. It is distinct from the “baseline” of the underlying Fund-supported program, which would reflect a broad range of factors influencing the balance of payments, including adjustment.

11. **Baseline impact:** It will often be possible to compare the TIM-baseline with earlier projections of the same balance of payments components that made more limited—if any—provisions for these shocks. Where an earlier projection is not readily available, staff should construct a counterfactual for the relevant balance of payments items that assumes that no change in the trade policy environment occurs. The difference between the two projections, the *baseline impact*, reflects the direct, specific, net balance of payments impact of the event in question (or, of our knowledge and understanding of the event), before adjustment. The baseline impact is, of course, one of the motivations for a member’s request for support in accordance with the TIM, and should be discussed in the staff report.¹

12. **TIM table:** The projections relating to the TIM should be shown in a separate table (“TIM-table” for convenience). Since the calculations serve the dual purpose of providing both a sense of the trade event’s *net* balance of payments impact, and of helping to distil the

¹ The other possible motivation is the “insurance” aspect of the TIM’s deviation feature (see below).

effects of the authorities' policy response, the TIM-table should contain a set of projections (see Annex III for table outline):²

- 1) a counterfactual projection showing how the balance of payments would have evolved in the absence of the trade event,
- 2) a balance of payments projection incorporating the trade shock(s) and assuming no policy adjustment, and
- 3) a balance of payments projection reflecting the authorities' policy response (where relevant).

13. **Net impact:** In most instances, the major balance of payments channels would be confined to the merchandise trade accounts and associated service accounts, but in particular instances the trade event could also materially affect other balance of payments accounts, and if so, these should also be included in the staff's quantification. It is the net direct impact that gives rise to possible consideration of Fund support in accordance with the TIM and it is therefore important that negative as well as partially offsetting positive effects—for example, associated reductions in imported inputs—are separately identified. Where more than one trade event is considered, the baseline impact would be the sum of their effects.

14. **Sources and methodologies:** In estimating a TIM baseline, staff will generally need to analyze trade data at an unusually disaggregated level. Close collaboration with country authorities is essential. PDR has developed preliminary estimates of the effects, respectively, of the expiry of the WTO Agreement on Textiles and Clothing and the erosion of tariff preferences. In addition, the recent staff report on Bangladesh—the first country to receive an augmentation in accordance with the TIM—is a good example of presenting a request for TIM-related assistance.³

15. **Period of projection:** In principle, the quantification should be undertaken over the time period where the trade event is expected to have a material impact on the balance of payments, but there is no expectation that staff extend the time horizon of its medium-term

² Policy responses might include, not only sound macroeconomic policies, but also those that allow consumers to respond to changing world prices and investment, production to adapt to changing comparative advantage, and social policies that provide adequate safety nets for the poor. For example, reforms could include exchange rate policy, improvements in the investment climate, sector-specific policies to improve competitiveness, etc.

³ *Bangladesh—Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility (PRGF) and Requests for Waiver of Performance Criteria, Activation of the Trade Integration Mechanism (TIM), and Augmentation of the Access Under the PRGF Arrangement in Accordance with the TIM*, (EBS/04/09, 7/14/04).

balance of payments projections for this reason. At a minimum, projections should cover the program period,⁴ even if the impact is zero in the outer program years.

16. **Updates:** In subsequent staff reports, the TIM-table should provide an update on the trade shock, in a separate entry, as new information becomes available. However, the baseline itself, once established, is *not* to be amended unless access under the arrangement is augmented, reduced, or the phasing changed. More specifically, the TIM-baseline should *not* be amended together with the regular updates of the staff's medium term macroeconomic framework, for instance in the context of a program review. If access under the arrangement is augmented, a new TIM-baseline should be calculated that incorporates new information on the trade shock for subsequent years. The reason for this approach is that the baseline serves as the reference for any (future) augmentation under the *deviation feature* (see below), and changing the baseline would move the goalposts for the specific commitment under the TIM.

