

**FOR  
AGENDA**

SM/08/324  
Supplement 1  
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—Proposed Decision**

The attached factual corrections to SM/08/324, Supplement 1 (10/27/08) have been provided by the staff:

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

**Page 2, para. 4, second bullet, line 5:** for “external debt and domestic public debt”  
read “external debt and public debt”.

**Page 9, first full para., lines 1 and 2:** for “external debt and domestic public 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.

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# INTERNATIONAL MONETARY FUND

## **A New Facility for Market Access Countries—The Short-Term Liquidity Facility— Proposed Decision**

Prepared by the Strategy, Policy, and Review Department, the Legal Department, and the Finance Department

Approved by Reza Moghadam, Sean Hagan, and Andrew Tweedie

October 27, 2008

1. **This supplement sets forth the proposed decision that is needed to establish the Short-Term Liquidity Facility (“SLF”) proposed in the main paper.**<sup>1</sup> It also summarizes key aspects and implications of this decision, and reviews the applicability to the SLF of other Fund policies.
2. **The proposed decision addresses a range of issues related to the creation and operation of the SLF.** In particular, the decision: (i) establishes the SLF and specifies the core terms and conditions governing the use of resources under this new facility (see Proposed Decision, Part I); and (ii) modifies other Fund policies—including those on transparency, exceptional access, post-program monitoring (PPM) and the Emergency Financing Mechanism (EFM)—so as to establish special provisions reflecting the unique nature and features of the SLF (Proposed Decision, Parts II through V). The adoption of the proposed decision requires an 85 percent majority of the total voting power.<sup>2</sup>
3. **This rest of this paper is organized as follows.** Section A reviews the decision establishing the SLF, while Section B reviews the ancillary policy amendments proposed in respect of the SLF. Section C discusses the applicability of other general policies to the SLF, and Section D sets forth the proposed decision.<sup>3</sup>

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<sup>1</sup> *A New Facility for Market Access Countries—The Short-term Liquidity Facility*, SM/08/324, October 24, 2008.

<sup>2</sup> This higher majority is required in light of the features of Part I of the decision establishing a special repurchase period for SLF purchases, and providing for the “floating” of SLF purchases against the member’s reserve tranche position. Other provisions of the decision could be adopted by a smaller majority; however, the practice in the Fund is that such decisions are not separated, but rather are to be adopted by the highest majority required for any component of the decision.

<sup>3</sup> For the convenience of Directors, Annex I contains redlined texts of the ancillary policy amendments.

### A. Establishment of the Short-Term Liquidity Facility

4. **Part I of the decision would establish the SLF along the lines proposed in the main paper.** Key points include the following (references are to the applicable paragraphs of Part I of the decision):

- Paragraph 1 identifies the quickly self-correcting special balance of payments problem that the facility is designed to address. This paragraph also contains a “sunset” clause specifying the period over which the Fund is prepared to provide financing under the SLF; the effect of this provision is that the SLF will automatically expire two years after the date of the Board decision. As noted in the main paper, a decision to continue the SLF beyond this “sunset” date would require an Executive Board decision adopted by an 85 percent majority of the total voting power.<sup>4</sup>
- Related to the special balance of payments problem covered by the facility, Paragraph 2 sets out the criteria and indicators that are to be used to ensure that access to the SLF will be restricted to countries that are implementing and have a track record of implementing very strong policies, and that have very strong fundamentals and sustainable external debt and public debt. The indicators of performance specified in Paragraph 2(a) would not necessarily have to all be in place in order for a member to receive SLF financing. However, the absence of one or more of these indicators—unless there are compensating factors—could generally signal that the member is not among the strong performers for whom the SLF is intended.
- There would be (i) expedited procedures that would apply upon a member’s expression of interest in SLF support (Paragraph 4(a)), and (ii) procedures that would be followed to keep the Fund (in particular, the Executive Board) informed of developments in the period following an SLF purchase (Paragraph 4(b)). As discussed in Section B below, it is proposed that the procedural framework set out in the Fund’s policies on exceptional access, EFM, and PPM would not apply in respect of purchases under the SLF. The procedures specified in Paragraphs 4(a) and 4(b) of Part I of the decision would address the same substantive objectives as these general policies, while taking into account the unique nature and features of SLF financing.
- Paragraphs 3, 5 and 7 set out the SLF provisions governing, respectively, access limits and delivery modalities, repurchases, and periodic charges and surcharges. Inter alia, these provisions establish a firm access limit of 500 percent of quota for the

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<sup>4</sup> For a more detailed discussion of the majorities required to extend and terminate special facilities, see *Statement by the General Counsel on Completion of the Review of the Contingent Credit Lines and Consideration of Some Possible Alternatives*, BUFF/03/208 (November 24, 2003).

steady access to international capital markets at favorable terms; and (vii) a reserve position that, despite growing balance of payments pressures, is relatively comfortable by standard measures.

(b) *Sustainable debt*: There is a high probability that the member's external debt and public debt will remain sustainable, taking into account both the evolution of the level of debt and rollover and financing requirements under various scenarios and stress tests.

3. (a) Access by members to resources under this Decision will be subject to a cumulative limit of 500 percent of quota.

(b) Financing under this Decision will be made available to members in the form of outright purchases. The Fund may approve a purchase under this Decision only in cases where the member does not have a Fund arrangement in place at the time of the purchase.

(c) The Fund will not approve more than three purchases under this Decision for a member in any twelve-month period.

4. (a) The following procedures, and arrangements for consultations with the Executive Board, will apply following a member's expression of interest in financial assistance under this Decision:

(i) Staff will conduct a preliminary assessment of the member's economic position and track record of policy implementation. Where support from other creditors is likely to be important in helping a member address its balance of payments difficulties, staff will consult with key creditors as appropriate.

(ii) Once management decides that access to Fund resources under this Decision may be appropriate, it will consult with the Executive Board promptly in an informal meeting. For this purpose, Executive Directors will be provided with a

concise staff note setting out the basis on which approval could be recommended under this Decision.

(iii) When the Managing Director is prepared to recommend approval of a request for a purchase under this Decision, the relevant documents – including a short policy statement from the authorities, and a staff report that assesses the member's qualification for financial assistance under the terms of this Decision – will be circulated to the Board as soon as possible. An assessment of the impact of the proposed purchase on the Fund's finances and liquidity position will be included in the staff report.

(iv) The Executive Board will generally be prepared to consider a request for a purchase under this Decision within 48 to 72 hours after the circulation of the documentation.

(b) Following a purchase and for as long as the member has any purchases outstanding under this Decision, staff will keep Executive Directors informed of relevant economic and financial developments concerning the relevant member.

(c) A member requesting a purchase under this Decision will provide authorization, by no later than the date of the purchase, for Fund staff to have access to the most recently completed annual independent audit of its central bank's financial statements, whether or not the audit is published. This will include authorizing their central bank authorities and the central bank's external auditors to discuss the audit findings with Fund staff, including any written observations by the external auditors regarding weaknesses observed in internal controls. Members will be expected to act in a cooperative manner during such discussions with the staff.