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INTERNATIONAL MONETARY FUND
Minutes of Executive Board Meeting 99/47
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Executive Board Attendance

M. Camdessus, Chairman
S. Fischer, First Deputy Managing Director

Executive Directors

A.A. Al-Tuwaijri

T.A. Bernes
R.F. Cippà
B. Esdar
N. Eyzaguirre
R. Faini
J. Guzmán-Calafell
K.A. Hansen
K.-T. Hetrakul
W. Kiekens
K. Lissakers

S. Pickford

G.F. Taylor
Wei Benhua
J. de Beaufort Wijnholds

Alternate Executive Directors

S. N'guiamba, Temporary
P. Charleton
W. Szczuka
W.-D. Donecker
A.G. Zoccali
J. Spraos

J. Prader
B.S. Newman
R. Fernandez
S. Rouai, Temporary
C. Rustomjee
L. Palei, Temporary
S. Collins
H. Mori, Temporary
W.F. Abdelati, Temporary
S.K. Keshava, Temporary

H. Ogushi, Temporary

A. Linde, Acting Secretary
P. Kunzel, Assistant

Contingent Credit Line—Further Considerations—Further Follow-Up

Staff representatives: Williams, TRE; Boorman, PDR; Gianviti, LEG

Also Present

ECB: R. Raymond. External Relations Department: R.W. Russell. Legal Department: F.P. Gianviti, General Counsel; W.E. Holder, Deputy General Counsel; R.B. Leckow, I. Mouysset. Policy Development and Review Department: J. Boorman, Director; T. Leddy, Deputy Director; A. Bennett, Z. Murgasova, T. van der Willigen. Research Department: P.R. Masson. Secretary's Department: B.A. Sarr. Treasurer's Department: D. Williams, Treasurer; B.V. Christensen, J.C. Corr, M.M. Cuc, L.U. Ecevit, A. Westphal. Western Hemisphere Department: J. Stotsky. Office of the Managing Director: D.A. Citrin, N. Sachdev. Advisors to Executive Directors: P.A. Akatu, B. Couillault, A. Giustiniani, M.F. Melhem, J.L. Pascual, O. Schmalzriedt, F. Zurbrügg. Assistants to Executive Directors: P. Cabezas, J. Chelsky, H.W. Cocker, N. Goffinet, A. Kapteijn, J. Nelmes, K. Ongley, Qi J., Sugeng, M. Vismantas, S. Vtyurina, M. Walsh.

**1. CONTINGENT CREDIT LINE—FURTHER
CONSIDERATIONS—FURTHER FOLLOW-UP**

The Executive Directors continued from Executive Board Meeting 99/46 (4/21/99) their consideration of a further follow-up paper on further considerations toward a contingent credit line (SM/99/91, 4/15/99; and Sup. 1, 4/19/99).

Mr. Raymond, permanent observer from the European Central Bank, participated in the discussion.

The Chairman noted that the explanatory text for the CCL had been distributed to Directors and suggested that the text be reviewed by the Board paragraph by paragraph. Following the redrafting of the text, the Board would then turn to the decision pertaining to the CCL.

Mr. Pickford made the following statement:

I would like to suggest the addition of some words in paragraph 1. In the third line down, in addition to the text that reads: "creating further incentives for the adoption of strong policies," I would like to add the words, "and adherence to internationally accepted standards" because we see it important that the incentives are there to encourage movement toward these standards.

Mr. Wei considered that during previous meetings there was more support for establishing the CCL facility separately from SRF.

The Chairman noted that the sense of the previous meeting on the CCL was to create a special window in the SRF.

The General Counsel noted that the idea was to create a new facility. Eighty-five percent of the voting power was therefore needed. The question was whether a section 2 would be added to the existing decision governing the SRF would be amended, or whether a totally separate decision with its own heading would be created.

The Chairman noted that the work had been prepared to create a second chapter within the SRF facility. If the other route was taken, the language would need to be changed, and it would complicate issues. At the current stage it would be preferable to include a second chapter to the SRF facility.

Paragraph 2 of the text described the elements of the four eligibility criteria that had to be satisfied to qualify for the CCL, and noted that judgment had to be exercised in considering whether a critical mass of the eligibility criteria had been met, the Chairman noted. That paragraph should not be controversial.

Mr. Guzmán-Calafell made the following statement:

You will not be surprised to hear, Mr. Chairman, that I preferred the previous version of paragraph 3. I have made this point several times and I would like to make it again. I think the problem with the paragraph the way it is written now is that it is not taking into account the needs of those members that are being currently affected by contagion. I think that in the decision there should be at least a transitory provision, as some Directors suggested at the previous meeting, to allow eligibility for those members that are currently affected by contagion. I find it somewhat awkward to see that we are suffering now a process of contagion, and the creation of a facility of this nature is not taking into account the problems of those countries.

Mr. Wijnholds made the following statement:

We are all trying to find compromises. Mr. Guzmán-Calafell says he wants the old language. I would also prefer the old language I proposed, which is to say clearly that there can be no parallelism.

