FOR AGENDA

SM/08/324
Correction 1

October 28, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **A New Facility for Market Access Countries—The Short-Term Liquidity Facility**

The attached factual corrections to SM/08/324 (10/24/08) have been provided by the staff:

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

Page 3, para. 6, lines 5 and 6: for "public domestic and external debt"
read "external debt and public debt".

Page 4, para. 10, second bullet, lines 1 and 2: for "public domestic and external debt"
read "external debt and public debt".

Questions may be referred to Mr. Gerson, SPR (ext. 37729), Ms. Weeks-Brown, LEG (ext. 36896), and Mr. Savastano, FIN (ext. 38545).

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

Att: (2)

Other Distribution:
Department Heads

II. General Considerations

6. **The SLF is designed to help members who face balance of payments needs arising from external market developments despite strong underlying fundamentals and domestic policies.** The facility is thus intended for countries that are well integrated into global capital markets. Both the sovereign and the private sector would be expected to have sustained market access at relatively favorable terms, and both the external debt and public debt positions would be sustainable. In general, such countries should be able to access markets to address very short-term liquidity needs that are quickly self-correcting. Recent developments, however, have underscored the risk that even members with fundamentally strong economic policies could experience short-term balance of payments pressures stemming from unanticipated credit market events largely outside their control. If unaddressed, such liquidity pressures could escalate quickly into more prolonged balance of payments and financial system problems.

7. **The SLF would help these members reduce or even reverse the impact of short-term balance of payments pressures.** Some members may find the SLF useful as they seek to bolster their reserves to fortify their defenses against temporary capital account outflows. Other members might find the announcement of Fund support helpful to boost confidence, and reduce incentives for investors to cut their exposures in the face of emerging risks.

III. Design

8. **The design of the SLF is based on three broad principles:**

- *The purpose of the instrument should be clear***.** Access should be explicitly limited to those countries facing short-term, self-correcting balance of payments pressures arising from external developments rather than from domestic policy weaknesses, who therefore are in a position to resolve their difficulties with short-term liquidity provided by the Fund.

- *It should be tailored specifically to the needs of the relevant members, even where this requires a departure from traditional Fund practices.* In particular, in light of the rapidity with which market conditions can change, the instrument is designed to put a premium on speed and simplicity. Access should be large and quick disbursing, and requirements—with respect both to procedures and conditions—should be streamlined. Accordingly, expedited procedures would be employed, no mission would be required prior to Board approval, and only ex ante conditionality would be applied to purchases.

- *Fund resources should be safeguarded.* Participation should be restricted to countries that not only have very strong policies and fundamentals and sustainable public and external debt, but who also have a history of implementing sound policies. Moreover, the period over which resources can remain outstanding should be strictly limited.

A. Balance of Payments Problem and Eligibility

The specification of the balance of payments problem and related qualification framework should ensure that the facility is restricted to countries whose sound domestic policy frameworks and economic conditions provide confidence that liquidity problems will be resolved relatively quickly with continued strong policies and temporary support from the Fund.

9. **The SLF would be established pursuant to Article V, Section 3(a), which authorizes the Fund to adopt special policies on the use of its general resources that will help members to solve special balance of payments problems.** Given the considerations noted above, the new facility would be intended to address exceptional balance of payments difficulties reflected in pressure on the capital account and the member's reserves, which—taking into account the strength of the member's policies and its underlying fundamentals—are judged to be quickly self-correcting.

10. **Consistent with the special balance of payments problem covered, access to the new facility would be dependent on an assessment by the Fund that the member's economic policies and underlying fundamentals were both very strong.** This would be based on the following criteria, assessed through an analysis of information obtained, inter alia, in bilateral and multilateral surveillance.

- ***Very strong policies and underlying fundamentals.*** The member has a solid initial position and a sustained track record of pursuing very strong policies, and remains committed to maintaining such policies in the future. This would give confidence that the member will overcome its short-term external liquidity problems without the need for policy adjustment. Policies should have been assessed very positively by the Board in the context of the most recent Article IV consultations.

- ***Sustainable debt.*** The standard Fund debt sustainability analysis of both external debt and public debt should indicate a high probability that both will remain sustainable. This analysis would cover both the evolution of the level of debt and the rollover and financing requirements under various scenarios and stress tests.

11. **Assessments of the strength of macroeconomic policies will inevitably involve a degree of judgment, but it is possible to identify some indicators that strong performers would be expected to share.** Such countries would typically have sound structural fiscal positions, low and relatively stable rates of inflation resulting from solid monetary policy implementation, and effective financial sector supervision. They would also be expected to