December 19, 2008
Approval: 12/30/08

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 08/93-1

9:00 a.m., October 29, 2008

1. A New Facility for Market Access Countries—The Short-Term Liquidity Facility

Documents: BUFF/08/160; SM/08/324 and Correction 1, and Supplement 1, and Supplement 1, Correction 1, and Supplement 2

Staff: Hagan, LEG; Tweedie, FIN; Moghadam, SPR

Length: 4 hours, 1 minute

Executive Board Attendance

D. Strauss-Kahn, Chairman
J. Lipsky

Executive Directors	**Alternate Executive Directors**
	S. Itam (AE)
L. Rutayisire (AF)	K. Assimaidou (AF)
	H. Torres (AG)
R. Murray (AU)	
W. Kiekens (BE)	J. Prader (BE)
P. Nogueira Batista, Jr. (BR)	
H. Ge (CC)	J. He (CC)
	R. Guzmán (CE)
M.Horgan (CO)	S. O'Sullivan (CO)
A. Fayolle (FF)	B. Claveranne (FF)
	S. von Stenglin (GR)
A. Kishore (IN)	
	G. Cipollone (IT), Temporary
D. Kotegawa (JA)	
J. Mojarrad (MD)	
	S. El-Khouri (MI)
A. Bakker (NE)	
J. Henriksson (NO)	J. Bergo (NO)
A. Mozhin (RU)	A. Lushin (RU)
	A. Al Nassar (SA)
	C. Sucharitakul (ST)
	D. Tartari (SZ), Temporary
M. Lundsager (UA)	D. Heath (UA)
A. Gibbs (UK)	J. Talbot (UK)

S. Anjaria, Secretary
J. Young/T. Orav, Assistant

Also Present
IBRD: J. Chelsky. African Department: S. Coorey, N. Funke, T. Krueger, A. Sayeh. Asia and Pacific Department: D. Burton, K. Kochhar. European Department: A. Chopra. External Relations Department: G. Bauche, S. Bhatia, D. Hawley. Fiscal Affairs Department: S. Gupta. Finance Department: D. Andrews, C. Beaumont, S. Fennell, M. Fisher, Y. Metzgen, M. Rossi, M. Savastano, M. Shannon, A. Tweedie. Institute: L. Lipschitz. Legal Department: D. Eastman, S. Hagan, T. Laryea, R. Leckow, C. Ogada, R. Weeks-Brown. Middle East and Central Asian Department: L. Perez, A. Tahari. Monetary and Capital Markets: H. Hesse, B. Laurens. Office of the Managing Director: O.P. Brekk, C. McDonald, E. Ramirez Rigo, G. Schwartz. Research Department: O. Blanchard, R. Ghosh, J. Ostry. Secretary's Department: P. Gotur, M. Yslas. Strategy, Policy, and Review

Department : A. Arvanitis, P. Breuer, U. Erickson von Allmen, P. Gerson, C. Gust, B. Kelmanson, A. MacArthur, I. Mateos y Lago, R. Moghadam, R. Teja. Western Hemisphere Department: R. Babihuga, J. Fajgenbaum, A. Singh, G. Terrier. Advisor to Executive Director: M. Maia (BR). Senior Advisors to Executive Directors: A. Joseph (BR), M. Kaplan (UA), D. Kihara (JA), H. Mori (BR), E. Nyambal (AF), B. Ólafsson (NO), L. Palei (RU), S. Polak (BE), N. Raman (ST), S. Rouai (MD), W. Schilperoort (NE), M. Sidi Bouna (AF), F. Spadafora (IT), P. St-Amant (CO), Y. Tok (ST), G. Ukpong (AE). Advisors to Executive Directors: J. Cardoso (IT), C. Denk (GR), S. Duggan (AU), A. El-Ganainy (MI), K. Florestal (BR), K. Harada (JA), M. Jakoby (BE), A. Jbili (MD), L. Jimenez (CE), G. Jung (SZ), S. Keshava (SA), S. Krishnan (IN), S. Ladd (CO), M. Leemets (NO), R. Lin (CC), H. Malothra (BE), K. Mogensen (NO), S. Na (AU), A. Rieck (GR), S. Rottier (BE), Y. Shinagawa (JA).

1. A NEW FACILITY FOR MARKET ACCESS COUNTRIES—THE SHORT-TERM LIQUIDITY FACILITY

Mr. Shaalan and Ms. Riad submitted the following statement:

We thank staff for their papers elaborating on the features and modalities of a new Short-Term Liquidity Facility (SLF). This Chair has long supported the introduction of a quick disbursing liquidity instrument with upfront access and appropriate safeguards for the use of Fund resources. The proposed facility embodies several of these desired features and represents a timely complement to existing instruments in the Fund's financing toolkit. We can support the broad design elements of the facility, in particular its reliance on ex-ante conditionality to ensure speed and simplicity while providing sufficient safeguards for Fund resources. We confine our comments to few issues for emphasis and clarifications.

The facility would be available to members with a track record of strong economic policies and facing balance of payments pressures that are short term in nature and largely due to factors that are outside of their control. The two criteria underpinning the qualification framework—strong policies and underlying fundamentals and sustainable debt—are appropriate. An element of judgment will necessarily be involved in assessing the strength of a member's macroeconomic policies. We hope that such judgment would be applied pragmatically and in an even-handed manner.

Ensuring sizable upfront access to resources is important to support confidence in the member's capacity to address short-term liquidity requirements. Access up to 500 percent of quota in the form of an outright purchase is appropriate, with the full amount for any purchase determined by the member's actual balance of payments needs. Additionally, access to the SLF would be confined to three outright purchases in any 12-month period, with a repurchase required three months after the date of the relevant purchase. It is also envisaged that the Executive Board would conduct an assessment of the member's policies and needs at the time each purchase is to be made. In this regard, we would be interested in staff clarification on how different this requirement is from regular conditionality and whether it could undermine the demand for this facility.

In addition, we remain somewhat unclear about the rationale for the three-month period for each purchase. We believe that the proposal expressed during the informal Board meeting for a longer duration for the purchases, possibly of six-months and renewable for another six months, had received sufficient support. Could staff elaborate on the merits of either approach?

Purchases under the SLF would be subject to the existing structure of charges and surcharges, with the understanding that the upcoming review of charges and maturities will consider surcharges under all facilities, including the SLF. The implications on the Fund's liquidity position resulting from actual demand for resources under the SLF would also need to be carefully considered, in order to safeguard sufficient resources for the traditional lending activities. There is merit in the proposal that the SLF be reviewed if outstanding purchases under the facility reach a certain threshold, and we can support the initial target of SDR 60 billion (half the existing forward commitment capacity).

Finally, we can support the incorporation of a sunset clause providing for the expiration of the facility two years after its establishment. We would also favor a review of the facility after one year, with a view to improving on design features if needed and ensuring consistency with other Fund instruments.

With these remarks, we support the proposed decision.

Mr. Bakker submitted the following statement:

I support this proposal to introduce a liquidity instrument. In our gray on 'consideration of a new liquidity instrument', back in February 2007, we noted that 'the current time of economic prosperity would offer a benign environment for introduction of an instrument that should ex ante and without stigma provide assurance for less favorable times'. Mr. Warjiyo and I subsequently made various calls on the Fund to act and our December 2007 Financial Stability Line could have gathered a Board majority. In May 2008, we urged Management to follow-up, noting that emerging markets may not have access to massive swap lines as agreed between the major central banks. Since the Fund did not move, we lacked a crisis prevention instrument when the global slowdown took full effect.

Now, we are in the midst of a financial crisis without the appropriate tool kit. Traditional IMF programs have a different scope and currently take too long to negotiate – even with the emergency procedures in place - also because of several bureaucratic steps involved. Therefore, the current proposal for swiftly addressing short-term liquidity pressures is very welcome. It shares many features of the Financial Stability Line and it reflects some features of a new IMF: outward-looking, ready to assist the membership, not setting abundant conditionality, and acting quickly. At the same time, it provides an opportunity to put the IMF more in the heart of the financial sector.

While I agree with the absence of conditionality on macropolicy, financial sector vulnerabilities warrant special monitoring when there is a need for liquidity support given the nature of the current crisis. Therefore, I would add to the eligibility list that the country has had a FSAP or will commit to have a FSAP soon. Also, while the IMF can refrain from setting conditionality, I would argue for post drawing follow-up, where the IMF monitors financial sector developments and can act as a trusted advisor to the country involved building on its expertise and knowledge of best practices regarding financial sector management. Such a post-drawing mission could help the authorities to ensure that liquidity problems do not turn into solvency problems within the drawing period by proposing bank recapitalization plans if needed. I would hope that such steps would go some way in addressing the concerns that some of my colleagues have expressed about insufficient safeguards.

On the access, liquidity support of 500 percent of quota may be insufficient to restore confidence, as illustrated by the larger size of swap arrangements of major central banks and of IMF programs currently negotiated. Therefore, it is of utmost importance that the Fund, while acting on its own responsibility, coordinates with other players, central banks as well as governments, to provide countries with a comprehensive package. This is also of importance given that the Fund may lack resources if the crisis grows as indicated by Management today in the press. Therefore, I would be interested to hear how the Fund will act to gather bilateral support; in case of this instrument but also more generally. The process of selection of countries that are being asked for bilateral support is somewhat opaque and countries currently not being approached may also be willing to contribute. In my view, a comprehensive package of support, from various sources, reduces political sensitivities and is more likely to be successful in restoring confidence.

Finally, swift establishment of this instrument would show the outside world that the IMF can play an important role in dealing with this financial crisis. Subsequently, and in follow-up to the call of the IMFC, I would ask Management to call an informal Board meeting to further discuss the role of the IMF in the new global financial architecture with a view to be well prepared for the upcoming G20 meetings. The fact that the Fund is now at a critical juncture in time to reestablish its relevance justifies that the Board devotes its full attention to this strategic issue.

Mr. Mojarrad and Mr. Rouai submitted the following statement:

We thank management for its proactive stance in involving the Fund in the resolution of the current financial crisis and staff for their efforts in designing on short notice the proposed facility. We can generally support the proposed framework, although we would have preferred that such a facility be established after a careful consideration of the coherence of the Fund's lending framework. In this connection, we would like to emphasize that the creation of the Short-Term Liquidity Facility (SLF) should not deter the Fund from continuing its work toward agreeing on a crisis prevention facility that could provide strong performers with an insurance-type arrangement to help them proceed with ambitious financial sector reforms and gradual liberalization of their capital account.

As this and other chairs indicated on several occasions during the discussion of the CCL, we should avoid a formal qualification process, which would bring the IMF into the business of country rating. Singling out a set of countries as eligible could undermine the standing of other countries that may not need the facility because of very high self-insurance from their own reserves or because of their limited reliance on private capital flows. The purpose of the facility should be to help some countries without hurting others. Under the circumstances, we believe that qualification should be based on objective criteria without any prior selection of potential candidates.

We support many of the elements of the SLF and agree with staff that there is no need to require collateral. Our main concern is with regard to the very short repurchase period of three months. As evidenced by the current financial crisis, we do not believe that even strong performers with a track record of sustained market access will continue to enjoy market access at relatively favorable terms. In our view, there is a strong risk that in order to repurchase the high access under the SLF, countries would be pushed into a successor high access Fund arrangement. If this situation materializes, countries and markets will view the SLF with the stigma associated with traditional crisis resolution facilities. In this connection, it is important to look at the experience of countries' reaccess to capital markets. In 2005, the Board held a seminar on assessing the determinants and prospects for the pace of market access by countries emerging from crisis. The Board agreed with staff that "the analysis confirms the common sense expectation that if there is a significant decline in investors' risk appetite, the country would take considerably longer to regain market access." The Board noted also that "experience shows that, when conditions in international capital markets are favorable, market reaccess takes anywhere from several months to approximately a year and a half." In view of the Board's own conclusions on this issue, we propose to extend the repurchase period to twelve months instead of three months. The application of surcharge constitutes a strong incentive for countries to proceed with early repurchases if their balance of payments improves rapidly.

On the issue of the sunset clause, we do not see the rationale for such proposal. If anything, recent events have shown how rapidly financial crises can develop and spread to other countries. The SLF should remain available until the Board decides to amend or eliminate it.

We take note of staff analysis regarding the potential impact of the SLF on the Fund's liquidity position. We take this opportunity to reiterate our proposal to expand the Financial Transactions Plan and allow more countries to participate in the pooling of additional reserves that could be used to finance high access. Consideration could also be given to using SDRs allocations to supplement global liquidity.

Finally, the SLF is constructed on the basis of a rationale of "quickly self-correcting balance of payments pressures." This concept is important in assessing eligibility to the SLF and the speed of repurchase. We appreciate staff elaborations on this concept.

Mrs. Sucharitakul and Ms. Tok submitted the following statement:

"Where Dreams Come True"

Those of us who have visited Disneyland would know the famous slogan: "Where dreams come true". Indeed, this proposal is "a dream come true" for the Fund to change with the changing times and the changing needs of its membership and the challenge facing the global financial community. We are in the midst of the biggest crisis of our lifetime. As we speak, the crisis of confidence is affecting even countries that have strong fundamentals and strong policies because we now live in an integrated world. It is critical for the Fund to provide a liquidity backstop to help members alleviate the short-term liquidity pressures and prevent a downward spiral into a more prolonged balance of payment or solvency problem.

