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Concluding Remarks by the Chairman
Short-Term Financing Facility
Executive Board Meeting 94/104 - November 30, 1994

I am grateful for the seriousness you have brought to the analysis of the staff paper, and the quality of the exchange of views. I have noted the nuanced positions of Directors: some were cautiously optimistic; others were skeptical but receptive. Directors agreed that these issues deserve consideration and attention, and the staff will continue working on the many interesting and important points that were made today.

All speakers agreed that efforts to improve the capacity of the Fund to assist members that are faced with short-term market pressures when they are implementing sound policies should be continued. There are differences of view on how best to do this: creating a new facility, or working to streamline our procedures for approving assistance under existing facilities. The need for us to be attentive to the difficulties our members may face in an environment of globally integrated capital markets and increasingly open capital accounts needs to be borne in mind. We will need to explore all avenues, and the suggestions of Directors will help us in this further work. I am impressed by the importance that all attach--as I do--to ensuring that any changes we introduce strengthen Fund surveillance, and that they should not risk damaging the Fund's credibility. Directors have also commented on the difficulty of assessing when markets have misjudged a particular country's policy stance and the risks involved, for the member and for the Fund, of attempting to go counter to market forces.

There has also been a useful discussion of the type of member to whom a new facility should be useful. I think there is broad agreement that the prospective demand for a new facility that would be well designed and would take account of the concerns expressed by several members of the Board today would be limited, almost by definition. But even if the cases are not frequent, if the need exists and if we have the ability to respond, it is worth considering. But cases will certainly be limited, and I have noted that you have ruled out many occasions when one might consider using an instrument of this kind, but when other existing facilities would be more appropriate. One of the cases you referred to was the utilization of a short-term financing facility as a bridging facility. It is not intended for that.

Issues of conditionality for a new facility need to be clarified further. We have noted the strong concern of a number of Directors that, as outlined in the staff paper, conditionality and risk protection for the Fund look too light. But I think the discussion has clarified this issue somewhat.

Many of you have put emphasis on the need for very fast decision making in responding to members' requests for assistance, together with the importance of a strong signaling effect and, in that regard, while a number of you believed that the upper limit of financial intervention by the Fund should be 300 percent of quota or less, some others emphasized the importance of maintaining the necessary flexibility, both upward and downward.

Among the many issues we have discussed that will require further thought, I would mention several. The idea of linking access to a new facility in some way to the list of countries whose currencies are included in the operational budget was suggested, and we will consider that carefully. Questions were raised about the relationship, if any, between a possible short-term financing facility and the modalities of Fund support for currency stabilization funds--a matter that our forthcoming discussion should thoroughly clarify. These are really two different instruments and I do not see how they could overlap. There was also a discussion on the relationship between a short-term financing facility and the existing swap networks and the short-term financing available from other sources.

On the important question of a link to the Article IV process, I have noted a range of views. Some felt that a link would enhance the Fund's surveillance; others were concerned to ensure that a link would not damage the consultation process. Here again it will be important to proceed cautiously and carefully. The basic principle is that surveillance is our main task and, if anything, must be strengthened for its own sake.

We will continue to work on all these aspects, bearing in mind the important contributions made by all Executive Directors today, and without losing sight of the close connection of this issue with the broader issue of the Fund's involvement in, and jurisdiction over, issues relating to capital markets.

I observe that, in the above paragraphs, I have referred more frequently to a facility than to a streamlining of our present procedures and instruments. Let me assure you that I am not making a final decision here on what is the best avenue to go. We must fully explore the possibilities for streamlining procedures of existing facilities before reaching any decisions on this matter. We will analyze these issues carefully, take stock of your suggestions, and come back to you with material for further consideration.