

April 3, 2006
Approval: 4/10/06

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 06/6-2

10:04 a.m., January 25, 2006

2. Brief Status Report on Subsidy Contributions for the Exogenous Shocks Facility

Length: 13 minutes

Executive Board Attendance

R. de Rato, Chairman

Executive Directors	Alternate Executive Directors
S. Al-Turki (SA)	
K. Bischofberger (GR)	
P. Duquesne (FF)	O. Cuny (FF)
N. Jacklin (UA)	
S. Kashiwagi (JA)	
W. Kiekens (BE)	J. Prader (BE)
J. Kremers (NE)	Y. Yakusha (NE)
K. Lynch (CO)	P. Charleton (CO)
A. Mirakhor (MD)	
B. Misra (IN)	A. Herat (IN)
	R. Bannerji (IN), Temporary
A. Mozhin (RU)	
	P. Gakunu (AE)
	R. Murray (AU)
D. Ondo Mañe (AF)	L. Rutayisire (AF)
A. Sadun (IT)	M. Xafa (IT)
E. Loyo (BR)	
	A. Hauser (UK)
M. Schwartz (CE)	M. Dager (CE)
A.S. Shaalan (MI)	S. El-Khoury (MI)
T. Saarenheimo (NO)	
H. Torres (AG)	
X. Wang (CC)	H. Ge (CC)
F. Zurbrügg (SZ)	A. Raczko (SZ)
H. Phang (ST)	

S. Anjaria, Secretary

O. Vongthieres, Assistant

Also Present

African Department: B.V. Christensen, M. Nowak. Asia and Pacific Department: I. Martin. European Department: P. Thomsen. External Relations Department: T. Dawson, D. Hawley. Fiscal Affairs Department: J. Davis. Finance Department: D. Hicks, M. Kuhn. Human Resources Department: N. Banerjee, C. Clarke, K. Craig, A. Demba, L. Ebrill, F. John, C. Kamunge, J.P. Kennedy, J. Márquez-Ruarte, C. Ragland, B. Shannon, M. Thorn. International Capital Markets Department: A. Bertuch-Samuels. Institute: P. Isard. Legal Department: S. Hagan, J. Lester, B. Patterson, J. Powers. Middle East and Central Asian Department: J. Berengaut. Monetary and Financial Systems Department: T. Balino. Office of Budget and Planning: M. Cangiano, B. Potter. Office of Technical Assistance Management: M. de Zamaroczy. Policy Development and Review Department: M. Fetherston. Research Department: K. Kochhar,

R. Rajan. Secretary's Department: P. Cirillo, P. Gotur, M. Yslas. Statistics Department: A. Leone. Technology and General Services Department: I. Prebensen. Senior Advisors to Executive Directors: G. Cipollone (IT), P. Jenkins (CO), J. Kravalis (NO), M. Melhem (SA), H. Mori (BR), K. Nauphal (MI), H. Ng (ST), L. Palei (RU), J. Schaad (SZ), G. Shbikat (MI), G. Ukpong (AE). Advisors to Executive Directors: A. Blazey (AU), M. Choueiri (MI), M. Donovan (UA), T. Kudiwu (AF), B. Mamba (AE), F. Meyerhoefer (GR), A. Mohammed (MD), S. Rottier (BE), E. Valle (CE), D. Vogel (AG), W. Wesaratchakit (ST), L. Whyte (UK), J. Xu (CC).

2. **BRIEF STATUS REPORT ON SUBSIDY CONTRIBUTIONS FOR THE EXOGENOUS SHOCKS FACILITY**

The Chairman made the following statement:

As Directors are aware, the Exogenous Shocks Facility (ESF) became effective on January 6. This is a major new initiative aimed at strengthening the Fund's ability to assist low-income countries facing shocks. Given the unpredictable nature of these shocks, we must have adequate financing in place to meet the potential needs of our members. I would like to update you today on the status of our efforts to mobilize the needed resources and seek your assistance in following up with your authorities on this important issue.

As you know, the staff has estimated annual demand for shock financing at about SDR 0.4 billion. To meet this demand over a five year period will require loan resources of SDR 2 billion and subsidy resources of SDR 0.5 billion. We have concentrated our initial efforts on mobilizing the latter at this stage, as experience suggests that loan resources may be somewhat easier to generate.

Against this background, in mid-November, I wrote to a broad spectrum of our members seeking subsidy contributions for the ESF. I focused on three main groups—OECD countries, major oil-exporters, and others with high international reserves. In total, I approached 51 members for specific contributions.

My letters included country-specific indications of potential contributions, taking account of members' quotas, high oil prices, and rapid reserve growth by some countries. These indications sought an equitable burden-sharing between OECD countries and major oil-exporters, taking account also of the capacity of members with strong reserve positions to contribute. Some of you have asked for more information on the requests made of others. I would prefer to keep this information at a bilateral level, as the amounts requested were only indicative.

To date, 14 members have responded to my letters. Of these, four countries—Canada, France, Japan, and the United Kingdom—have made commitments, totaling about SDR 115 million. I very much welcome these generous responses, and staff will follow up on the modalities bilaterally.

Russia and Spain have indicated that they will contribute but cannot yet specify an amount at this stage. Czech Republic, Denmark, and Germany are still considering the possibility of a contribution. I welcome these positive indications and look forward to their specific contributions as soon as possible.

Five other countries (Australia, Botswana, Mexico, Switzerland, and the U.A.E.) have indicated that they are not presently able to contribute, with some

indicating that they might be able to do so in future. I hope this will indeed be possible.

Staff has had extensive informal contacts with some of the remaining 37 members.

Despite the progress made to date, we obviously remain well short of our target. As you know, the Fund has about SDR 1 billion in subsidy resources available following the implementation of the MDRI, but these resources were intended to be used to finance interim PRGF lending. Thus, while the Fund could potentially meet demands for assistance under the ESF over and above the resources committed to date, any such lending would come at the expense of the PRGF.

We should try to avoid this, and ensure we are able to fully respond to the needs of our low-income members. Given concerns about the risks of a possible avian flu pandemic, further trade-related shocks, and the potential for more frequent and severe weather-related shocks, the importance of the ESF is becoming all the more evident.

I would therefore encourage you to contact your authorities and urge them to follow through expeditiously with pledges, so as to enable the Fund to stand ready to provide timely concessional financing for our low-income members. I would also welcome any suggestions you may have today on how we can continue to take this process forward.

Mr. Loyo made the following statement:

I would just like to inform the Board that my authorities see the facility with great sympathy, and they are working on the possibility of making a contribution in response to the Managing Director's request. My Finance Minister touched upon this briefly with the Managing Director during his last visit. At the moment, we are not able to specify yet either an amount or a time for this contribution to be made concrete, because legislative approval needs to be sought. The government is working on the preparation of a draft law that would enable this contribution to be made, and I hope to have news for the Board and for management on this soon.

Mr. Srinivas made the following statement:

I wish to announce India's position on this. India itself has been hit by soaring oil prices to no small extent, and the value of oil in the import basket has risen by about 95 percent. Since India imports about 70 percent of its oil requirements, its GDP growth has been pulled down by the surge in oil prices. It has also had an inflationary impact on our economy, which we were able to

contain to a certain extent. In the circumstances, India finds itself unable to make any financial contribution to the ESF.

APPROVAL: April 10, 2006

SHAIENDRA J. ANJARIA
Secretary