This crisis calls for great resolve and urgent action on all fronts. We thus welcome the proposal and commend the management and staff for moving expeditiously on this instrument which shares many features of the Financial Stability Line which this Chair and Mr Bakker have long proposed. We call on the Board to exercise flexibility and pragmatism keeping in mind that there is no perfect instrument. The situation before us presents an opportunity for the Fund to fulfill its public good role where markets have failed. Let us seize the moment and not let it slip by, for by the time the design of an ideal liquidity instrument is perfected, the world might already sink into a deep depression.

This instrument is timely and places the IMF at the heart of confidence building for its membership. We are strongly supportive of the three key principles that underpin this instrument and applaud the staff for thinking out-of the-box. The key features of this instrument: large, up-front access and reliance on ex-ante instead of ex-post conditionality mark a welcome alternative to existing facilities. It sends a strong, positive signal that the Fund can and is willing to stand by its membership in line with the changing landscape of the global financial markets. Like other Directors, we urge the Fund to emphasize this point in our public communication of this new facility. In addition, recent press reports have cast doubt about the Fund's liquidity position which could undermine the confidence-building nature of this facility. Thus, the communication would need to adequately address concerns about the adequacy of Fund resources going forward. Internally, in view of the crisis-induced strains on public sector balance sheets, the Fund should prepare the creditor countries well in advance if there is a need to tap on the supplemental resources.

We see many benefits of this instrument which are fully consistent with the principles set out by staff. For example it helps alleviate dollar liquidity pressures, fills an important gap in the Fund's existing lending toolkit and because of its emphasis on good policies and sound track record, could go a long way to help remove some of the stigma associated with Fund lending. This could encourage more countries who are at an early stage of the crisis to come forward to the Fund for financial assistance before the negative dynamics of a downward spiral set in.

As we are in broad agreement with the key features of the instrument, we would only add the following points:

Eligibility: We fully agree with staff that guided discretion is better than a rule-based approach. Given that the objective of the instrument is to help countries affected by the contagion, the Fund should avoid overly onerous criteria that rule out the deserving countries. We believe that the right balance has been struck in this case. We call for the facility to be applied even-handedly to all members that meet the qualification criteria, be they developing, emerging or advanced countries.

Access limit: the proposed 500 percent of quota is in line with our original proposal. However, could staff elaborate on what happens when access is beyond 500 percent? We believe that larger access on a case-by case basis should be considered given the nature of the capital account crises.

Duration: The proposal to have three purchases over a 12 month period strikes the right balance. However, in the event that the liquidity problem persists after 3 months and the members could not pay back, would it be able to avail itself of another purchase?

Conditionality: This instrument moves away from the traditional Fund requirement of lending against policy adjustments and thereby moving from ex-post conditionality to ex-ante conditionality by way of the qualification criteria which emphasizes strong macroeconomic policies and good track record. This should, in no way, be seen as a relaxing of standards but in respecting the true spirit of the instrument – to boost confidence. That there is a determination by the Fund that the members' past track record and commitment to future good policies is a sufficient safeguard for lending is a strong signal of confidence, which would help restore stability. It also removes the stigma associated with usual Fund lending, which arises partly as a result of excessive conditionalities. In addition, one should not forget that the short duration of the instrument is meant to quickly save the patient while rehabilitation can come later. The short maturity of this instrument is in line with the presumption of the self-correcting nature of the crisis .

Modalities: we welcome the streamlined procedures for this facility. Today's experience of roller coaster financial market conditions calls for just as quick a response to the unfolding crisis and help avert further losses in confidence.

Sunset Clause: The inclusion of the sunset clause at the current stage where we are still fighting the fire day by day might send the wrong signal about the Fund's commitment to this new instrument. The Contingent Credit Line which was allowed to lapse on its scheduled expiry date in 2003 is a case in point. Instead of an expiry date, we suggest that the Board review it in two years' time given that it is a new instrument. We might also consider subjecting all Fund facilities to an automatic review every 3 to 5 years.

Confidentiality: We believe that confidentiality is of utmost importance to the success of this instrument and should be observed by all involved.

Finally, we wish to underscore the Managing Director's call to act quickly and urge the Board to be pragmatic and conclude the discussion expeditiously. We are facing a global crisis that calls for a global response. Our authorities have shown great resolve to work together, and it is time for the Fund to show leadership and launch this liquidity facility. This, we believe will restore confidence in the markets and help limit further contagion. This is an important day in the history of the Fund and we look forward to reviewing other financing instruments, including the Financial Stability Line in the days to come.

Mr. Moser and Ms. Tartari Schwegler submitted the following statement:

The current financial crisis is extraordinary for its scope and extent. We agree that these exceptional circumstances may need the Fund to undertake exceptional measures and widen the Fund's existing toolkit. We welcome the inclusion of a sunset clause for the new Short-Term Liquidity Facility (SLF) as this will give us the opportunity to have a more fundamental discussion later on.

On the purpose, the proposed SLF addresses potential short-term external liquidity pressures reflected in balance of payments needs. This raises the question of how to define and identify such events, should they occur. Could the staff inform on what grounds it plans to assess whether liquidity pressures are external, short-term and, in particular, self-correcting?

On the eligibility criteria, we understand that the focus should be on the outlook of a member's economic soundness as well as on its track record. We assume that there is a strong consensus on not lending into arrears under the new facility. Like Mr Bakker, we support the idea of having member's eligibility linked to the participation in the FSAP's exercise. We also consider the conduct of Article IV consultations in the 18 months prior to Board discussion as a pre condition for eligibility. There is no doubt that Article IV consultations are indispensable to adequately assess the economic situation of a member country.

Concerning the role of exchange rate policy, could the staff elaborate on the measures that may be undertaken to prevent a country from using Fund resources to defend an unsustainable exchange rate level?

Safeguarding the Fund's resources needs to be a key consideration in evaluating the SLF. We fully support the proposal to review the SLF should outstanding purchases under the facility reach a maximum cumulative level. We wonder, however, whether the proposed amount of SDR 60 billion is sufficiently prudent given the potential lending obligations following the current negotiations on several SBAs of high access.

The best safeguards, as staff mentions, have been and are Fund-supported programs. These programs convey strong signals of commitment to the market participants. The SLF, however, sees safeguards in the ex-ante assessment of a member's position, short maturities and the immanent hope that pressures are quickly self-correcting. We would therefore appreciate the staff to comment on follow-up designs that are planned, if a country fails to repay in due time.

Finally, we would like to underline the need for a timely and comprehensive publication of all arrangements under the new facility. Publicly available information on the terms and conditions of agreements would convey a positive signal to the markets and eliminate any potential for stigma.

Mr. Alazzaz submitted the following statement:

I thank the staff for providing us with a set of papers detailing the proposed modalities of a new short-term liquidity facility (SLF). I support the proposed modalities, which strike an appropriate balance between the need to provide timely and large upfront access to members and safeguarding Fund resources. Indeed, the proposed access of up to 500 percent of quota in the form of an outright purchase and the provision that this financing could be available for up to nine months in a twelve month period should contribute to addressing the short-term liquidity needs of some members. At the same time, the limiting of access to countries with a track record of strong economic performance and the requirements of a repurchase three months after the date of the relevant purchase should provide adequate safeguards to the Fund.

That said, the SLF could have substantial impact on the Fund's liquidity, especially given the expected sharp increase in demand for Fund resources under the Stand-By Arrangements. Accordingly, it may be more prudent to review the SLF if outstanding purchases reach SDR 40 billion rather than the SDR 60 billion proposed by the staff.

I can go along with the proposed sunset clause.

Mr. Gibbs and Ms. Robinson submitted the following statement:

We thank staff for this paper on A New Facility for Market Access Countries. The introduction of a prevention tool to complement existing crisis resolution facilities is an important addition to the Funds suite of instruments. This new instrument has the potential to play an important role in mitigating the effects of the current crisis and restoring confidence. Overall, we support the purpose and design features of this instrument, but we would like to raise a few issues for clarification and emphasis.

In order for the Short-term Liquidity Facility (SLF) to restore confidence and provide a positive signal of a member's policies, it is crucial that eligible countries have strong policies and underlying fundamentals, and that they have received a positive assessment by the Board in the context of a recent Article IV consultation. We can support the criteria set out in the paper. However, given the inevitable degree of judgement that will be involved in assessing the strength of a member's macro policies, we would emphasize the importance of the Board's involvement and oversight throughout the process to ensure full accountability. Provided that the ex ante requirements of this facility are observed in conjunction with Board and management oversight, we see no need to add a collateral requirement. As the paper asserts, such a requirement in this context may signal doubt. In addition, setting up an appropriate collateral management facility would be an extremely time-consuming exercise.

The key objective of the SLF is to meet short-term liquidity requirements and to signal the Fund's support with a view to bolstering confidence. With this in mind, we support the level of access being set realistically high at 500 percent quota. As the countries eligible for this facility have a high degree of capital market integration there may be some (reasonable) concerns that 500 percent quota will not provide sufficient financing. However, in our view there are clear advantages to setting the same access limit for all eligible members to ensure even-handedness and to avoid inadvertently sending negative signals by differentiating between difference members' levels of access.

We support the terms and modalities of the proposal and agree that three outright purchases over a 12-month period is an appropriate length and limit. We would expect the Board to be involved in any decision to renew access to the SLF and we would be content for the outstanding purchase to be rolled-over (twice) on this basis. Could staff clarify that it will indeed be possible for borrowers to roll over their purchase, rather than needing to repay in full after three months before accessing the facility again?

We would like staff to consider means of smoothing the exit process. The paper is very optimistic regarding the ability of users to repay the loan in 3 months on the grounds that distress in fundamentally sound countries will be short lived. Just as a country might need the SLF to cope with exogenous shocks, it might also be unable to access private markets at a reasonable cost in 3-months' time for exogenous reasons. The cost of the SLF in the upper tranches is likely to be around 4.5 percent, which is substantially cheaper than some large emerging market economies are currently able to access capital markets. We ask staff to consider the possibility of introducing a mechanism to enable countries to pay back the loan gradually to ensure a successful exit from the facility.

Finally, we would appreciate clarity from staff on the rationale behind the targeted revisions to the Fund's transparency policy. In our view, there should be a general presumption in favor of transparency. We acknowledge that staff and authorities may require flexibility to determine the appropriate means and timing of public communications, but the SLF should not be exempt from the Fund's transparency policy.

Mr. Horgan and Mr. Ladd submitted the following statement:

We thank the staff for their timely efforts to bring forward a proposal that responds to the serious short-term liquidity risks that have arisen from financial turmoil in some advanced industrial countries.

We support the proposed decision. It is regrettable, however, that we are considering a new financing facility on an ad hoc basis yet again. A decision today should not foreclose further consideration of this lending instrument and others in the review process that the Managing Director laid out in the discussion of the Fund's financing role in member countries on September 22, 2008. As we stated then, Fund lending can be an appropriate tool to promote market confidence, where such confidence is justified, and to finance temporary balance of payments shortfalls. For the proposed SLF, the qualification criteria (if tight enough) and the purpose (if narrow enough) should result in a well-focused facility.

There are a number of elements of the proposal that are reassuring: the review if and when total exposure hits SDR 60 billion, the sunset clause (two years), the short term (three months, renewable no more than twice), strict obligations-basis repayment and the regular charges and surcharges. However, the proposal raises several concerns:

Concentration of Risk

As the paper states (SM/08/324, para. 20) expected lending under current facilities plus potential lending under the proposed SLF will have a significant impact on the Fund's liquidity position. The SDR 60 billion benchmark in the paper implies that the staff has given some thought to the possibility that this facility will be in great demand.

Has the staff estimated potential total demand? What is the total rollover of foreign-currency denominated debt issued by SLF-eligible countries expected in the next 12 months? It may be prudent to review take-up of the new SLF well before the SDR 60 billion level is hit.

Entry/Exit

Key to the entry/exit problem are rules to identify eligible members and qualifying events. This in turn requires intellectually defensible and operationally practical definitions of "sustained market access at relatively favorable terms" and "quickly self-correcting," respectively.

Ex-ante eligibility should be defined as clearly as possible. The debt sustainability approach is well-founded but how will market access and terms, policy strength and fundamentals be assessed in quantitative terms? Credit rating? EMBIG spreads? CPIA ratings? What is the operational definition of a "very positive" Executive Board Assessment of an Article IV? Does "effective financial sector supervision" imply that a recent FSAP or FSAP Update is required, as Mr. Bakker suggests? Paragraph 11 identifies the right general areas, but does not specify thresholds for the variables.

How does the staff define a "quickly self-correcting" balance of payments problem? The implication is that it is something other than classic capital flight or a last-ditch attempt to defend an indefensible peg. The burden will be on the member authorities in the first instance and the staff in the second instance to demonstrate that the balance of payments problem conforms to the purpose of the instrument. This is especially true if the nature of the problem is supposed to be the key safeguard for the Fund (para. 14). The member and the staff paper should state why the problem will correct itself and how long it is expected to take.