17. **Sensitivity analysis:** In cases where data limitations preclude a precise quantification of an identified balance of payments channel, the staff report needs to include appropriate sensitivity analysis to provide the reader with a sense of the robustness of the balance of payments projections underlying the request for support. This could be done, for instance, by “benchmarking” projections against historical performance (i.e., comparing past projections with actual outcomes).

V. DETERMINING ACCESS LEVELS

18. **Access policies:** Access under arrangements that incorporate assistance in accordance with the TIM (“TIM-enhanced arrangements” in the following), would be determined under the access policies applicable to the underlying facility from which access is provided: Stand-by Arrangements, the EFF, or the PRGF. Whereas the different factors behind the balance of payments need that give rise to access should be clearly identified, staff reports need not quantify their relative importance; in particular, no part of access should be designated as TIM-related.⁵ Access is provided under the underlying arrangement, not “under” the TIM. Furthermore, access limits under TIM-enhanced arrangements are subject to the general policies on access limits, since the distinguishing feature of an arrangement *cum* TIM is the nature rather than magnitude of the underlying balance of payments problems.

⁴ Or remaining program period if the assistance in accordance with the TIM is requested in the context of a review under an existing arrangement.

⁵ An exception would be where the TIM were to be activated in the context of a program review and the original baseline access augmented. In such cases, the initial augmentation is obviously related to the trade event's balance of payments impact.

A. Access under the Baseline Feature

19. The baseline feature of the TIM addresses anticipated balance of payments needs over the course of the Fund-supported program.

20. **Calculating access:** The baseline impact, calculated as under Section IV, would form the basis of a policy discussion with the authorities. The *revised* trade performance, incorporating an adjustment effort as appropriate, would be set out in the TIM-table (projection (3) in paragraph 12), and built into the medium-term balance of payments framework. The revised trade performance is thus factored into the access levels granted under the arrangement via its impact on the overall balance of payments and the associated financing gap. In other words: *There is no direct correspondence between the baseline impact, and agreed access levels. Access is determined on the basis of the balance of payments as a whole.*

21. **Augmentation of access:** If the authorities first avail themselves of the TIM in the context of a program review, the Fund would consider a modification in access under an existing arrangement, but only if a careful examination of expected changes in the trade environment established a revised net balance of payments shortfall and associated adjustment needs that exceeded earlier projections, and where the change was attributable to the anticipated impact of the specified trade events. Such a modification in access, which would be based on the *projected* impact of the trade events, must be distinguished from possible augmentation *ex post* under the deviation feature of the TIM (which is based on the *actual* impact of the trade event).⁶

22. **Phasing of access:** Often the balance of payments impact of a TIM-qualifying trade event will be inherently difficult to estimate, but the timing of the event will be known with great certainty. The reason is that TIM-qualifying trade events are the result of policy decisions with fixed and often phased implementation schedules. In principle, therefore, medium-term arrangements that incorporate assistance in accordance with the TIM might be expected to give rise to uneven phasing more often than other medium-term arrangements. However, any front-loading of access in cases where the trade event takes place in the early part of the arrangement has to be carefully weighted against the need to maintain an appropriate balance of financing and adjustment over the life of the arrangement.

B. Augmentation Under the Deviation Feature

23. Given the *sui generis* nature of a TIM-qualifying trade event, a significant degree of uncertainty will surround any estimate of its effect. The deviation feature of the TIM addresses the possibility that the actual impact of the trade event might be greater than

⁶ An example for augmentation of an arrangement in accordance with the baseline feature of the TIM is the Bangladesh case, which was referred to previously.

anticipated, and that the member might require rapid, additional balance of payments support. The deviation feature cannot be activated, however, if a TIM baseline has not been established; in such a case the arrangement would need to be augmented under existing procedures.