The Chairman noted that the language that was proposed tried to reach a compromise between Mr. Wijnholds' and Mr. Guzmán-Calafell's position. The countries which were currently under programs and affected by contagion, could also request an augmentation under the existing programs.

Ms. Lissakers noted that she held the same view as Mr. Guzmán-Calafell about the contagion issue, but could go along with the proposed version of the text to enable the facility to be implemented.

Mr. Eyzaguirre agreed with Mr. Guzmán, but noted that he could go along with the consensus.

Mr. Pickford made the following statement:

Let me establish myself firmly between the two camps. I think the language in the text is a distinct improvement from before. I think it treads a very careful balance between the two camps. The most important point of this whole facility is that it should send a signal to markets that the member has sound policies. In that regard, it would be inconsistent to allow access to the CCL facility for members with current economic problems, and requiring the use of Fund resources. I realize that there is a transition problem, but the language strikes an appropriate and sensible balance between countries who had precautionary arrangements and should be offered the protection of the CCL, and those who had drawings under existing arrangements and should not have access to the CCL.

Mr. Esdar noted that his authorities would very much agree with Mr. Wijnholds' position. However, a compromise had to be found and the language of the proposed text appeared to strike an appropriate balance.

Mr. Kiekens also considered that the text provided a good compromise, but wondered whether a country with a precautionary arrangement could draw under that arrangement if it also had qualified for, and activated the CCL.

The Director of the Policy Development and Review Department noted that if a country had a Stand-By Arrangement and also qualified for activation under the CCL because of contagion, it could draw resources from the credit tranches under the Stand-By Arrangement and from the CCL.

Mr. Cippà considered that if the contagion affected a country, it was likely that the original precautionary arrangement was no longer valid. Therefore the original arrangement should be canceled.

Mr. Hansen considered that if a country had access to the CCL, it was not supposed to have any other problems except for contagion, and therefore the country should not have any other programs with the Fund.

Mr. Eyzaguirre made the following statement:

If a country draws under existing precautionary arrangements, for reasons different from contagion, the country should lose the CCL status. However, I believe that the rights of countries that have precautionary programs on top of a Stand-By Arrangement or an EFF and that have accumulated drawing rights that sometimes exceed 100 percent of quota should be grandfathered. That, however, does not mean that such a member will be able to remain as a CCL member and draw for reasons different from contagion.

The Director of the Policy Development and Review Department made the following statement:

I think maybe it is necessary to think about the different cases. When you start adding the CCL onto already existing arrangements, you get in the kinds of complications that Mr. Eyzaguirre is talking about. But, if you consider the situation of a country that comes in and satisfies all the eligibility criteria, it is starting de novo. It will have a Stand-By Arrangement and it will have CCL resources committed as well within the context of the contingent credit line. That contingent credit line can be activated when the country comes to the Fund and requests resources because it has been struck by contagion. At that moment, the Board will do an activation review to make a finding that in fact the country has been struck by contagion, and in that case

can make resources available to the country. Those resources can be made available to the country under both the credit tranches and CCL resources.

Mr. Wijnholds wondered why a country which had a precautionary arrangement and was eligible for a CCL did not renounce the precautionary arrangement and opt for the CCL.

Mr. Hansen considered that it would not make sense for a country that had an existing arrangement to have a CCL as well.

The Director of the Policy Development and Review Department noted that it was not clear that the original arrangement was obsolete. When a country committed itself to a precautionary arrangement, the country did not intend to draw on the arrangement. But, if circumstances changed, including contagion, the country had a right to request a drawing under that arrangement. It had a right both to Stand-By Arrangement resources and CCL resources.

The Chairman invited Directors to comment on paragraph 4 of the explanatory text.

Mr. Esdar considered that it would be useful to specify that the Fund would use economic indicators reflecting domestic stability and external sustainability in assessing a country's eligibility to the CCL.

Mr. Bernes and Mr. Pickford agreed with Mr. Esdar's proposal.

Mr. Rouai considered that, in paragraph 4, it would be important to emphasize that progress should be made toward adhering to internationally accepted standards, rather than considering outright that the standards should be met. That had been the conclusion of the summing up of the Board discussion on standards.

Ms. Lissakers recommended that, in making a decision as to eligibility, consideration should be given to take into account the extent of a member's adherence to standards. The explanatory text could be drafted in such a way as to make that point clear.

Mr. Cippà considered that in paragraph 4 a reference should be made that countries wishing to qualify for the CCL should be encouraged to publish the Article IV report.

The Director of the Policy Development and Review Department noted that while there had been a consensus at the previous Board that the statement of policies would be released, there did not appear to be a consensus as to whether the Article IV paper should be published.

Mr. Guzmán-Calafell, Ms. Lissakers, Mr. Wei and Mr. Eyzaguirre agreed with the Director of the Policy Development and Review Department that no consensus had been reached concerning the publication of Article IV reports.