The exit strategy from the SLF should be further clarified. If normal liquidity conditions are restored, a member makes a final repurchase and moves on. What if, notwithstanding the return of normal liquidity conditions in the overall market, a particular member's balance of payments problem persists? This situation would suggest the need for adjustment and a more traditional arrangement. How would a member's use of the SLF impact their ability to make the transition to an SBA?

Signaling and Transparency

We agree with Mr. Moser and Ms. Tartari Schwegler on the importance of publicly available information for an effective signal. The Managing Director should not recommend Board approval of an SLF purchase unless the member consents to publication of the member's policy statement and associated staff report, even if the exceptional access policy does not apply to the SLF as proposed. Less transparency about the purchases and their rationale invites uncertainty and doubt about the member's financial condition. The Fund has made great strides in transparency in its policies and arrangements in recent years and it is important that this momentum be maintained.

Mr. Guzmán and Mr. Guerra submitted the following statement:

We want to thank staff and management for bringing in such a short period of time a focused document that presents the building blocks for the new facility. The crisis is evolving rapidly and is affecting availability and costs of funding in the overall global markets.

Under such extraordinary circumstances, we regard the proposal for a new instrument as a necessary and urgent addition to the IMF financial toolkit. We support the general overall framework and we agree, in general, with the eligibility criteria set forth in the paper.

However, we believe that the proposal should be adjusted to better serve the membership. Two areas deserve further thought:

A very short-term structure does not serve the IMF nor the membership. We suggest the proposal be modified in order to have a six-month instrument renewable once. We believe there was sufficient support during the last meeting for this approach.

The normalization of international financial markets and the reestablishment of market access could take longer than three months. In normal times, a liquidity problem for a country with strong policies should indeed self-correct in a relatively short period of time. However, under the present worldwide volatile circumstances, it is extremely uncertain how, when, and who will be able to regain normal market access.

In times of uncertainty, markets tend to overreact by shortening maturities and hoarding cash, unwilling to commit resources beyond the very short term. The IMF should not contribute to this overreaction. On the contrary, an IMF instrument should transmit assurance that it will help palliate the short-term liquidity needs, and even overshoot in its term in order to give confidence to the market that resources are safely available. In other words, the IMF should contribute to the broadening of the market horizon, not to shorten it.

From a legal and operational perspective, every time that the member requests the purchase a new instrument/contract is created. A very short-term structure affects the existing balance in the cost structure of the instrument, making a 3+3+3 months facility more costly than a 9-months facility, for instance, because of the service fee charged at the time of each purchase.

To conclude, we are concerned with the three months (x 3) maturity and would prefer a 6+6, or at least a 6+3 period. Although the facility is aimed at addressing short-term self-correcting liquidity needs, the current extraordinary circumstances in global markets suggest that even countries with sound and strong policies may need a longer term. Moreover, a three-month term virtually helps markets unduly focus on a calendar date where a liquidity problem might reappear, a problem that was not created but by their own erratic behavior.

Access

A strong presumption that countries would request maximum access under the facility (e.g. 500 percent of quota) is probably reasonable, but it is more logical to acknowledge that the amount should be defined as that sufficient to restore rapidly access to private capital markets and make the facility attractive to potential users. Therefore, we think that access should not be restricted to a predetermined limit, but rather decisions should be made on a case-by-case basis depending on the potential severity of the liquidity shock.

Moreover, the potential significant demand under a SLF and the expected demand for traditional Fund lending brings forward the issue of how to ensure that the Fund has enough resources to finance this facility, particularly in case that several important member countries decide to apply for the resources available. It is important to determine how best can the Fund play its catalytic role and coordinate its actions with other bilateral and multilateral institutions and creditors. Staff comments are welcome.

Mr. Sadun and Mr. Cipollone submitted the following statement:

We thank staff for the focused paper outlining the new facility. While expanding the Fund facility array, this new tool has to be well-integrated and consistent with the revised lending framework as well as the exceptional access policy.

We support the idea that the assistance would be based on actual balance of payments needs. We also recognize that the outright purchasing nature of the facility would be inconsistent with an ex-post assessment based on traditional conditionality. However, we believe that a focused and continued policy monitoring would provide the necessary pressure on the authorities so that they adhere to their policy statements and it would also contribute to safeguarding the Fund's resources.

While sharing the main objectives of the facility and its design, we have a few comments on some key aspects.

Liquidity Needs and the "Entry" Requirement

This instrument is aimed at responding rapidly to members' liquidity needs stemming from the deterioration of global credit conditions and possible contagion. While it should be tailored to the country's needs, the potential user has to be a good performer with a solid track record and with no domestic policy weaknesses.

The quick and sizable response is directed to signal to the market that the country is committed to continue pursuing strong policy despite the weakened external environment. The key challenge is to ensure that the robustness of domestic policy, to be in place before the outright purchase, will continue in the near future too. Therefore eligibility criteria should be clear and focused on key macroeconomic factors.

We support the focus on fiscal position, stable inflation, debt sustainability analysis, and appropriate exchange rate policy as the key areas. In addition, like Mr. Bakker, we believe that the participation or a commitment to participate in an FSAP and ROSC should play a relevant role. Of course, these criteria should leave enough room for staff to exercise judgment and to better tailor the assessment to the specific country's circumstances.

We believe that being current on the Article IV should be a pre-requisite criterion. In the case of any delays with respect to the Board-suggested timetable, staff should provide the underlying reasons. Therefore, the last Art. IV report is the natural candidate for initiating the staff assessment.

Length of the Facility and the "Exit" Strategy

We agree with staff that the facility is only aimed at providing very short-term resources in order to deal with short-term external liquidity pressures. Therefore, the original proposal of a three-month period, renewable once, per 12 month would be a better fit for addressing a liquidity crisis. After six months, if liquidity pressures persist or even increase, there should be a presumption that the member will move to a more traditional Fund facility. In this context, a satisfactory track record during the facility and its consistency with the authorities' policy statement should constitute the basis for rapid access to Fund arrangements, such as a Stand-By Arrangement, which are better equipped to implement policy measures.

Access Limit and Flexibility

The access limit appears adequate to meet the needs of a large number of members. However, we need to recognize that, in this area, flexibility is necessary to provide enough resources to minimize adverse market conditions. Flexibility will allow the Fund's support to be better tailored to the actual needs of the membership and will ensure uniformity of treatment. For the same reasons why we are against a rigid interpretation of the proposed access limit, we would not support the adoption of a global cap for the total amount of Fund resources committed to this facility. However, the adoption of a review clause once the total amount of outstanding credit reaches SDR 60 billion appears to be reasonable.

Finally we support the repayment at the end of the three months period of the facility and the use of emergency procedures considering also the nature of the financial needs that the facility is directed to meet. Finally, we support the introduction of a sunset clause and the proposed two-year period is reasonable to assess the usefulness as well as the effectiveness of the new instrument.

Mr. Fayolle submitted the following statement:

I thank the managing director and staff for their proposal. I would like to commend them for their proactive stance and having taken initiative. I fully support this stance, basically aimed at raising the IMF up to the challenges of the ongoing crisis.

I support the creation of this new facility, of which I share the objectives, given the magnitude of the crisis and the risk of a further contagion on some emerging economies despite their remarkable track records of sound policies and strong fundamentals. It complements the toolkit of the IMF and is a milestone in our common strategy of making the IMF a key actor in the resolution of that crisis. In that regard, I would be interested in hearing staff's and board members' views on how the membership, individually and collectively can best collaborate with the Fund to preserve the international financial stability.

Today perhaps more than ever, time is of the essence but there will not be many other opportunities to amend and better the proposal. Let me therefore make 5 suggestions, many of them echoing those of my colleagues :

I support Mr. Bakker's proposal that the country that would draw on the SLF commits to have a FSAP soon, if it has not done so far, because the financial sector vulnerabilities of a country can exacerbate the impact of external pressures; given the high (and legitimate) degree of judgment involved, careful consideration should be given to the process, so as to ensure an appropriate Board's involvement and oversight, "to ensure full accountability" as rightly pointed out by Mr. Gibbs and Ms. Robinson. In that regard, I believe specific attention shall be given to the determination of the nature of "self correcting pressures". Besides, the board should be involved for each review so as to ensure that the Fund can keep its full confidence in the country with the SLF framework; while supporting the level of access being set, it should be made clear upfront that this is a limit, that it is the same for all, but that, any specific access should be tailored to the actual balance of payment needs of the country, as underscored by Mr. Shaalan and Ms. Riad; of course, it should also be made very clear to the membership and the outside world, that differences of access between countries should not be seen as any sort of ranking; as for transparency, like other directors, we do not see why the SLF should be exempted from the Fund's transparency policy.

While exceptional times call for exceptional measures, we should leave us some safeguards without jeopardizing the necessary flexibility; among those safeguards are the necessary review of the facility after one year or after SDR 60 billion have been committed. I also support the sunset clause.

Mr. Itam and Mr. Nintunze submitted the following statement:

We welcome the proposal for the establishment of the SLF, and thank staff for their helpful papers and management for acting expeditiously by adopting this flexible approach to help the membership address vulnerabilities arising from the ongoing global economic and financial crises. It is evident that the crises, including the oil and food price shocks, are disrupting markets, causing systemic loss of confidence, reducing financial flows across mature markets, and contributing to balance of payments problems.

We strongly believe that the Fund should play a leading role in responding rapidly to members' evolving needs. The SLF should reinforce the Fund's signaling and readiness to strengthen and adapt support to its membership. We, therefore, support the proposed decision to establish a new short-term liquidity facility. We are in broad agreement with the thrust of the staff analysis and wish to emphasize the following points.

The SLF would be a useful complement to fill the gap in the current Fund lending instruments. It offers members that are well-integrated into the global capital markets, and known for their consistent track record of strong macroeconomic policies and fundamentals, access to large upfront Fund resources, with a view to helping them cope with their short-term and self-correcting balance of payments pressures.

We can go along with the eligibility criteria set in this proposal, given that they can be assessed rapidly through the identified indicators. In this respect, it is our view that Article IV consultation reports should indicate how members responded to Fund advice, which could provide an objective and verifiable benchmark—among others—for assessing the ex ante conditionality. We agree that policies should have been assessed very positively by the Board in the context of the most recent Article IV consultations as reflected in the summing ups.

We agree that there should be no conditionality, since the member is deemed to have been consistent in implementing strong policies. The letter of request for use of resources under the SLF from the authorities to the Managing Director should clearly indicate the sources of the shock and how the authorities intend to address the shock. This would ensure consistency and evenhandedness of access with other Fund instruments. Like Mr. Shaalan and Ms. Riad, we would welcome staff comments on whether the requirement for Board assessment in connection with each purchase could hinder the use of the facility because the requirement is viewed as normal conditionality.

To be helpful, the level of access needs to be relatively high. Therefore, we would favor a level of access sufficient to respond appropriately to the members’ needs which should be at least

500 percent of quota. We also agree that this amount should be made available in the form of outright purchases to boost confidence in the members' solvency. In this regard, we would be grateful if it could be clarified as to whether the up to 500 percent of quota suggested would be per purchase under the facility or the amount that could be outstanding under the facility at anytime.

We agree that access to the SLF should be limited to three outright purchases per 12-month period. However, we do not see the merit of incorporating a sunset clause for the facility. It may be somewhat reckless to say that the facility would fill an important gap in the Fund's toolkit and then proceed to suggest that it be dismantled at the end of two years without any assurance that the gap would seize to exist at that time. Of course, if we see the gap as temporary, then we could go along. But there has been numerous discussions and suggestions for such a facility even before the onset of the current crises. We, therefore, expect such a facility to be useful to a larger part of the membership in the medium to long term and favor only review of experience after two years for relevant advice to refine its design, if necessary.

Further, we would like to urge for an expeditious review of the access policy to increase the normal access level for members tackling emerging vulnerabilities. Also, a review of the charges and maturities of Fund facilities is long overdue as recognized during the recent discussion on the Fund's financing role.

With these remarks, we look forward to an expeditious implementation of the SLF.

Mr. Nogueira Batista and Mr. Mori submitted the following statement:

We welcome the creation of a new liquidity instrument. We have been arguing in favor of this for quite some time. Indeed, the proposal before us bears close resemblance to the one we presented in June and later named "Rapid Liquidity Line". However, we still have some reservations regarding three aspects: access limit, maturity and the sunset clause.

The access limit of 500 percent of quota is small for some member countries. The concept of self-correcting balance of payments problems involves the idea of speeding up the reversal of creditors' expectations and restoring external financing. This could be done more effectively with amounts upfront that would be larger than 500 percent of quota. If the amount provided by the Fund is smaller than expected, it could even worsen the problem. A higher access limit, or at least some flexibility in this respect, would be more suitable for the Fund's membership. We propose, therefore, that exceptional access beyond 500 percent of quota should be considered in certain cases. In these cases, additional surcharges would apply to the amounts exceeding 500 percent of quota. Also, if necessary, a mission would be sent to the country before Board consideration in order to gauge the amount needed.