24. **Revised baseline:** Under the *deviation feature*, access under a TIM-enhanced arrangement can be increased by up to 10 percent of quota under simplified approval procedures if the TIM-baseline turns out to have underestimated the impact of the trade event. A staff report accompanying a request for augmentation under the deviation feature will therefore need to include a revised TIM-baseline and a discussion of why the baseline has changed. In contrast, there is no presumption of subsequently lowering access if the TIM-baseline is found to have overestimated the trade event's balance of payments impact, because amounts committed under a Fund arrangement cannot be unilaterally reduced by the Fund.⁷

25. **Qualifying conditions:** Staff may recommend augmentation under the deviation feature if all three of the following conditions are met:

- there is evidence that the trade event has had a greater than expected impact,
- the balance of payments position is weaker than expected (e.g., lower NIR), and
- this is not due to a failure to implement agreed policies (i.e., the program is otherwise broadly on track).

26. **Timing of request:** If the program is on track, requests for augmentation under the deviation feature can be made at any time during the arrangement, including outside of regular program reviews, but the expectation is that most requests will coincide with regular program reviews to minimize work pressures both for the staff and the Board. Outside of regular program reviews, augmentation under the deviation feature can be approved on a lapse-of-time basis.

27. **Content of request:** The staff report including the request would cover the three conditions under paragraph 25, discuss the revised TIM baseline, and provide any necessary information about the economic context. However, if the request is made outside a scheduled program review it would not involve a comprehensive review of policies and of the Fund-supported program.

⁷ Nor should the TIM-baseline be amended in such cases. Note that procedures in the case of overestimation of balance of payments needs are no different than under the underlying Fund arrangement (i.e. no reduction in access).

28. **Off-track programs:** In cases where the program is off-track, no further purchases/disbursements can take place before corrective measures have been identified/implemented and appropriate waivers have been approved, and therefore augmentation needs to take place in the context of a program review—regardless of whether or not the program deviation is related to the impact of the TIM-qualifying trade event.

29. **Size of augmentation:** Although staff's recommendation for an augmentation under the deviation feature is linked to a revised TIM-baseline, the quantification of the augmentation should not be linked mechanically to the difference between the old and new TIM baselines. Also, minor deviations from the programmed impact would not be expected to trigger a request for augmentation, and augmentations would in most cases be expected to cluster around either 5 or 10 percent of quota (10 percent is the maximum augmentation allowed for under the simplified conditions of the deviation feature).

30. **Larger augmentations:** The TIM does not prevent the augmentation of access in excess of 10 percent of quota if balance of payments shortfalls are large; however, such an augmentation should be considered in the context of access limits applicable under the underlying access policy and a careful re-evaluation of the entire economic program supported by the underlying arrangement to ensure that the appropriate mix of adjustment and financing is maintained.

VI. DOCUMENTATION

31. **Form of request:** A member country wishing to avail itself of Fund financial assistance in accordance with the TIM needs to expressly request this assistance for both the *baseline feature* and *deviation feature*. In most circumstances the request for assistance in accordance with the TIM would be included in the LOI accompanying the request for approval or augmentation of the underlying arrangement, or the completion of a review. However, the request could also be in the form of a stand-alone letter addressed to the Managing Director; for example this would be the case if the member were to request augmentation under the deviation feature outside of the regular program review cycle.

32. **Deviation feature—specific considerations:** At the time of requesting support under the baseline feature, care must be taken to ensure that the authorities also indicate their intent to request augmentation under the deviation feature if and when the qualifying circumstances arise. The Fund then takes note of the authorities' intention and declares its willingness to consider a request for augmentation at a later stage under the deviation feature. Hence, augmentation under the deviation feature is not automatic but must be requested by the authorities when the qualifying circumstances arise.

33. **LOI/MEFP:** The LOI/MEFP should include a reference to the TIM-qualifying trade event(s) and a discussion of the authorities' policy response to the shock. In instances where no such policy response appears warranted, the LOI/MEFP should include an explanation. The authorities' policy response may be incorporated into formal program conditionality,

but as discussed below there is no presumption that specific trade policy conditionality would be incorporated into an arrangement approved or augmented in accordance with the TIM.

34. **Staff report:** The staff report accompanying a request for assistance in accordance with the TIM must include a considered elaboration of the macroeconomic consequences of the trade policy shock that forms the basis for the request. The scope of the staff's discussion should depend in part on the expected magnitude of the shock and the risks that the trade event poses for the medium-term outlook. The discussion may be contained in a separate section, a box, or an annex to the staff report. Additional background work could also be included as part of a chapter in a Selected Economic Issues Paper, if the request for assistance in accordance with the TIM coincides with the conclusion of an Article IV consultation.

