BUFF/08/160

November 7, 2008

The Chairman's Summing Up
A New Facility for Market Access Countries—The Short-Term Liquidity Facility
Executive Board Meeting 08/93
October 29, 2008

The Executive Board today adopted the decision to create the Short-Term Liquidity Facility (SLF) designed to help members facing exceptional balance of payments difficulties arising from external market developments despite strong underlying fundamentals and domestic policies. The creation of this instrument represents a major addition to the Fund's set of lending instruments and will permit the Fund to be better equipped with a toolkit suitable for the needs of the overall membership in the context of the ongoing global financial turmoil. The Executive Board's decision is aimed at enhancing the Fund's ability to mitigate the effects of crises like the one currently gripping the global economy and to restore confidence in member countries. A few Directors did not support the decision.

Design. In approving the decision, most Directors recognized the need for a facility to assist members facing short-term, self-correcting balance of payments pressures arising from external developments in resolving their difficulties with short-term liquidity provided by the Fund. The new instrument puts a premium on speed and simplicity, with large and quick-disbursing access to Fund resources under streamlined procedures and ex ante conditionality reflected in the eligibility criteria, while safeguarding Fund resources.

Balance of payments problem and eligibility. The SLF addresses exceptional balance of payments difficulties faced by members as reflected in pressures on the capital account and on members' reserves that—taking into account the strength of the member's policies and its underlying fundamentals—are judged to be quickly self-correcting. Accordingly, access to the SLF will be based on an assessment by the Fund that the member's economic policies and underlying fundamentals—including with respect to external debt and public debt sustainability—are both very strong. The member's policies will need to be assessed very positively by the Executive Board in the context of the most recent Article IV consultations. In this context, several Directors emphasized the importance of timely Article IV consultations. Also, a short staff report prepared for Board consideration of a request for an SLF purchase will need to assess the member's SLF qualifications. A short policy statement by the authorities will also be required. If very strong policies and fundamentals are maintained at the time of a request for a subsequent SLF purchase, Board approval would be expected. Some Directors considered that a recent or prospective FSAP would be useful, given the SLF's emphasis on financial stability.

Access and safeguards. Access under the SLF will be up to 500 percent of a member's quota, and will be available in the form of outright purchases. The decision envisages that the nature of the balance of payments problem and the related qualification framework, including the track record of strong policy implementation and the debt sustainability analyses, as well as the short repurchase period, will constitute the key safeguards for the Fund. Under the decision, the objectives of the Fund's policy on safeguards assessments will be achieved by Fund staff access to the most recent audit of the financial statements of the member's central bank, and a follow-up dialogue as needed, without recourse to the full requirements of the safeguards assessment policy. A number of Directors felt that, in light of the scale of global capital flows, a higher access limit under the SLF would have been desirable. Some Directors emphasized that the Fund should stand ready to coordinate with other members of the international community—such as central banks and governments—in order to provide countries with a sufficiently large and comprehensive package needed to restore confidence.

Terms and modalities. Directors noted that SLF drawings will be available as outright purchases, rather than under a Fund arrangement, which is intended to provide a framework for policy monitoring that is not applicable in the case of SLF financing. The facility addresses short-term self-correcting balance of payments difficulties. The decision limits SLF drawings to a maximum of three purchases in any 12-month period. Once the three purchase limit is exhausted, any further Fund financial support would have to be requested under a traditional Fund facility. The decision calls for each repayment to be made in a single repurchase, three months from the date of the relevant purchase, although a number of Directors would have preferred a longer repayment period.

Regarding financial terms, the SLF will be subject to charges and surcharges at the same levels as apply in the credit tranches. Directors agreed that, in order to ensure that the Fund has sufficient resources for its traditional lending operations, the SLF will be reviewed if outstanding purchases under the facility exceed SDR 60 billion, which is roughly half of the Fund's Forward Commitment Capacity (FCC) as of end-September 2008. They also agreed that, in light of the SLF's short repurchase period, the methodology for calculating the FCC should be modified so as to exclude repurchases falling due under the SLF.

Other design issues. The decision establishes expedited procedures applying to requests for use of SLF resources and amends existing Fund policies to accommodate the new facility. The decision also incorporates a sunset clause providing for the expiration of the facility two years after its establishment. At that time the Board will review experience with the facility and determine whether it should continue to exist and whether any design changes are warranted. A few Directors noted that the SLF represents an important addition to the

Fund's tool kit, and would have preferred the SLF to be retained as a permanent instrument. More generally, Directors looked forward to the general review of Fund instruments, which will include further discussion on a crisis prevention instrument.