A fixed maturity of nine months is short. The crises of the 1990s (in Mexico, East Asia and Russia) and in this decade (in Brazil) have shown that a financial crisis can last two years or more. This is the time it usually takes for a country to normalize its economic situation and restore regular access to private creditors. The duration of a crisis does not depend on the emerging market country alone. Events in major financial centers are crucial in this respect. The current financial turbulence, for example, is related to events outside emerging market countries, beyond the control of their authorities. If the situation does not improve abroad, it can hardly be corrected with the provision of very short-term resources. We propose, therefore, that access to the Short-Term Liquidity Facility (SLF) be limited to three outright purchases per 24-month period, but to be repurchased in six months.

The third concern is the sunset clause. We consider the SLF as a new instrument to be added to the toolkit of the Fund. It should be seen as a permanent and not a temporary instrument. Its creation should signal a fundamental change in the Fund's approach and the institution's willingness to adapt to a changing world. The instrument will be useful not only for the present crisis but also for future ones. Financial crises in the advanced countries have been very frequent. The frequency seems to have increased since the early 1990s. We had the bond crisis in the U.S. in 1994, the banking crisis in Japan in the first half of the 1990s with spillover effects going further, the bursting of the I.T. bubble earlier this decade and the ongoing financial crisis. All of them had effects on emerging market countries or regions. It does not seem appropriate to treat the new facility as a temporary mechanism. We propose, therefore, that in lieu of the sunset clause the Board should establish a periodic review of the SLF.

One final comment on the way staff justifies the design of the SLF. Staff argues that the SLF has to be differentiated from existing instruments. However, it seems obvious that the SLF presents several distinct features, such as the disbursement in one tranche upfront, the rollover structure, the repayment obligation in a single repurchase, and the strict eligibility criteria. A somewhat longer maturity than the one being proposed and a flexible treatment of the access limit would not make the SLF similar to the existing instruments that have longer repayment periods and disbursement in tranches.

Mr. Rutayisire submitted the following statement:

We would like to thank Management and staff for their promptness in responding to the need for a new Short-Term Liquidity Facility (SLF). We generally support the features of the SLF, which fills an important gap in the Fund's toolkit, by serving its membership facing external market developments despite strong underlying fundamentals and domestic policies. We would like to stress the following points for emphasis.

Eligibility

Given the fact that the objective of the SLF is to help countries affected by the contagion, we fully agree that the Fund should avoid onerous criteria. To be appealing, the SLF should allow for quick and large and disbursements, with streamlined requirements. However, we believe that the criteria put forward by staff deserve further clarification, notably the notion of "self-correcting" balance of payments pressures. Given the fact that some emerging countries were hit hard by the withdrawal of credit lines from deleveraging foreign banks and capital outflows, how could such events self-correct quickly? Given the fact that restoration of market access can sometimes take at least 6 to 18 months, what is the timeframe for self-correction? Regarding the argument on "strong underlying fundamentals and domestic policies", we invite the Fund not to apply these criteria too stringently in order to respond effectively to the systemic liquidity crisis. Since there are no ex-post conditionalities, we share the view that the period over which resources are outstanding should be strictly limited and we support the proposed repurchase period. We also concur with staff that assessments for access to the SLF can be based on information obtained through bilateral and multilateral surveillance. However, as evidenced by the current financial crisis, it appears that we have been either deceived by some Article IV consultations or met with resistance from some member countries rejecting Fund advice. Going forward, it is not only imperative to have an updated information on potential SLF users, it is equally important to agree on a set of indicators to assess the strength of their macroeconomic policies.

Access

The level of access would be up to 500 percent of quota and would be limited to 3 outright purchases per 12-month period. We believe that in some instances, the case could be made that the access of 500 of quota was insufficient to avert the liquidity crisis. We also support the proposed pricing of the SLF. Once the three purchases have been exhausted, we agree with staff that any further Fund financial support would have to be requested under another Fund Facility.

Fund's Liquidity Position

At this critical juncture, we agree with staff's concern on the need to ensure that the Fund has sufficient resources for both the SLF and its traditional lending operations. In this context, agree with staff's proposal to review the SLF if outstanding purchases under the Facility reach SDR 60 billion.

Sunset Clause

We support the staff proposal and would go along with the consensus thereafter.

Mr. Ge and Ms. Lin submitted the following statement:

We appreciate the tremendous efforts by management and staff to introduce the Short-Term Liquidity Facility (SLF) over the past two weeks. It is understandable that this new facility should be moved forward quickly against a background of emerging short-term external liquidity needs in emerging market countries due to the spill-over effects from market turbulence in advanced economies. However, due to the limited time allowed for the Board's consideration of this decision and the hasty manner of its adoption, we are concerned that there is a risk of compromising the quality and applicability of this new instrument.

After a few discussions on this proposed facility, we can go along with its key elements and support the decision. In particular, we would like to stress the following points:

As staff indicated in the paper, this proposed new facility is intended to fill a gap in the Fund's existing lending framework and is designed for members that are well-integrated into the global capital markets, and whose strong macroeconomic positions and records of consistent policy implementation do not call for typical Fund-supported adjustment programs. With this in mind, we are supportive of the three broad principles enshrined in the SLF design, that is, the instrument should have a clear purpose and be tailored specifically to the needs of relevant members while safeguarding the Fund's resources. In particular, we agree with the premium put on large access and quick disbursement given the severity of this bout of financial crisis and the rapidly-changing market conditions we have witnessed.

The ex ante conditionality, as embedded in the eligibility criteria, provides assurance that the Fund's resources under the SLF will only be channeled to members whose balance of payments difficulties arise from short-term self-correcting external pressures and that potential borrowers have the capacity to repay the Fund. We hope the relevant eligibility criteria will be implemented rigorously in the staff's assessment of potential user's qualifications and the nature of the member's balance of payments problems.

In light of the looming demands for the SLF and the rapid evolution of the financial crisis, it is highly expected that the SLF will have a substantial impact on the Fund's liquidity position and the Fund's firepower will quickly run short if large emerging market economies resort to this facility. We urge the Fund to make reasonable projections of its liquidity position in a forward-looking manner and strongly favor the " review clause" in the decision - the SLF be reviewed if outstanding purchases under this facility reach about SDR 60 billion, or half of the current FCC. More generally, the Fund should objectively assess its capacity to provide financing resources and actively explore ways to meet the financing needs of its members.

Since an overall review of the Fund's existing lending framework is being carried out within a one-year time frame and the resulting new framework might close its own gap and therefore overlap with the SLF, we applaud the incorporation of a sunset clause in the decision which provides for the expiration of the facility two years after its establishment.

Mr. Murray and Mr. Duggan submitted the following statement:

We are willing to take a flexible approach towards empowering the Fund with the tools necessary to assist those experiencing balance of payments pressures due to the global financial turmoil. Therefore, we support the proposed facility as a pragmatic response to short-term liquidity pressures arising from the crisis, but have several suggestions that we believe would strengthen this new instrument.

We support the emphasis on ex-ante conditionality as a means of improving the speed of access. It is important that eligibility for the SLF is based on clear qualifying criteria and indicators of strong policy performance, including to facilitate a clear assessment of eligibility. Firstly, the whole range of macroeconomic policies—fiscal, monetary, exchange rate and financial sector policies—should be part of the assessment. Secondly, there needs to be a clear specification of what is meant by balance of payments need, as in this context it is likely to be deterioration in capital flows, rather than an actual financing gap that is relevant. Thirdly, recent conclusion of—or agreement to conduct—a FSAP should be explicitly incorporated into the qualifying criteria. Fourthly, being current on responsibilities under Article IV consultations should also be a condition of access, including to ensure that the Fund's policy assessments are contemporary.

We are in broad agreement with the proposed terms and modalities, which in our view strike a reasonable balance. However, we also have sympathy for the argument that a 3 month term could potentially add to volatility and therefore we could go along with a 6 month liquidity facility that could be renewed for a further 6-month period.

We can go along with the proposed charging mechanism, but again take this opportunity to note that the review of charges and maturities is long overdue.

We agree with the proposed sunset clause, although the facility should still be considered as part of the broader review of Fund lending. Thus, we agree with the proposal that the Board review experience after two years and the automatic trigger for reviewing the SLF in the event that outstanding purchases under the facility reach half the current Forward Commitment Capacity. We also agree with staff's arguments for why collateral would not be an appropriate safeguard in this case.

Finally, we reiterate the need for a clear and careful communication strategy which emphasizes that this is a facility for good-performers and avoids mentioning individual countries that might be eligible, including to avoid the situation where governments come under pressure domestically to confirm or deny whether they are considering accessing the facility. While the case for the new facility rightly focuses on the liquidity needs of emerging market economies struck by the financial crisis, we should also acknowledge that the new facility may also be helpful for some advanced economies, including smaller advanced economies who don't have access to foreign exchange swap lines with major central banks.

Ms. Lundsager made the following statement:

I agree with Ms. Sucharitakul that this proposal is a confidence-building measure for the membership. It is a major change to accept ex ante conditionality and large up-front access. Frankly, it is a major change for me to be comfortable with this, but I join Mr. Alazzaz and Mr. Al-Nassar in weighing the balance of meeting the liquidity needs of the membership against the need for adequate safeguards to protect our own resources going forward.

All of us remain in the hands of our fellow members. I am going to trust you, and your authorities in particular, to see the criteria being properly set out and that members only come to the IMF with a true short-term liquidity need and a sound track to provide the strongest possible assurance that these large resources will be repaid.

The staff also will have a responsibility to be rigorous in applying the criteria; this is something Mr. Ge noted in his statement this morning. As emerging markets adjust to the new equilibrium—and this includes shifts in global demand, terms of trade changes—it is clear that most countries will need policy adjustments, and in some cases significant policy adjustments, and thus would be better supported with a normal Stand-By Arrangement and its longer repayment period.

We took note of Mr. Shaalan and Ms. Riad's point on ensuring our ability to continue with normal lending. The bottom line is we do not expect that there will be many members using this new facility.

I welcome that the proposed decision spells out that the country documents presented with a request will include a short policy statement from the authorities. It will be important that the Board see this. Even in a liquidity crisis, actions by the authorities are generally needed to restore confidence. We have seen those in all countries.

We join Mr. Moser in expecting a regular Article IV track record, and are also interested in the reply to his question on exchange rate policy. We agree with Mr. Gibbs, Mr. Fayolle, and others that the Board must be fully involved in the process.

I also welcome the inclusion of a sunset clause. I have no doubt that our successor Board in two years would extend this facility if conditions merit. In the meantime, as Mr. Horgan noted, we will be conducting our overall facilities review.

I would join those many colleagues who have emphasized the importance of continued adherence to our existing transparency policy. We do not believe we need the changes suggested in the proposed decision, given that under current policies the publication decision still rests in the hands of the members.

Of course, the financial data will be posted immediately on the financial pages of the IMF website, so there is no keeping anything secret. It just seems to us that the suggested changes on transparency appear to be backtracking, and this strikes us as the wrong message to send when we are trying to signal that we are building confidence in the membership to reassure markets and other creditors.

Finally, the eligibility criteria for this facility would encompass members that are already in the Financial Transactions Plan. This is sensible, as the requirement to be a creditor to the IMF is that the staff considers a member sufficiently strong from a balance of payments perspective.

In the past, the logic has been that a country that has an actual balance of payments need required to receive a Fund disbursement is no longer sufficiently strong. I would like to ask Mr. Tweedie whether an FTP member using this new facility would be suspended or dropped from the FTP. I do not think that is necessary, given the short-term nature, but I think it is something on which we should have some clarity.

Mr. Kishore made the following statement:

Time is short and there are a number of speakers. I will try and be very brief.

I compliment the Managing Director and management for the proposal being tabled today after several rounds of informal discussions.

We are in a position to support the intent and the broad contours of the proposed SLF. I have a couple of comments to offer for consideration of colleagues today.

I do hope that while considering the proposals and the requests which might be received by the Fund, eligibility will be interpreted with a certain amount of latitude and will not be needlessly restrictive. I find from the details of the draft decision that all possible contingencies have been attempted to be included, and I do hope that this appropriately-worded decision will be finding adequate support.

On the question of the level of access, I would very humbly suggest that the Board might consider a certain amount of greater flexibility on the firm limit of 500 percent of quotas. Quotas were allocated quite some time back. With a large number of members requiring this kind of a facility, having the 500 percent amount of their quotas would be very, very insufficient considering today's requirement and, therefore, only in exceptional cases would I suggest that we could consider, on a case-by-case basis, depending on the merit of the situation and the amount required, more than 500 percent of quota. Otherwise, 500 percent, normally speaking, appears to be acceptable.

On the question of purchase of maturity of not more than 3 months each within a 12-month period, a short point here for consideration. If I understood correctly, over a period of 12 months, 3 purchases could be made perhaps with a difference of not even a day, perhaps an hour or two or possibly a couple of hours.

Are we not giving rise to a possibility of speculation with regard to the condition and stability of that member country? Of course, I am grateful that some amount of flexibility has been considered after the previous informal discussions, but can we consider it being transformed into a six-month purchase renewable under extraordinary circumstances for another six months? After 12 months we may go and explore the possibilities of a Stand-By Arrangement, etc.

Therefore, instead of giving multiple chances of three months each, thrice over a year, I would go in for a simpler six months supported by another possible renewal, depending on the situation, for another period of six months, and we finish within the 12-month period.