35. **Multiple shocks:** A country requesting assistance in accordance with the TIM may, at any one time, face more than one TIM-qualifying trade event. If so, each trade event must be separately analyzed and elaborated on. The program documentation should also discuss the extent to which these trade events are independent of, magnify or partially offset each other. As noted earlier, the baseline impact would be the sum of the effects of these events.

VII. OTHER ISSUES

36. **Conditionality:** Conditionality in a TIM-enhanced arrangement need not differ from what would have been included in the arrangement without recourse to the TIM. In particular, there is no presumption that trade policy-related conditionality figure more prominently in an arrangement *cum* TIM. What is important is that there is an appropriate policy framework in place that enables balance of payments adjustments and the correction of structural imbalances in the economy—including those caused by trade shocks. Where warranted, structural conditionality should be included in the underlying arrangement, and in designing and implementing trade policy reforms staff should continue to be guided by the 1999 *Guidelines on Designing and Implementing Trade Policy Reforms* (available at <http://www-int.imf.org/depts/pdr/Policies/Trade/tradegn.HTM>). Obviously, any conditionality should also be fully consistent with the revised *conditionality guidelines* (Decision No. 12864-(02/102) of September 25, 2002).

37. **Staff-Monitored Programs:** In staff-monitored programs which may lead to TIM-enhanced arrangements, country teams are encouraged to engage the authorities early on in discussions on TIM-related issues. This can include the elaboration of a fully-fledged TIM-baseline. Also such a program can include pointers, for instance by preparing analytical studies to help underpin the appropriate policy response at a later stage.

38. **Own trade liberalization:** The TIM is not designed to avail member countries of a mechanism for supporting the liberalization of their own trade regimes. However, countries seeking Fund support in accordance with the TIM may concurrently undertake trade

liberalization measures. Whether or not such trade policy measures are subject to formal Fund conditionality, it is important that TIM-enhanced programs are designed with particular attention to the interaction of trade policies within and outside of the member country. In such cases there may also be a special need for targeted Fund technical assistance on tariff or customs reforms, as appropriate.

39. **Collaboration with the World Bank:** As in all Fund-supported programs, expectations are for a close collaboration between Bank and Fund staffs in countries where a TIM has been activated with collaboration being governed by existing guidelines, understandings, and practices, including avoidance of cross-conditionality. However, given the World Bank's strong expertise in trade-related policy issues, country teams are particularly encouraged to seek Bank staff's advice in preparing TIM baselines. Countries availing themselves of support in accordance with the TIM, are also likely to request support from the World Bank in the trade policy area and it is important that care be taken to ensure the work of the two institutions is complementary.

Executive Board Decision Approving the TIM (April 2, 2004)

1. The Fund is prepared to provide financial assistance to members that are experiencing balance of payment difficulties as a result of trade liberalization measures undertaken by other countries. Such assistance shall be made available: (i) in the upper credit tranches under a Stand-by Arrangement, (ii) under the Extended Fund Facility, or (iii) under the Poverty Reduction and Growth Facility, and shall be subject to the general access limits established from time to time under such policies. Liberalization measures undertaken by other members would normally be limited to measures introduced either (i) under a WTO agreement or (ii) on a nondiscriminatory basis
2. Financing under this decision may be provided to address the existing or anticipated balance of payments difficulties identified in paragraph 1 either at the time of the approval of an arrangement or completion of a program review under such an arrangement, upon the Fund's determination that the member is implementing economic adjustment policies that are designed to address the identified balance of payments problems
3. When making a request for financing under paragraph 2 above, the member may also request that the Fund indicate its willingness to consider providing additional financing if the balance of payments difficulties identified in paragraph 1 above that may arise during the course of the arrangement are larger than anticipated at the time of the approval of the original request under paragraph 2 above. This additional financing, which shall not exceed 10 percent of quota, may be requested by the member and be provided at any time during the period of the arrangement upon a determination by the Fund, in the context of a special review under the arrangement, that: (i) the member's adjustment program is broadly on track and (ii) the additional financing is justified by unanticipated balance of payments difficulties of the type identified in paragraph 1.
4. Nothing in this decision shall be understood as preventing a member from requesting Fund financial assistance outside this decision to address the balance of payments problems identified in paragraph 1.
5. This decision shall be reviewed no later than April 30, 2007.