Mr. Wijnholds considered that countries should at least be encouraged to publish their Article IV reports.

Ms. Lissakers supported encouraging countries to publish the Article IV reports.

The Chairman noted that it would be useful to have language in the explanatory text that encouraged members seeking access to the CCL to publish the Article IV reports.

Ms. Lissakers noted that with respect to paragraph 5, it may be useful to specify that countries should be judged to be making satisfactory progress toward meeting the SDDS requirements.

The General Counsel noted that, if this was a specific condition, it should be made clear in the decision.

Mr. Wijnholds noted that, with reference to paragraph 6, in addition to mentioning that a member should be judged to have constructive relations with private creditors, it would also be essential that the member not have external payment arrears.

The Director of the Policy Development and Review Department noted that the only reason that external payment arrears were not included as a condition for eligibility was that a member may be in suit with a creditor for a legitimate reasons, and during the period of suit the country could be in arrears to that creditor.

Mr. Esdar noted that while the situation could arise that a country was in arrears due to legitimate legal reasons, the decision should not be designed for that particular case. Perhaps, the minutes of the meeting could identify that, if there was a legal dispute, a country could qualify for the CCL, although it may be in arrears.

The Chairman agreed with Mr. Esdar's proposal.

Mr. Pickford suggested adding a sentence at the end of paragraph 6 that noted that the issues in that paragraph, in particular regarding private sector involvement, would be reviewed in light of the progress made in that area.

Mr. Wijnholds agreed with the proposal by Mr. Pickford, although all issues should be kept under review.

Mr. Hansen welcomed the revised language of paragraph 9, and suggested clarifying that, although there was no general access policy, in practice access would have to depend on the state of Fund liquidity.

The Chairman noted that Mr. Hansen's concern was already addressed in the revised paragraph 10 of the text.

Mr. Hansen wondered how it was possible to change existing arrangements that were based on balance of payments needs into arrangements based on contagion, without closing the initial arrangement?

The Director of the Policy Development and Review Department noted that the issue of building on a previous arrangement was decided upon in December, 1997 when the SRF was created. At the time, it was decided to build the SRF on top of the underlying arrangement, and that process was carried forward as a structure for the CCL as well. The reason for adopting that structure was because a member that had a balance of payments problem could not be excluded from using the resources under the credit tranches. The credit tranches were available to a member that had a balance of payments problem, whatever the source, as long as the Board judged that it was making efforts to deal with the problems with which it was confronted. A member could not be denied access to the Fund's regular credit tranche resources because it had a special kind of balance of payments problem. That was why the SRF, and now the CCL, were built up on top of other arrangements.

Mr. Hansen wondered why there was a need to create a separate facility.

The Director of the Policy Development and Review Department noted that there was a need to create a separate facility because, amongst other things, it had different maturities and higher charges.

Mr. Wijnholds did not support automatic activation of the CCL up to 100 percent of quota as described in paragraph 13 of the text.

Mr. Pickford agreed with Mr. Wijnholds that automatic activation would not be acceptable, but considered nonetheless that it was important that the Board come to a very quick decision to allow countries to access the facility.

Mr. Hansen, Mr. Fernandez, Mr. Esdar, Mrs. Hetrakul and Mr. Eyzaguirre also favored the deletion of the text referring to automatic activation, but considered that a rapid review by the Board would be important.

Mr. Kiekens made the following statement:

I propose the following structure for the decision, which can be in the SRF or independent. The first message would be that the Fund is prepared under the terms of this decision to provide a credit line as a precaution against balance of payments difficulties, and then would follow the exact legal definition of contagion. The second article would be that the credit line will be provided under the decision, only to a member which had met the four eligibility criteria. The third article would be that a Stand-By Arrangement or a credit line under this decision will provide contingent access to a specified amount of Fund resources for a period up to one year. The fourth article would specify that actual access to Fund resources is subject to completion of the

review. The other article that would follow would specify that, when the Fund decides to make funds actually available, it may divide these resources in as many tranches as it deems appropriate and it will attach to these drawings such conditionality as it considers necessary. Precise language would also be needed on the combination between the CCL and other arrangements. That would be the structure of the decision, as I would suggest.

The General Counsel noted that it would be important to specify whether the CCL a stand-alone facility, or whether it operated under the Stand-By Arrangement.

Mr. Kiekens considered that the CCL should be viewed as a Stand-By Arrangement. The language would need to be incorporated into the decision. It would also be useful to clarify when the Stand-By Arrangement came into play. While the financing would be provided under a Stand-By Arrangement, the commitment phase did not appear to be under a Stand-By Arrangement.

The General Counsel noted that the commitment would in fact be under the Stand-By Arrangement.

The Chairman noted that the revised summing up had been e-mailed to Executive Directors' offices, and that the revised decision would be forwarded to their offices by close of business. It would be useful to have responses to these documents from Directors within 24 hours.

APPROVAL: April 23, 2001

SHAIENDRA J. ANJARIA
Secretary