On the sunset clause, a point for consideration of colleagues could be possibly we may not introduce the sunset clause now, though we would know in fullness of maturity of the present crisis that perhaps it may not be required in the future, but putting right now the sunset clause of two years would perhaps be a mistake. We can make it a permanent member of the toolkit of the Fund, of course subject to review after two years and periodically. If we find that the instrument, the facility is appearing to be redundant, we may always give it up.

Last two small points, sir, and I will have finished. On the question of collaterals, we do support the argument of the staff and the justification that the best collateral is the member countries' policies, and I think we are comfortable with that.

A broad point not exactly related to the point today, but having an indirect relationship. I think, sir, there would be a time after the crisis is over--an appropriate time to consider the general revision of quotas, because I do think this impinges on the resources of the Fund question. I do hope that our present resources, with all the forward commitments, etc., would be adequate to meet with the requirements of the countries suffering from this crisis or being in varying degrees impacted by the crisis.

One more point and I will have finished, and it is outside the proposal of the staff in the paper. I strongly urge that we refrain from joining in any joint statement about the instrument should, at the end of the deliberations, the Board support the passage of the decision. This is timely; this is required; it was much awaited. But in the general and overall interest of the credibility and independence of the IMF, consultation by all means with all concerned, but we should not be appearing to be joining the bandwagon. It is our decision; it is timely; it is welcome; and, therefore, I would very strongly suggest to refrain from a joint statement.

A synchronized announcement of the global international community to address the global problem is welcome, and you are, I believe, in touch with several central banks and governments. As a result of that, we might synchronize our action, but certainly not join any other body with regard to this instrument. It should be our own independent decision and should be, more importantly, appearing to be so.

Mr. Kiekens made the following statement:

There is no doubt that a country with very strong policies, very strong fundamentals, a very strong track record, with sound structural fiscal positions, low stable inflation because of strong monetary policy, effective financial sector supervision, sustainable current account positions, a history of stable access to international capital markets at favorable terms and a comfortable reserve position by standard measures, and sustainable domestic and external public debt should be able to receive financial support from the Fund for adequate amounts and with the understanding that such adequate policies will be maintained. Such assistance should be given, either in the form of actual lending, or in the form of a precautionary credit line.

If the balance of payment needs are very short, so should be the length of period that a country uses the Fund’s money. However, if balance of payment problems last longer than a very short period, the Fund’s credit should be given for adequate medium-term periods.

Financial assistance, as envisaged under the proposed decision, by and large, can already be provided under a Stand-By Arrangement. It is true that a number of Directors disagree with the idea of a high access precautionary arrangement. But such arrangements are possible and legal, and have been agreed upon in the past. Of course, a Stand-By Arrangement requires tranches, but does not prevent frontloading. And it is correct that a Stand-By Arrangement provides credit for a medium-term period, but also requires a country to repay early as soon as the balance of payments position strengthens sufficiently. The proposed SLF, by contrast, lacks in several aspects the flexibility that can be achieved with a precautionary Stand-By Arrangement:

As I understand it, a country can not ask for a SLF on a precautionary basis.

As observed by Mr. Nogueira-Batista and others, the term structure of the SLF is very short. It might, however well be that the balance of payments needs last longer than 12 months. It is not clear under the proposed decision whether the Fund is prepared to give successive SLFs with two roll-overs every 12 months.

Once the SLF is activated, it is not clear whether additional amounts can be drawn within the limit of 500 percent of quota, thus achieving a staggering of drawings over a longer period. And in any case, drawings in excess 500 percent of quota are excluded.

All this seems, to some extent, regrettable rigidities in the system.

An important benefit of the proposal seems, at first glance, the rapidness and easiness by which the facility can be activated. Whether this will prove practice remains to be seen. Access to the SLF is not automatic. The staff will have to assess whether al the eligibility criteria are in place. And the Board will be involved at several stages during a preliminary informal process and as the final decision maker. I believe that for a country with all the very positive policies in place, agreeing on a Stand-By Arrangement could be equally quick and easy.

I conclude that the SLF is largely superfluous. The main reason why the Board should not adopt the proposed decision is related to the harmful side effects of the facility on the vast majority of other members who are not eligible and its hurting the ability of the Fund assistance those member with the traditional lending instruments and to conduct serene constructive Article IV consultations.

By adopting the proposed decision, the Board will split the membership in two: those countries with very good policies and all the others. This may become a serious source of corrosive tensions. The world is not black and white. However, in the world of the SFL many Article IV consultations risk to become a negotiation on whether the assessment is very positive or not. And every recommendation by the Fund to strengthen policies in one or another aspect might be seen as a defeat rather than a welcome recommendation.

Every well-performing country, but not up to the very high standard of the SLF, might see it as a humiliation to have to ask for a Stand-By Arrangement.

We should be realistic about the political ability of the Board to maintain the eligibility standard as high as it is spelled out in the proposed decision. If not, there is a serious risk that markets will soon conclude that the AAA ratings that the Fund gives to some of its members is not fully credible, but are rather expressions of political complacencies. Such a development would be disastrous for the functioning of the Fund and for the membership.

I continue to believe in the ability of the Board to take, on the recommendations of a politically independent and highly professional staff, fair and credible decisions according to the merits of every individual country. However, a policy of categorizing countries creates too many risks of political arbitrage.

These are my main arguments why I believe that the Board should not adopt the proposed decision, and should rather invite countries to ask in a timely manner precautionary Stand-By Arrangements, with access and conditionality that adequately fit the individual circumstances. However, since I do not want to stand in the way of the majority I prefer to abstain.

Mr. Kotegawa made the following statement:

First, I would like to say that we are prepared to broadly support this proposal, with two conditions. First, it should be assured that some degree of flexibility should be maintained in the application of the rule of access limits of 500 percent, because the main objective of this scheme is to actually solve the problem that a certain country faces. That is my first comment.

No. 2 is on the points raised by Ms. Lundsager. Reading the sentence on page 6, first line, it says “the SLF decision with the consent of the member.” I would interpret that, if there is no consent by the member, there will not be an announcement. This, in my opinion, is a very serious problem from the point of view of the accountability of the Fund vis-à-vis shareholders and also the issue of transparency vis-à-vis voters. I hope that there should be some kind of change in this regard.

Last, although I was impressed by Mr. Kiekens’ intervention, I would like to point out one incident which we had in the past. There was an argument when we established the Industrial Revitalization Corporation in Japan in 2003 that the Japanese government should not take the risk which usually should be taken by the private entities.

At that time, it was emphasized that at the time of the heaviest pressure in the market, those risks usually taken by private enterprises cannot be taken by them. It is time for the government to take the risk for a while to get the market back to normal conditions. We are facing a situation whereby not only private enterprises but also some of the governments cannot afford to take the risk in the market. This is a time whereby international organizations such as the IMF should take the risk for awhile to get the confidence of the investors back into the market.

Mr. Torres made the following statement:

We are ready to go along with the proposal. You told us yesterday that several members are ready to apply for this facility, and it is on the basis of this assessment that we can support the proposal.

We see many points that Mr. Kiekens has just made as valid observations. However, if countries believe that they could come here to the Fund, and they could work out an agreement without intrusive conditionality and in a short period of time, they would already be doing it. They are not doing it, because they do not believe this is possible. It should be possible, but it is not. We think that this kind of line is something that would, I would say, make this house for everybody.

However, having said that, we believe that the current design should be adjusted, and on this we agree with many colleagues who presented grays and spoke before me.

As it now stands, members that are applying or will be applying for this line will most probably need to exit the SLF through a Stand-By Arrangement, and this is obviously not something that I find very attractive. The SLF is a three-month lifeline, which perhaps—but perhaps not—could be renewed twice, up to nine months. There is quarterly volatility embodied in its current design.

It is quite unlikely that the financial stress that prompted the member to apply for the SLF will be over in less than 90 days. If the financial stress disappeared in less than 90 day, its exit from the liquidity line would be fine and smooth. However, this crisis does not look that benign, and the possibility that the government may run out of gas in 90 days will not help to settle markets, nor make it any easier for the sovereign or for corporations to roll over their loans. As a result, the SLF will simply pave the way for a Stand-By Arrangement.

We believe that the period should be extended. Our preference would be to allow a one year purchase period, renewable once for six months. This would be, as we see it, far more consistent with the rollover needs of our countries and the corporate sectors of our countries.

To be effective, as Mr. Kishore pointed out very eloquently a few minutes ago, the up-front support may need to go beyond 500 percent, and also as Mr. Kotegawa just said. In almost all cases that we have in the pipeline, Fund financial support will need to go beyond 500 percent.

We are also a bit disappointed not to see in the proposed decision the language that we had in the document that was circulated Friday by the staff, stating that the maximum 500 percent of quota would typically be needed. I would insist that we should keep the flexibility to go beyond the 500 percent if so justified.

A point that has not been made yet and I want to emphasize is that we see no justification to exclude countries that have a Fund arrangement in place at the time of the purchase of the SLF, and let me explain this. The implication would be to exclude countries that are not even borrowing from the Fund as members that have requested an arrangement for sheer signaling purposes. This is the case of precautionary arrangements or token borrowing.

We have at least two countries in my constituency that do not need the money of the Fund. They have not been actually borrowing anything from the Fund, but they came to the Fund to get basically the rubber stamp of quality of their policies. The policies have been rubber-stamped for good quality, but for that sheer reason they would be excluded for this. I really see that as not justified.

Finally, this is a very specific question. We fail to understand what justifies the indicator requiring that eligible members should have, I quote: "capital accounts dominated by private flows".

The bottom line is that we are ready to support your proposal. We just urge for adjustments in the line we just expressed.

Mr. von Stenglin made the following statement:

I would like to join other Directors in thanking Management and staff for their timely efforts to present a proposal for the Fund's involvement in the resolution of the current financial crisis. The Fund has indeed an important role to play in assisting member countries to tackle short-term liquidity problems of the balance of payments. However, it is regrettable that the Board has been asked to decide hastily on a new financing facility, which could change the fundamental character of the Fund's lending. For us there are a number of open questions regarding the proposed design, and I share most of the concerns expressed by Mr. Kiekens. Furthermore, I would like to refer to my comments made during the recent informal meetings which I do not, however, intend to repeat endlessly.

The design of the SLF—high credit volumes without offsetting conditionality and without offsetting surcharges—sets the wrong incentives for the use of public money in the current financial crisis. This crisis has been triggered by the setting or accommodation of wrong incentives on credit markets. Moreover, such a credit policy would be fundamentally different from international liquidity support by central banks—which the Fund obviously wants to resemble—considering that no direct or indirect collateral shall be required as a safeguard for the disbursed Fund resources.

To be clear: we believe that the Fund is well equipped to assist countries affected by the current financial turmoil with its existing instruments. At the same time, I would like to point out that this chair is not entirely against a new short-term facility, but we have serious concerns with regard to the design as presented in the paper.

First, it is proposed to make substantial amounts of Fund financial assistance available without adequate safeguards. That means: only slightly less than half of the Fund's Forward Commitment Capacity or (to put it more simply) almost 50 percent of the Fund's war chest are proposed to be disbursed without adequate safeguards before the Board will review the implications of the SLF decision for the Fund's liquidity position—and not also the safety of its resources. In order not to put the Fund's financial integrity at risk and to compensate for the missing conditionality, it would be necessary to ask the member for collateral or to set lending rates according to the individual risk of the borrower.

Second, I am kind of frustrated that, compared to the original proposal, the cumulative duration of the facility has even been increased to nine months in a twelve-month period thereby increasing the risks for the Fund's resources.

Third, the proposed SLF raises further serious questions:

- Does the proposed review of the SLF when outstanding purchases reach SDR 60 billion mean that countries that request financial assistance under this facility first will be accommodated on a first-come-first-serve basis, while for others there may be no more resources available?

- Do you expect that creditor countries will provide sufficient bilateral resources to the Fund?

- It has been common understanding—and the staff themselves mention it - that the best safeguard for the Fund's resources are Fund arrangements that are aimed at regaining a sustainable bop position. Given the likely need for the implementation of adjustment policies, the necessity for a roll-over of credit cannot be excluded. What leverage for conditionality would the Fund have when a member eventually needs to request a regular program, which would already start with an outstanding credit of 500 percent of quota? Since the SLF could create a disincentive for countries to seek an SBA from the outset, could this possible arbitrage risk to weaken conditionality?

- What does self-correction of a balance of payments need really mean?

Having read and listened to a number of other Director's serious questions and concerns I do not feel isolated. This chair is just drawing a different conclusion.

In view of the serious drawbacks, we are not in a position to support the proposal as it stands and would like to be recorded as abstaining.

Finally, I am sharing Mr. Kishore's view on a possible joint statement with central banks. The Fund should present this new instrument on its own.

Mr. Henriksson made the following statement:

We welcome the concise paper on the Short Term Liquidity Facility. We see the potential need for a rapid disbursing high-access liquidity instrument, especially in the present circumstances where many countries are facing increasing liquidity pressures that could lead to solvency problems if quick and radical actions are not undertaken immediately. For that purpose financial support may be needed in addition to coordinated international effort on a broad front to contain the economic crisis.

