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**IMMEDIATE
ATTENTION**

SM/99/117

May 21, 1999

To: Members of the Executive Board
From: The Acting Secretary
Subject: **Contingent Credit Lines—"Grandfathering" of Extended Arrangements**

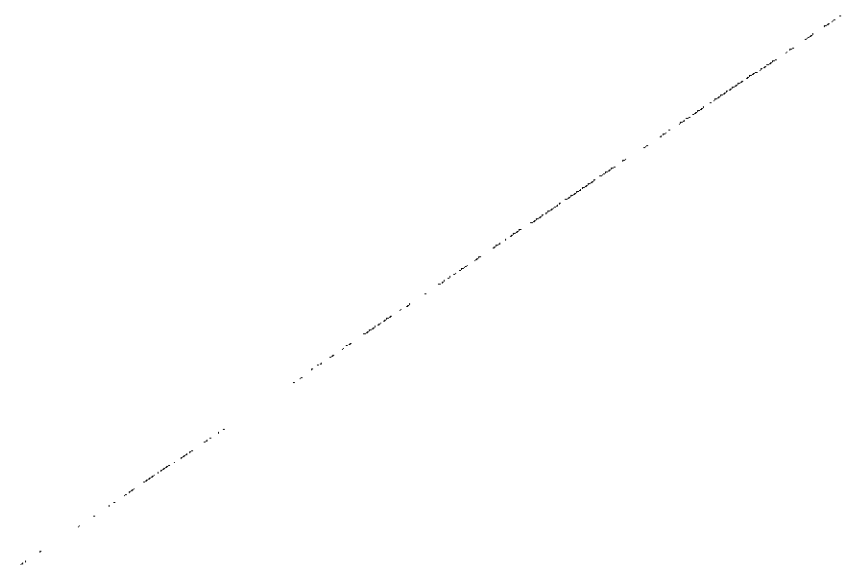
Attached for consideration by the Executive Directors is a paper on "grandfathering" of Extended Arrangements with respect to Contingent Credit Lines (CCL), which contains proposed amendments to the decision on the CCL adopted on April 23, 1999 and the related summing up, previously circulated in SM/99/91, Sup. 2 (4/24/99).

It is not proposed to bring this matter to the agenda of the Executive Board for discussion unless an Executive Director so requests by noon on Friday, June 4, 1999. In the absence of such a request, the amendments to the CCL decision and summing up that appear on page 2 will be deemed to have been approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Mr. Bennett (ext. 38784) or Mr. Lizondo (ext. 38650) is available to answer technical or factual questions relating to this paper.

Att: (1)

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INTERNATIONAL MONETARY FUND

**Contingent Credit Lines—"Grandfathering"
of Extended Arrangements**

Prepared by the Policy Development and Review Department

(In consultation with the Legal and Western Hemisphere Departments)

Approved by Jack Boorman

May 21, 1999

1. The decision on Contingent Credit Lines (CCL), adopted on April 23, 1999, states that "financing [under the CCL] will be committed and provided under a stand-by arrangement".¹ As a transitional provision, the decision also states that "financing [under the CCL] may be committed ... under an extended arrangement in effect at the time ... [the decision] is adopted". The exclusion of extended arrangements in the decision reflects the fact that a member eligible for the CCL cannot, by definition, have a "serious payments imbalance" or "an inherently weak balance of payments", which are conditions for the use of the Extended Fund Facility (EFF). The transitional provision reflects the fact that there were extended arrangements in place at the time of the CCL decision that were being treated as precautionary and which the Board decided should be "grandfathered" under the CCL decision.

2. The "grandfathering" provision does not, however, take account of arrangements that were at an advanced stage of discussions at the time the Board approved the CCL. There is one member—Peru—that had virtually completed discussions on an extended arrangement, that it intends to treat as precautionary, by the time the CCL was established. In October 1998, Peru indicated that it would request a new precautionary extended arrangement that would replace the one that was due to expire in late March 1999. Discussions on this arrangement began in earnest in early March 1999, and an understanding *ad referendum* was reached on a letter of intent on April 16, 1999.

3. The Peruvian authorities are aware that the CCL decision would preclude them from requesting a commitment of CCL resources if they are granted a new extended arrangement. They would like to retain the option of requesting CCL resources in due course.² However, they have already announced publicly their intention to request an extended arrangement, and

¹ Decision No. 11942-(99/48)SRF/CCL.

² The staff has not yet considered whether Peru would meet the eligibility criteria for the CCL.

they are concerned that switching to a stand-by arrangement at this late stage could send a potentially adverse signal to markets, suggesting that something untoward and unexpected had changed the emphasis of the program.

4. The staff is sympathetic to the Peruvian authorities' case, since negotiations on Peru's extended arrangement had essentially been completed (*ad referendum*) by the time the CCL was established. There are no other members in this situation. Peru's request for an extended arrangement is expected to be considered by the Board on June 23, and the staff accordingly recommends that the Board extend the cut-off date for the eligibility of members with existing extended arrangements to June 30.^{3 4}

5. The following amendments to the CCL decision and summing up, which may be adopted by a majority of the votes cast, are proposed for adoption by the Executive Board:

The Supplemental Reserve Facility and Contingent Credit Lines

Executive Board Decision—May [], 1999

1. In Decision No. 11627-(97/123) SRF, adopted December 17, 1997, on the Supplemental Reserve Facility and Contingent Credit Lines, paragraph 18 shall be replaced by the following:

“18. Notwithstanding the provisions of paragraph 16, financing under this section may be committed and provided under any extended arrangement in effect on June 30, 1999.”

2. In the summing up by the Chairman on Contingent Credit Lines at the Executive Board Meeting 99/48 of April 23, 1999, footnote 1 shall be replaced by the following:

“¹ However, CCL resources could also be committed under an extended arrangement in effect on June 30, 1999.”

³ A favorable decision on this proposal would not prejudice whether Peru qualifies for CCL resources.

⁴ No other requests for extended arrangements, precautionary or otherwise, are expected to be considered by the Board between now and June 30.