The Acting Chair's Summing Up
Fund Support for Trade-Related Balance of Payments Adjustments
Executive Board Meeting 04/33
April 2, 2004

Directors welcomed the opportunity to discuss ways in which the Fund can give its member countries additional confidence to pursue ambitious trade liberalization under the Doha Round trade negotiations. They reiterated that a successful conclusion of the Doha Round will bring significant benefits to the world economy. The transition to a more liberal trade environment, however, also involves economic adjustments, which for several developing countries may raise added policy challenges. Directors underscored the important role that the Fund is already playing—in accordance with its mandate—in advocating the benefits of open trade in the context of its surveillance across the membership, and promoting trade-related reforms through the provision of technical assistance and program support. They stressed the importance of continued efforts to communicate clearly the Fund's role in supporting trade liberalization.

While some Directors felt that the Fund's readiness to make its existing instruments available for supporting trade liberalization should give sufficient confidence to members, most Directors saw considerable merit in a more tailored approach to address the balance of payments impact of trade adjustment resulting from the Doha Round. Directors, accordingly, supported the establishment of a Trade Integration Mechanism (TIM) within the Fund's existing lending facilities to clarify further how the Fund will stand ready to help its members mitigate short-term balance of payments pressures stemming from trade liberalization.

Directors agreed that members will qualify for assistance under the TIM to address existing or anticipated balance of payments difficulties related to the implementation of trade liberalization measures by other countries. Qualifying measures would normally be measures introduced under a WTO agreement or measures taken outside the WTO context on a nondiscriminatory basis. A balance of payments need might result, for example, from the erosion of tariff preferences in export markets as a result of liberalization agreed under the Doha Round, adverse changes in food terms of trade due to the elimination of agricultural subsidies, or the expiration, in 2005, of quotas under the WTO Agreement on Textiles and Clothing. At the same time, Directors stressed that the Fund should continue to assist members—with policy advice as well as program support—in anticipating and managing the implications of their own multilateral trade commitments.

Directors emphasized that, to be effective, the TIM will need to be used in support of an appropriate macroeconomic and structural policy framework. It will be activated in the context of an upper credit tranche Stand-by Arrangement, an Extended Arrangement or an arrangement under the Poverty Reduction and Growth Facility, either at the time of approval of the underlying arrangement or when completing a program review under an existing arrangement. If the balance of payments shortfalls expected to result from the trade

liberalization measures occur over several years, successive arrangements with the member could involve the TIM.

To address the difficulties involved in projecting the balance of payments consequences of a particular trade event, Directors generally supported the proposal to structure financial assistance under the TIM into a baseline feature and a deviation feature. The baseline feature will be approved as part of the decision on the underlying arrangement or program review for a member. It will address the balance of payments need anticipated to result from the relevant trade events over the course of the Fund-supported program, and the appropriate balance between the adjustment effort and the financing to be provided. The baseline impact will be identified by the staff, working closely with the authorities and other international institutions. Financing terms under the TIM will be those of the underlying facility under which access is granted.

Most Directors concurred with the inclusion in the TIM of a deviation feature to assure a member from the outset of the Fund's readiness to consider a future augmentation in access should the balance of payments effect of the trade event turn out to be even larger than initially foreseen. Directors acknowledged the difficulties in disentangling the different contemporaneous causes of a shortfall and making a precise estimate of the deviation from the baseline. Most Directors therefore saw merit in a simple and streamlined procedure for granting augmented access under the deviation feature upon the determination that the member's adjustment program remains broadly on track and the additional financing is justified by unanticipated balance of payments difficulties of the type that the TIM is designed to address. There was broad agreement that, when necessary, such decisions could be taken outside of the regular review cycle on a lapse-of-time basis, and that a cap of 10 percent of quota would set an appropriate limit to the augmented access under the deviation feature. A few Directors suggested that in some cases this cap may be too low. Should the unanticipated shortfall in the balance of payments exceed 10 percent of quota, Directors agreed that the mix of adjustment and financing (including access) may need to be re-assessed in the context of a program review.