Safeguards would be ensured by the self-correcting nature of the balance of payments problem, short repurchase period and strict qualification criteria that focus on strong policies and track records. In a genuine case of short-term, self-correcting pressures, the need for conditionality going beyond the above mentioned safeguards is limited, however, the number of cases where the stress is caused solely by short-term, self-correcting external liquidity pressures might actually be limited. Therefore, we believe that the authorities using this facility should be prepared to accept a minimum degree of streamlined conditionality as the underlying problems become clearer (with conditionality focusing on the underlying causes of the crisis). In any case careful monitoring must be ensured and if there are doubts that the problems will not be short-term and "self-correcting", the country should immediately move to an ordinary arrangement.

If a liquidity need arises, one might question if 500 percent of quota would be sufficient. Recent international swap agreements support this view. Staff's proposal implies that Fund financing would play a catalytic role garnering support also from other sources and such support should be indicated in staff's preliminary assessment.

The proposed surcharges seem rather low. A special fee for the rapid access seems to be warranted namely SRF-like surcharges However, we recognize that this must be considered in conjunction with the up-coming general review of access and surcharges.

We find the proposed access of three outright purchases per 12 month period appropriate, and we welcome the proposed sunset clause on the facility.

Finally, we would prefer to have an "early warning" with a review when outstanding purchases under the facility approach a certain ceiling, and in good time before the proposed review clause is due.

Mr. Nogueira Batista made the following statement:

The other day I ended my intervention quoting Robert Kennedy. Today I would like to start my intervention quoting Abraham Lincoln. I am using all the instruments I can. In one of his annual messages to Congress during the Civil War, he concluded with one of the most stirring incitements to patriotic commitment on record, saying "The dogmas of the quiet past are inadequate to the stormy present. The occasion is piled high with difficulty, and we must rise with the occasion. As our case is new, so we must think anew and act anew. We must disenthrall ourselves and then we shall save our country."

I think we have gone a long way in this direction with this proposal that we are discussing today, but I would like to urge colleagues to consider a few points where I think we can strengthen the proposal and make it more in line with the current needs. I will therefore make a few comments, some of which are in the gray we issued late last night, but some are not.

First, with respect to the 500 percent limit, I agree with Mr. Kotegawa, with Mr. Guzmán, Mr. Kishore, Mr. Shaalan, Mr. Torres, and others that we may have situations where 500 percent of quota is not enough. Let me just give you an example that came out yesterday.

Yesterday the Federal Reserve announced a reciprocal currency arrangement with the Reserve Bank of New Zealand for the provision of U.S. dollar liquidity of up to $15 billion. This is more than 1,000 percent of the Fund quota of New Zealand. Five hundred percent of quota in the case of New Zealand is $6.8 billion, if my numbers are correct.

I draw the Board's attention also to the fact that this facility that was opened yesterday by the Fed for New Zealand is to last to April 30, 2009, so it is a six month facility. That relates to the other point, the duration of the arrangement.

What I propose for consideration is that 500 percent should be the norm, the limit, but that we should allow for additional access beyond 500 percent in certain cases. In these cases, additional surcharges would apply to the amounts exceeding 500 percent of quota. Also, if necessary, a mission could be sent to the country to quickly gauge the amount of resources that are effectively needed in this case. This can be done quickly and would not go against the spirit of a quick-disbursing facility.

In the case where access does not go beyond 500 percent, I understand that we are still with the approach of not having a mission go before Board consideration. We could have this introduced for cases involving more than 500 percent. This is the first proposal I will make.

The second one is related to time. We now have 3+3+3: three drawings of three months per 12-month period. What did the capital account crisis of the 1990s show us, including Mexico, Russia, East Asia, Brazil? Crises last more than that. Countries return to normal typically after two years, sometimes more.

We are clearly on the short side here. I want to stress the point that the duration of a liquidity crisis does not depend exclusively on the country that is affected by contagion. It depends on outside events it does not control. For instance, in the present circumstances, the liquidity problem may last longer if the crisis in advanced countries, financial crisis in advanced countries lasts longer.

I am very much in agreement here with what was said in Mr. Moser's gray. If we go for a very short period, countries and markets will view the SLF—I am quoting his gray—with a stigma associated with traditional crisis resolution facilities. It will be seen as an entry into normal conditionality and not as an alternative.

We would make a second proposal here that access to the Short-term Liquidity Facility is limited to three outright purchases, but to be three repurchased in six months and over a 24-month period. This will bring real confidence, if we offered something like this. It is similar to what was mentioned by Mr. Kishore, Mr. Guzmán and Mr. Guerra, Mr. Torres just now, and also Mr. Mojarrad. It would be a very clear signal that we have here a strong liquidity facility in line with what central banks are doing for their own constituencies.

Third, I will comment on the sunset clause. We are in full agreement with what Mr. Itam and Mr. Nintunze said in their gray. I quote, "it may be somewhat reckless to say that the facility will fill an important gap in the Fund's toolkit and then proceed to suggest that it be dismantled at the end of two years without any assurance that the gap would cease to exist at the time"; I am quoting from his gray. Mr. Chairman, if we want to send a signal that the Fund is really inaugurating a new approach and it is a changed institution, we cannot announce a major change and then say we are going to take it away in two years' time.

Let me recall to you that financial crises in advanced countries and also in emerging countries have been very frequent, and the frequency of crisis has increased since the 1990s at least. Of course, crises such as the one we are living now are extremely rare, but severe financial crises with consequences in emerging countries are a very frequent phenomenon in the last 20-25 years. We need this as a permanent tool and not as something we will introduce only for two years. I urge you strongly to consider as an alternative to the sunset clause that we introduce a periodic review of the facility; say after two years we would reconsider the facility as a whole. We may even conclude that the facility is no longer necessary. I would doubt it. But we would look at the facility and review it after two years. That is the third proposal I would like to present.

To conclude, I would like to mention some of the points I read in the grays of my colleagues. Let us not insist on the FSAP becoming a condition. That is not wise, and I will tell you why. The FSAP now is seen by countries as technical assistance with no stigma of conditionality attached to it. Countries like Brazil request an FSAP as a matter of fact. It has no political implications, no problems associated with it. If you introduce it here, you will break the spirit of the initiative that we are trying to make, which is to have a no conditionality facility, a new approach, and you will bring to the FSAP aspects that it does not have now. I urge you not to insist on FSAP participation, because it is not constructive. It would harm the FSAP as a tool, and would not help in communicating to the outside world that we are following a new approach here.

As to publication and transparency, I would like to mention that I am in full agreement with what has been stated in the proposed decision paper on page 4, Supplement 1, that publication is an area of sensitivity in the context of current market developments, particularly given the potential adverse market reactions when a member’s use of the facility is mis-communicated or misunderstood. Let us not create difficulties for the implementation of the facility by insisting on changing this aspect, which I think was quite wisely put by the staff.

On confidentiality, I had little time to read in detail everything, given the rush we are in, but I hope that confidentiality which was mentioned expressly in that short note we got last week is also present here as an important aspect of the whole process.

Of course, I am speaking a bit out of my head here again due to the rush, but I do not think it would be bad to have something like the equivalent of a Public Information Notice. Is that what you are trying to avoid? I do not think I understood that, that after the approval of this line, there would be a Public Information Notice. I never understood that this would be a quiet facility, that there would be a possibility of treating this as a quiet facility if a member so requests, but I may be wrong and I want to ask you to clarify that.

To conclude, I think that Mr. Kishore is right when he stresses that the Fund should act independently here and not issue any joint statement with other entities if this decision is approved today or on another day.

Mr. Mozhin made the following statement:

Let me begin by saying that I remain somewhat unsure about the precise circumstances when this facility is expected to be utilized. Perhaps one can imagine a situation when a country is facing a bunching of large external repayments and this very fact would create adverse market developments, and once these repayments are made the markets would be expected to calm down, but that all looks to me quite a bit hypothetical.

In other words, what we have under this facility is a very narrow definition of country eligibility and a very narrow definition of the circumstances when the facility can be utilized. I believe that with this facility we are facing, the Fund is facing two distinct risks.

One is the risk that the facility will never be used, and then the Fund would be facing an embarrassment of once again offering a product which is found to be rather useless. Another risk is that the facility can be used once or twice, and then we find out that we do not like the outcome. For example, in our case our lending will have to be immediately converted into a Stand-By Arrangement and we will effectively refinance ourselves and roll over our claims.

Many questions remain regarding the country eligibility criteria. I think the question posed by Mr. von Stenglin the other day regarding whether the United States and Germany would qualify for this facility is a very relevant question. The way it is formulated in the paper is that we are looking for countries not only with impeccable track records of policy implementation, but also countries which have absolutely no obvious vulnerabilities.

I wonder how the countries themselves will understand whether they can count on this lending or they cannot. Is it expected that we will draw a list of such countries and then notify the authorities, and then those countries which are not notified will conclude that they do not qualify?

These are the risks that I believe are inherent in this facility. However, I see that the majority of Board members are willing to take these risks. I like to be with the majority. For that reason, I will support this facility.

Mr. Fayolle made the following statement:

I just want to react briefly to some of the comments made this morning, and maybe the staff could be clear on some of the aspects.

On the quality of policies, if we do not want to speak about conditionality, it is clear that it is going to be a real responsibility on the staff, but eventually this responsibility has to be taken by the Board. I really think in a matter where the situation is such that a country has to go on the SLF, the reassessment of policies, and not only looking backward but looking forward, will be extremely important after three months or after six months if a country comes back to use again the SLF. The three month repayment period is something that should be kept.

On the 500 percent of quota limit, the view of my authorities is that we need to set some limits. We are not alone in the world, as some colleagues said. We need to be with others to make sure that we will have enough money to give to countries in need, but let us not assume that we can do everything ourselves.

I was a bit surprised by two arguments Mr. Nogueira Batista made this morning. If there is currently no stigma attached to the FSAP in emerging countries, what is the problem to ask these countries to request an FSAP? I do not see any. On the contrary, it is something which would give some comfort to the membership that the risks associated with this instrument are limited.

On confidentiality, I must say that I am not sure I understand the argument. It is supposed to be an instrument to give confidence back to a country, and we want to keep it secret? That is completely not understandable.

That being said, in our communication we need to be extremely attentive to one aspect, which is we are not creating—and that is the point Mr. Kiekens was making—two categories or two divisions. It should not appear that the Fund will take care of one group but will not take care of the other one, because that point is important for the membership as a whole.

Mr. Itam made the following statement:

We have issued a gray and I do not want to reiterate many points that we have already made, but I want to come back to the sunset clause. If we read the staff paper, paragraph 25, the opening sentence is that the SLF would fill an important gap in the Fund's toolkit at a critical time in global financial markets.

Paragraph 23 says that the SLF would incorporate a sunset clause providing for the expiration of the facility two years after its establishment. I was listening to my colleagues this morning and I have not been able to come up or to hear a justification for the sunset clause. If we say this is an important gap that needs to be filled, I have still not been satisfied by what I have read in the grays or what I have heard that this should not be a permanent facility.

If it is our judgment that the present crisis will be over in two years, or, if we are saying that we will come back to look at a facility to fill that gap that we have identified, then I will be willing to go along with the sunset clause. Otherwise, I have not heard any justification. I have not read any justification. I would like to hear from the staff the motivation behind that recommendation.

Mr. Horgan made the following statement:

I wanted to talk about the sunset clause. It strikes me that we are in an extraordinary time here with what is taking place in international financial markets, and I guess from our point of view we are prepared to go along with the proposal.

But we have a lot of concerns along the lines of Mr. Kiekens and Mr. von Stenglin about some of the aspects of this proposal. We are willing to move forward quickly to respond to what we see as a need. We are moving at a very rapid pace here. I am not entirely convinced we have the design exactly right.

From my authorities' point of view, they would like to see a sunset clause here, not necessarily meaning in two years' time there should not be a facility like this, but we want to make sure that there is a thorough review of the IMF's toolkit and lending instruments to make sure that there is consistency across those instruments.

One of the ways to ensure this is to say that this facility, which many will find very important and we do not necessarily disagree, but it is going to force us, both management and the staff and the Board, to take a real hard look at the toolkit that we have.

One could say, well, we just approved an Exogenous Shocks Facility without a sunset clause. However, I do not think anybody thought that the Exogenous Shocks Facility could encumber half of the IMF's resources. We think a sunset clause is an important feature here.

But I can agree with Mr. Itam that, in the communication of this, we must express that we are filling an important gap here, but the IMF is reviewing all of its facilities. We are in a time of crisis. There is going to be a lot of pressure on the IMF.

As you know, we have a G-20 Summit coming up. There is going to be a lot of pressure on the IMF to examine what its role has been and should be in the future. That is an opportunity for the IMF to examine its entire toolkit. Therefore, I think a sunset clause for this particular instrument is appropriate, given its scope and magnitude.

Mr. Nogueira Batista suggested that Mr. Horgan's concerns could be addressed by a review of the SLF in two years' time rather than a sunset clause.

Mr. Horgan explained that a sunset clause was preferable because the expiration of an important facility would provide a greater motivation for a more thorough review of the entire Fund's toolkit.

Ms. Tartari Schwegler made the following statement:

There are three points that we would like to emphasize. First, we consider that the conduct of Article IV consultations in the 18 months prior to Board discussion for a new facility should be a precondition for eligibility. The Board has many times reiterated that Article IV consultations are indispensable to adequately assess the economic situation of a member.

