

SM/08/324  
Supplement 2

November 3, 2008

To: Members of the Executive Board

From: The Secretary

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

Attached for the records of Executive Directors is the Secretary's understanding of the decision relating to the establishment of the short-term liquidity facility, adopted at Executive Board Meeting 08/93 (10/29/08).

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

Att: (1)

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Department Heads



# INTERNATIONAL MONETARY FUND

## A NEW FACILITY FOR MARKET ACCESS COUNTRIES--THE SHORT-TERM LIQUIDITY FACILITY

October 29, 2008

### I. ESTABLISHMENT OF THE SHORT-TERM LIQUIDITY FACILITY

1. For a period of two years from October 29, 2008, the Fund will be prepared to provide financial assistance in accordance with the terms of this Decision to a member that is experiencing 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.

2. Financing under this Decision will be available to members only in cases where the Fund assesses that the member's policies and underlying fundamentals are very strong. This assessment would be based on the following criteria, and would take into account information obtained, inter alia, in bilateral and multilateral surveillance:

(a) *Very strong policies, underlying fundamentals and track record:* The member has a strong macroeconomic position, is implementing—and has a sustained track record of implementing—very strong policies, and remains committed to maintaining such policies in the future, all of which give confidence that the member's short term external liquidity problems will be self-correcting. The member's policies must have been assessed very positively by the Executive Board in the context of the most recent Article IV consultations. Relevant indicators for this purpose would be expected to include: (i) sound structural fiscal positions; (ii) low and relatively stable rates of inflation resulting from strong monetary policy implementation; (iii) effective financial sector supervision; (iv) sustainable current account positions; (v) capital accounts that are dominated by private flows; (vi) a history of 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.

5. A member shall repurchase the outstanding amounts of its currency resulting from purchases under this Decision three months from the date of the relevant purchase.
6. (a) Purchases under this Decision and holdings resulting from such purchases shall be excluded for the purposes of the definition of reserve tranche purchase pursuant to Article XXX(c).  
  
 (b) Except for the purposes of determining the level of conditionality applied to purchases in the credit tranches, the Fund's holdings of a member's currency resulting from purchases under this Decision shall be considered separate from the Fund's holdings of the same currency resulting from purchases made under any other policy on the use of the Fund's general resources.
7. The rate of charge under Article V, Section 8(b) on holdings of a member's currency acquired as a result of purchases under this Decision shall be (a) the rate of charge referred to in Rule I-6(4), as adjusted to cover deferred income or for placement to the Special Contingent Account (the "adjusted rate of charge"), for the portion of such holdings up to 200 percent of the member's quota in the Fund; (b) 100 basis points per annum above the adjusted rate of charge, for the portion of such holdings in excess of 200 percent of the member's quota in the Fund and up to 300 percent of such quota; and (c) 200 basis points per annum above the adjusted rate of charge, for the portion of such holdings above 300 percent of the member's quota in the Fund.
8. The provisions of Decision No. 8165-(85/189) G/TR, December 30, 1985, except Section IV, shall apply to any overdue financial obligations arising under this Decision; provided however that the rate of charge on overdue repurchases shall be determined by the Fund and shall not be less than the maximum rate of charge specified in paragraph 7 of this Decision.
9. In order to carry out the purposes of this Decision, the Fund will be prepared to grant a waiver of the limitation of 200 percent of quota in Article V, Section 3(b)(iii), whenever necessary to permit purchases under this Decision or to permit other purchases that would raise the Fund's holdings of the purchasing member's currency above that limitation because of purchases outstanding under this Decision.
10. Whenever the total amount of outstanding purchases under this Decision exceeds SDR 60 billion, the Fund will promptly review the implications of this Decision for the Fund's liquidity position.

## **II. OVERALL CUMULATIVE ACCESS LIMITS TO THE FUND'S GENERAL RESOURCES**

11. In Paragraph 2 of Decision No. 14064-(08/18), adopted February 22, 2008, the second sentence shall be amended to read as follows:  
  
 "Accordingly, overall access by members to the Fund's general resources shall be subject to (a) an annual limit of 100 percent of quota, and (b) a cumulative limit of 300 percent of quota, net of scheduled repurchases; provided that these limits will not apply in cases where a member requests a purchase under the Short-Term Liquidity

Facility, although outstanding holdings of a member's currency arising from such purchases will be taken into account when applying these limits in cases involving requests for access under other Fund facilities."

### **III. POST-PROGRAM MONITORING**

12. In Paragraph 1 of Decision No. 13454-(05/26), adopted March 14, 2005, as amended, the first sentence shall be amended to read as follows:

"If outstanding credit to a member from the Fund's General Resources Account (GRA), or from the Fund as Trustee of the Poverty Reduction and Growth Facility Trust (PRGF Trust), or a combination thereof, exceeds a threshold of 100 percent of quota, and the member does not have a program supported by a Fund arrangement or is not implementing a staff monitored program with reports issued to the Executive Board, or the member does not have a program supported by a Policy Support Instrument ("PSI"), the member will be expected to engage in Post-Program Monitoring (PPM) with the Fund of its economic developments and policies upon the recommendation of the Managing Director, provided that, for the purposes of calculating the member's outstanding Fund credit, purchases under the Short-Term Liquidity Facility shall not be counted."

### **IV. EMERGENCY FINANCING MECHANISM**

13. The Emergency Financing Mechanism (EFM) procedures set forth in BUFF/95/102, 9/21/1995 shall not apply to requests for purchases under the Short-Term Liquidity Facility.