Directors agreed that the conditionality associated with access incorporating a TIM baseline feature will normally be determined by the underlying arrangement. In some cases, however, conditionality specifically related to the adjustments that the TIM is designed to support may be called for. Access augmentation under the deviation feature is not expected to be associated with a need for additional conditionality.

Directors noted the importance of sound external trade data to underpin the effective operation of the TIM. Countries availing themselves of the TIM should be encouraged to participate in the General Data Dissemination Standards, while the Fund should stand ready to extend technical assistance to improve data quality and reporting where needed.

Directors highlighted the importance of close cooperation with the World Bank, in particular in view of the lending initiatives that the Bank is developing to facilitate members'

adjustment to trade reforms and help them strengthen their institutions and infrastructure for trade. If a member requests support from the Fund and the Bank concurrently under these new policies, the staffs will be expected to coordinate closely—in line with the established framework for Fund/Bank collaboration—to avoid duplication of work and ensure that their policy advice is tailored to effectively addressing the member's needs. The importance of avoiding cross-conditionality was highlighted in this context. Directors also called for close coordination with the WTO and donors in the trade-related assistance area, as well as for continued technical assistance by the Fund to help members address the loss of tariff revenue resulting from trade reforms.

Directors stressed that the TIM is designed as a temporary policy to address concerns associated with the current round of multilateral trade negotiations. They therefore expected that, at the time of the review of experience with the policy in three years, a decision will be taken on the duration of the TIM.

Table . Name of Country: Balance of Payments Impact of the Expiry of the ATC 1/

(In millions of U.S. dollars unless otherwise indicated)

	2003	Proj. 2004	Projections			
			2005	2006	2007	2005-07
Counterfactual projection assuming that the ATC were to be extended for another three years (A)						
Total affected current account entries						
Exports						
(in percent change)						
<i>Of which</i> : Textiles and clothing exports						
(in percent change)						
Imports (fob)						
<i>Of which</i> : Textiles and clothing imports						
(in percent change)						
Services (net)						
Overall balance						
NIR accumulation						
Financing gap						
Projection assuming no policy adjustment (B)						
Total affected current account entries						
Exports						
(in percent change)						
<i>Of which</i> : Textiles and clothing exports						
(in percent change)						
Imports (fob)						
<i>Of which</i> : Textiles and clothing imports						
(in percent change)						
Services (net)						
Overall balance						
NIR accumulation						
Financing gap						
Projection assuming policy adjustment (C) 2/						
Total affected current account entries						
Exports						
(in percent change)						
<i>Of which</i> : Textiles and clothing exports						
(in percent change)						
Imports (fob)						
<i>Of which</i> : Textiles and clothing imports						
(in percent change)						
Services (net)						
Overall balance						
NIR accumulation						
Financing gap						
Impact of the expiry of the ATC before policy adjustment (A less B)						
Total affected current account entries						
Exports						
(in percent change)						
<i>Of which</i> : Textiles and clothing exports						
(in percent change)						
Imports (fob)						
<i>Of which</i> : Textiles and clothing imports						
(in percent change)						
Services (net)						
Overall balance						
NIR accumulation						
Financing gap						
Impact of the expiry of the ATC after policy adjustment (A less C)						
Total affected current account entries						
Exports						
(in percent change)						
<i>Of which</i> : Textiles and clothing exports						
(in percent change)						
Imports (fob)						
<i>Of which</i> : Textiles and clothing imports						
(in percent change)						
Services (net)						
Overall balance						
NIR accumulation						
Financing gap						

1/ The expiry of the ATC is not expected to materially affect balance of payments entries not explicitly included in the table.

2/ This projection is identical to the mission's standard balance of payments projection.