Second, on transparency, we consider the publication of members' policy statements and staff reports under the new facility to be important. This is necessary to convey a positive statement and is very much in line with the IMF's transparency policy.

Third, we welcome the inclusion of a sunset clause for the new facility, as this will give us the opportunity to have a more fundamental discussion on many different issues and concerns that many Directors here have mentioned later on.

Mr. Bakker made the following statement:

In my gray I expressed my support for the proposal. After listening to my colleagues I have a few comments. First, on the size, is 500 percent of quota large enough? Personally, I am quite sure 500 percent will not be enough, but I do not think the answer needs to be that the IMF should do more. The resources of the IMF and the creditors are limited. I would be interested to learn from the staff what possibilities and ideas there are to enlarge the financing capacity of the IMF by backing up of other arrangements. During the IMFC, the Japanese authorities indicated their willingness to provide further support. It would be very interesting to see whether there is any concrete follow-up there. The answer is not increasing the 500 percent, but the answer is to see whether more money would be available elsewhere.

My second comment is on the maturity, should it be short term, three months, up to one year, or should it be longer? I would err on the side to keep it relatively short. In my view, this is an instrument which is well placed to counter negative market sentiment. It is intended to do that. It is not intended to deal with a credit crunch for emerging economies, which might well be the case given the problems for a number of emerging economies, but it is not intended to address this.

A short purchase period helps to discriminate between members applying either for an SBA or for this instrument. It is quite clear that none of the members who are now actually engaged in discussions with the IMF on a Stand-By Arrangement would be interested in a Short-term Liquidity Facility, because it is not a short-term problem in those countries. Therefore, as to the maturity of the SLF, I would err on the short side.

Thirdly, I have a comment on the Board's involvement. I do indeed believe Board involvement should be enhanced, like many have said. I do not believe it should focus that much on macroeconomic stability, because that precisely has not been the issue presumably in these countries, but it should focus on financial stability.

Like Mr. Fayolle I was not quite clear whether I understood Mr. Nogueira Batista in his reluctance to recommend FSAPs in his constituency countries. If we have learned anything from this financial crisis, it is that we need to integrate better financial stability issues in our surveillance. That is the big lesson in this financial crisis. All countries which would apply for this liquidity instrument could have problems in the financial sector, in their capital account, not in their macroeconomic conditions, I would venture, because then they would go to another instrument of the Fund. I would very much favor that at least we have after drawings a more regular monitoring, focusing on financial stability.

Finally, like Mr. Mojarrad and Ms. Sucharitakul, we should continue our work on a crisis prevention mechanism like the Financial Stability Line. We should not forget about that.

Finally, I am in complete agreement with Mr. Kotegawa and others as regards his remarks on transparency.

Mr. Ge made the following statement:

As I said in our gray, we support the SLF decision. I hope the Fund will implement the criteria and principle according to this decision. I just want to stress two or three points.

The first is with regard to the maturity. Several Executive Directors mentioned that three months is too short, and I have the same feeling. It is a Short-term Liquidity Facility, but probably it is a little bit short. Sometimes we cannot judge the macroeconomic situation to change in three months, so actually I prefer six months extended once to one year. If renewed every three months, it seems that it gives the outside signal that the country is always borrowing money. It is not clear how these three months will change a lot their situation.

Second, I urge the Fund to consider the Fund's resources, to prepare the resources as early as possible, because some news came out recently and also it seems that there are a lot of potential borrowers after this facility approved.

When we discussed the IMF quota reform, at that time we strongly supported the increase in quotas. Members said that the resources were enough and that the Fund had no liquidity problem. But sometimes, when a financial crisis is coming, maybe the resources are not enough compared to capital flows and compared to the international trade. The Fund's quota ratio is quite low now compared to the 1950s or the 1960s.

We are not always in a peaceful period and sometimes we have a crisis period. Right now we have a crisis and we have many potential borrowers. I hope that the Fund can consider our resources as early as possible. As we know, foreign reserves are high, but they are not all U.S. dollars deposits. They may have to buy some treasuries and we need to adjust our resources. Even if we expand the Transactions Plan, we also need to consult with the authorities early, whereas sometimes we are given just three days. That is not enough time for us to make a decision.

Finally, I also agree with some of my colleagues that the Fund should announce our decision independently, because this is a 185-member international organization. When we announce our decision it will already include all of our members.

Mr. El-Khouri agreed with Mr. Ge that the SLF maturity should be six months, renewable for another six months. A longer repayment period would provide more confidence to international markets.

There should be a stand-alone review of the SLF after one year, to review lessons learned and to provide an opportunity for adjustments, Mr. El-Khouri continued.

Mr. Kiekens made the following statement:

Mr. Henriksson made an interesting observation. I believe he said that he would like to see an understanding on conditionality that, if the situation worsens or is more difficult than expected, that the country would adjust policies. In my reading, the understanding that a country has very strong policies implies that it adjusts its policies according to changing circumstances. If policies are no longer very strong, if it develops unsustainable situations, one cannot qualify such policies as very strong. Strong policies are flexible according to the needs of the country in order to preserve macroeconomic and financial stability. Not only strong macroeconomic policies are needed, but policies that maintain financial stability are part of it.

In my opinion it is expected that strong policies will be maintained. But if you look from a legal viewpoint, once drawn, it is done. Then the country is free to adjust its policies or not. We cannot tell the member to give back the resources. The only thing that we can conclude down the road is that the country no longer have strong policies and should not be allowed draw the next year.

It is my understanding that the renewal after three months and the next renewal is without any conditionality. Even if we would observe after two months that the situation is much more complicated and your policies should adjust, but the country does not adjust or cannot adjust, then the loan can be rolled over.

Perhaps Mr. Henriksson is suggesting that if at the time of a rollover we come to the conclusion that the country is not adjusting as needed in order to solve the problems, then the rollover should be not possible and that we would ask that an arrangement is negotiated with conditionality. That is how I think we could follow up on Mr. Henriksson's interesting suggestion.

Mr. Gibbs made the following statement:

I am happy to support this facility. I would like to emphasize particular interest in the staff comments on two issues. I would like to comment on the point that Mr. Kishore and others have made about the three month transition, and whether the short repayment term is a potential cause of instability.

We need to be careful in how we manage that process. For countries that wish to avail themselves of a second or a third purchase in a 12 month period, the Board process must provide sufficient clarity to the authorities about their likely ability to do so in a timely manner. The mechanics of the transaction must be carefully managed so that this is not a destabilizing event.

> The second point I am interested in, is in reaction to this question of the exit strategy at the end of the period. Whether that period is three months, six months, or nine months, how will we manage that exit strategy either if it is a transition to an SBA, or, as Mr. Torres suggest, if it is simply a straightforward transition to not using the facility. It might be the case that the country needs to stagger that transition over a period of time. I see a case, as I said in the informal discussion, for providing for that transition to be staggered over a period of time.

Mr. Kiekens agreed with Mr. Gibbs's suggestion that greater clarity was needed of what the involvement of the Board would be at the time of the rollovers. He understood that the Board could make additional policy recommendations, but an additional decision was not needed, and he asked whether it would be presumed that the Board would approve the roll-over of the outstanding credit for another 3 months.

Mr. Mojarrad made the following statement:

> I would like to make some additional brief points to our gray. First, we reiterate our call for an extension of the repurchase period. We would like to draw the Board's attention to the fact that the three-month repurchase period may end up like a subprime mortgage with no conditionality, high access, but with a reset after three months to move to a Stand-By Arrangement.
>
> Second, like Mr. Kiekens, we made the point in our gray regarding the negative implications of such facility on other strong performers. We should make sure that the members are not split into two groups and the Board must be careful to avoid relying upon political considerations when applying this facility.
>
> Third, we agree with Mr. Nogueira Batista on the need not to include the FSAP as a requirement for the SLF.
>
> Fourth, we join other Directors in opposing a joint statement by the Fund.
>
> Finally, we support Mr. Bakker's proposal for an informal Board meeting to discuss the role of the IMF in the new global financial architecture to be discussed in the upcoming G-20 meeting.

Mr. Murray made the following statement:

Even though we issued our gray late in the process, I want to make it clear that we support this proposal. However, we are looking for staff clarification on the extent of the circumstances around self correcting balance of payments needs. This may not necessarily mean a financing gap in the traditional sense, but a serious deterioration in the balance of payments position, a serious deterioration in reserves, and a serious fall in the currency, and that access may not be cut off to private capital markets, but certainly the terms may have deteriorated quite dramatically. We are seeking clarification on that. We are comfortable with that, because we think that those are the circumstances that countries could be facing.

The second point that I want to make is to respond to Mr. Kiekens's concerns that we are categorizing countries. Mr. Kiekens has not been in Board meetings in the last few weeks where Mr. Nogueira Batista has made it quite clear that Brazil is in one club and Australia is another. He is now telling me that New Zealand is in the same club with Australia. Mr. Kiekens has been making me feel quite bad, but it is quite clear that there are clubs and there are categories and that is the reality.

Third, I want to reiterate that we want this as a short facility, but we could live with six months and six months with immediate repurchase.

On the 500 percent limit, we are comfortable with that, and the Fund does have a catalytic role. This should be about confidence building around the role of the central bank and that there should be other support.

On the issue of FSAP, we have clearly supported Mr. Bakker on this. This is very much about financial stability, and we think that that is a good suggestion that the FSAP or a commitment to an FSAP be part of the requirement.

On transparency, I want to support others on that issue. I think that just as Australia and New Zealand's arrangements with the Fed are quite transparent, we cannot see any reason why these arrangements should not be transparent in order to help build confidence. I think Mr. Fayolle made the point which seems logical to us.

Finally, I support Mr. Bakker's point that we need to continue to look at crisis prevention and that the ongoing review of the lending facilities is necessary. I will not be here for the conclusion of the review, but I will watch from afar.

Ms. Sucharitakul made the following statement:

We have supported this facility for over a year and a half. We have been careful also not to tilt the delicate balance too much. But having listened to colleagues this morning on a further suggestion of a possibility of extending it to six months, I would also like to lend our voice to that call for a six month period subject to review.

On the 500 percent access limit, I hear colleagues' call for greater flexibility. Having known sharp reversals that go far beyond 300-400 percent of our quotas in a matter of weeks, I realize that would be useful. But I am also prepared to accept the fact that all of our economies are dwarfed, including the Fund, by the size of the current global international capital markets, so it would be difficult.

Being a cooperative institution, we need to make sure the resources are available to all the membership. I am prepared to be more realistic, although I would certainly like to push on that front as well if possible.

Finally, I would like to respond to Ms. Tartari's request on the review of the recent Article IV cycle. I know where she is coming from. I know her chair has always been calling for greater regularity of Article IV consultations, and there have been countries that have not come to the Board for a long time. However, tying the SLF eligibility to having an Article IV consultation in the previous 18-month period would unnecessarily rule out a number of the membership whose Article IV consultations did not occur through no fault of their own. I would respectfully ask that the language refer to a recent Article IV, which should allow enough flexibility. With the scrutiny that the Board will be giving through informal meetings, there would be enough scrutiny of this Board.

Mr. Nogueira Batista requested details about the proposed changes to the transparency policy, and whether the staff would still request those changes in light of the Directors' comments.

The Director of the Strategy, Policy, and Review Department (Mr. Moghadam), in response to comments and questions from Executive Directors, made the following statement:

> Perhaps I should begin with the design issues, particularly on duration and access. A number of questions have been raised in that area. The current proposed duration for an SLF is three months, renewable twice.
>
> I would not use the word "rollover" because, precisely for the reasons that some Directors have mentioned and some of the concerns which were expressed before, each renewal requires Board involvement, requires the repetition of the process that we go through to approve the request in the first place. When the renewal comes for the first time, it would require a staff report; it will require the request from the authorities; it will require the assessment of the staff that the policies that are in place are adequate to address the balance of payments needs. We have tried to have a balance between safeguards, and part of that is Board involvement, and availability of the facility.
>
> The same logic applies to why we have gone for nine months when in the original proposal that we had circulated a week ago we had suggested making it renewable once, for a total of six months. Many of you thought that that was too short. We thought that a sufficient balance between the views of the Board is perhaps nine months, but included the involvement of the Board at each three month period precisely to both to have the approval of the international community and provide the safeguard that many of you had asked for.
>
> On access issues, you are all aware of the logic for 500 percent of quota. It is the proposed new exceptional access limit. It is simple, and hopefully it would allow us to move quickly. It is both the upper limit of access and the cumulative limit on this facility.
>
> Many of you have raised the question: what if it is not enough? Well, the way the instrument has been designed, it does not preclude the member using other facilities. At any point during the three month

period or the nine month period of availability, during any point the member could ask for, for example, a Stand-By Arrangement.

Let me come to some of the other features. A number of you had mentioned this issue of transparency. Our logic was to ring fence this new instrument from some of the traditional requirements, post-program monitoring, exceptional access requirements. The transparency issues were in the same vein to provide some flexibility. But I take the point that many of you around the table have made regarding the concerns. In reality, as many of you have mentioned, those who would like to use the facility would probably want it to be known, given the signal that it would send in terms of the availability of resources and the strength of policies. Our aim was to provide flexibility, but I take the many points that have been raised around the table.

Let me go through the proposed changes to the transparency policy in detail. There are two areas of transparency that we were ring fencing. First, under the existing exceptional access rules, if a member requests for exceptional access, the Managing Director is generally required not to recommend that request to the Board unless the member consents to publication. We were proposing to relax that, and relaxing that means there is a presumption of publication, but the decision is that of the member. That is the first area.

The second aspect of the transparency policy that would be changed is regarding the Press Release, the Chairman's statement after the Board meeting. The current rules require that to be published. We had relaxed the current rules to again allow the member to decide whether or not to have a published Chairman's statement and Press Release.

Those are the two aspects of this decision that would affect the transparency policy. My colleague, Mr. Hagan, can add to that, but those are the two aspects that we were ring fencing for this instrument. I assume that at least the second one is what you had mentioned in terms of the logic for it. The logic was simply flexibility. But, as I mentioned, our expectation is that most people, most countries would want to publish it.

I will come to the eligibility and balance of payments issues. Those are probably the most complex conceptual design issues of this instrument. After our informal discussion last week, we tried to specify some of the indicators that we would use to address this issue of a strong track record. Mr. Kiekens has mentioned them; and I will not mention them again.

Debt sustainability is simpler, and we have standard procedures for that. But a strong track record is a new concept in terms of applying for a facility and in terms of qualifying for the facility and having, if you like, ex ante conditionality based on that. We have defined a number of economic indicators that one would look at. There is a matter of judgment here.

I can reassure you that we have discussed this issue with area departments. We have looked at samples of countries. What is interesting is that the staff has come to the conclusion that, on the whole, it is not difficult to classify a country as qualified or not qualified. There are gray areas, but at least in our analysis is that those gray areas seem to be few.

Mr. Mozhin asked whether the staff would maintain a list of qualified countries, and whether those countries would be notified that they qualify.

The Director of the Strategy, Policy, and Review Department (Mr. Moghadam) replied that there would not be such a list of eligible countries. A member could approach the Fund confidentially and the staff would make a judgment of the member's eligibility on a case-by-case basis, and that judgment would be conveyed to management. If management agreed with the judgment and if there was a case for having the instrument, the Board would be consulted, similar to the exceptional access procedures, and then the member would apply formally.

Mr. El-Khouri asked whether the documentation for a request to draw from the SLF would include a balance of payments table. The balance of payments difficulties might appear to be self-correcting if one looked at the annual data; however, it might be less plausible within three months. He asked whether it would be possible to analyze the financing gap during a three-month period using the same data used for traditional programs.

The Director of the Strategy, Policy, and Review Department (Mr. Moghadam), in response to further comments and questions from Executive Directors, made the following statement:

> We have tried to have the requirements as flexible as possible. It is inevitable that the staff will do a balance of payments analysis, which has to be done in order to both look at the qualifications and the need, because we do have an access limit, but that does not mean that we do not have to make a judgment of the balance of payments need. In that sense, the balance of payments analysis has to be done. Whether or not it will be in the documentation when the Board is consulted, we have to think about that and look at what the procedures would be at the time, but the analysis has to be done by the staff.
>
> Maybe I will come back to two other issues, the financing and the sunset clause. There have been a number of questions about what if 500 percent of quota is not enough. And as I mentioned, the Stand-By Arrangement and other facilities would be available.
>
> Secondly, in terms of the adequacy of the Fund's resources, there is the catalytic role of the Fund. We see that, for example, with the announcement today on the proposed program for Hungary. That proposal has the Fund filling 60 percent of the balance of payments gap and others creditors will fill 40 percent of it.
>
> In addition to that, the program envisages discussions between the authorities and private sector in order to ensure adequate rollover and involvement by private banks. This facility should not be viewed any differently to other facilities of the Fund in terms of providing the catalytic role or in terms of being a vehicle for international or bilateral support.

Mr. Bakker asked whether the staff would continue to seek burden-sharing with other international partners on a case-by-case basis, or whether there would be a more structured approach for the Fund to help generate greater international financial support for members.

Mr. Nogueira Batista urged that further consideration of flexibility go beyond 500 percent of quota. He noted that the expected Fund-supported program in Hungary helped catalyze international support; however, the Fund would still provide well above 500 percent of quota. While the SLF was envisaged to offer rapid disbursement, an emphasis on a catalytic role could delay its implementation.

The Director of the Strategy, Policy, and Review Department (Mr. Moghadam), in response to further comments and questions from Executive Directors, made the following statement:

> The Hungary program is provided on a Stand-By Arrangement and flexibility of access limits are envisaged. The SBA with flexible access limits will still be available for those who may apply for the Short-Term Liquidity Facility.
>
> I take your broader point regarding moving quickly and the potential need for financing, but I think it would be related to the points that the Managing Director would make later.
>
> Finally, on the sunset clause, that sunset clause is there because this is not an easy issue. There are many concerns expressed around the table. There are difficult issues of judgment involved, and in a way we have to see by practice how this facility evolves.
>
> Many of you have raised concerns that this is being done in isolation of the broader review of facilities. I can confirm that a broader review of the Fund's facilities is continuing. The Work Program in the summing up is being implemented. In a way, this meeting is also part of that Work Program because the Board asked that we look at the liquidity instrument rapidly, and this does not preclude further discussion and analysis of crisis prevention instruments.
>
> We will continue with that work. It might be somewhat slower than we envisaged, given the resource constraints and the ongoing financial crisis, but that work is progressing. We intend to have the various papers ready to be discussed by the Board before the Spring Meetings.
>
> In a way, the sunset clause needs to be seen in the broader perspective of the review and the complexity of the issue and the various concerns that have been raised around the table.

Mr. Kishore made the following statement:

> Thank you for your clarifications. I did not want to disturb your train of thought, but if you will forgive my lack of understanding on the operationalization of access, I have two small questions.
>
> I have carefully read paragraph 16 of the paper and it has been read with paragraph 3 of the draft decision which talks about the repayment period and three opportunities to draw this amount. My first question is, I understood that the 500 percent denotes the cumulative amount that I can draw. When does my repayment obligation trigger? Supposing in the first tranche I draw only 300 percent of my quota, leaving 200 percent intact with the Fund. I come back after three months, on the 91st day, and request for the 200 percent additional left behind or 100 percent of that equal in amount. Am I obliged to repay you my first 300 percent at the sundown of the 90th day?
>
> Question No. 2 is, if I am expected to repay the first tranche equivalent amount, then what is the strength of my case? If I am in a position to mobilize funds enough to repay, what am I asking the second tranche for?
>
> The third question is about the term “cumulative” as it appears in this paragraph, as well as in 3(a), paragraph 3(a), the draft decision. I am supposing that I can draw only up to 500 percent of my quota. Is this a one-time opportunity, one lifetime opportunity for the member, or he can draw that every year in a period of 12 months? Having drawn and exhausted 500 percent at the end of the ninth month with a gap of another three months, I can come back to you on the first year of the next year? Could you kindly clarify?

The Director of the Strategy, Policy, and Review Department (Mr. Moghadam), in response to further comments and questions from Executive Directors, made the following statement:

> The short answer to your first question is yes. Let me try to explain first and Mr. Hagan is going to clarify this further. Any purchase could be up to 500 percent of quota, subject to a cumulative limit of 500 percent of quota. Whenever a purchase is made, it has to be repaid in three months. That is why the answer to your first question is yes, because when you take, in your example, 300 percent of quota on Day 1, it will have to be repaid on Day 91.

> Your second question: What is the incentive to have additional borrowing if you are not up to the cumulative limit? The additional borrowing would be if you are not already up to 500 percent of quota, it would be a second purchase.
>
> Related to your third question, within a 12-month period under the current design three purchases could be made. The answer to your final question is also yes, in the sense that if you have made three purchases within a nine month period, if you wait for three months, you can borrow again after the 12-month period, so the 12-month period is a rolling period and it applies to three purchases.

Mr. Kishore reiterated his view that the SLF purchase term of six months, renewable by six months, would provide a clearer signal of support and would be more cost efficient.

Mr. Nogueira Batista supported Mr. Kishore's proposal for a longer SLF purchase term. He also asked whether an SLF request could be treated as a precautionary arrangement without drawing.

Mr. Torres noted the high administrative cost of renegotiating an SLF purchase after three months and supported Mr. Kishore's proposal for a longer SLF purchase term. He requested details about the relative cost of more frequent SLF purchases versus a longer period.

The Director of the Strategy, Policy, and Review Department (Mr. Moghadam), in response to comments and questions from Executive Directors, made the following statement:

> On all of these questions, there are points of clarification that my colleagues will make. Let me just make a few broad points.
>
> In terms of three versus six months, let me reiterate that the issue was a balance between duration of availability, the problem we are trying to address, and the safeguards that we put in place, including the involvement of the Board. It was because of that logic we had discussed last time, three months renewable once or six months renewable once, it was because of all those constraints taken together that we made the proposal of three months renewable twice.

The SLF will not be offered on a precautionary basis. It is aimed at liquidity. It is called a liquidity facility. If the liquidity need is there, then there is a balance of payments problem and there would be a withdrawal. It is also a question of simplicity. If it is not precautionary, and we do not have an arrangement in place, then we have a Board date and there is a disbursement. It is a simple process and it addresses the problem.

If we have a precautionary arrangement, then we have to specify the circumstances that it is withdrawn. A member cannot have two arrangements and, therefore the member would not have access to a Stand-By while that arrangement is in place, for example.

In terms of administrative costs, if a member wishes to renew the SLF, I assume the member would not wait until Day 90. We will have a Board discussion well before the three month period is due. If there is a request and a decision by the Board to renew for another three months, the purchase and repurchase could be done instantaneously, so there is not a high administrative cost.

Mr. Kiekens made the following statement:

The fact that it is not a rollover of drawings but rather three independent drawings is very important. Only the future will show how this new instrument will develop, but I will explain what I see.

A lot of my colleagues embrace it because it has no conditionality and it does not put members at the mercy of the arbitrariness of the staff to impose harsh conditions, and so forth. We must be careful with this approach.

When a member makes another request after three months the staff and the Board have to assess whether its policies are still very strong, if the member did not adjust its policies to changing circumstances, the polices are not continuing to be very strong.

What may happen is that the staff will tell the authorities: “if you want your policies to be very strong, you should do this and this and this; otherwise, we will not be able to recommend to the Board or to the Managing Director a new purchase”. When a Minister from a country with policies that are borderline strong asks a Mission Chief whether the country can draw from the SLF and what it should do in order to qualify, then those recommendations will start to look like traditional conditionality.

All of this is to elaborate a little bit for my colleagues on how this instrument looks like. It provides adequate safeguards for the Fund, as I said, but it is more rigid than many people believe it is. If my Ministers would ask what I recommend, my natural tendency would be to go for a Stand-By Arrangement.

There is a stigma associated with an SBA which I very much hate. Could Mr. Hagan confirm what a Stand-By Arrangement is? It gives you authority, the assurance that over a period of time you will have access to the Fund if we have agreed and if you stick to a set of policies. With this instrument, a member is exposed to the judgment of the Board and the staff every three months whether your policies are still what they need to be. That is the difference. I want to make that clear in order to strengthen my hard belief in all the good features of this SBA.

Mr. Lushin made the following statement:

I must confess that my degree of confusion increases as I hear comments from the staff. I fail to understand how a regular Fund facility be implemented in parallel with this new facility, as Mr. Moghadam has alluded to.

For example, if we have this new short-term facility in place, and then suppose the situation deteriorates rapidly and the country applies for a Stand-By Arrangement, it is logical to assume that the facility will be terminated at this point, because you cannot have both. The facility implies that you do not need adjustment; a Stand-By Arrangement implies that you need adjustment. You cannot have it both ways; you cannot have a short-term facility in parallel with a Stand-By Arrangement. I just do not understand how it works.

Secondly, on the consecutive one-year cycles of short-term lending, my understanding was that if one year is not successful, we apply to a regular facility. Now it appears that this is not the case and we can have this one-year renewal, one after another, and this is not consistent with the idea of a short-term, self-correcting balance of payments need.

These two points are a source of great confusion. I hope that Mr. Hagan will bring more clarity to these issues in his replies.

Mr. El-Khouri asked whether there was a real difference between ex ante conditionality, as envisaged in the SLF, and a regular Stand-By Arrangement. The three month borrowing terms of the SLF meant that each request for SLF resources under ex ante conditionality would be similar to the quarterly reviews of a Stand-By Arrangement.

Mr. Nogueira Batista made the following statement:

I asked for a two-handed because of Mr. Kiekens' intervention and to tell him that I fully realize that this is too rigid. I support the initiative, because I think there is a new approach, but we are not thinking in a sufficiently innovative way. As Mr. El-Khouri just said, in practice, these three months will become more or less equivalent to the quarterly review, so who are we trying to fool here?

I am repeating what I said to you, at the last meeting that this three-month horizon will be seen as a trap by countries, not as something new. It is a trap to drag them into an arrangement that will maybe lead to a Stand-By Arrangement.

We run the risk, as Mr. Mozhin in his first intervention, of having little demand for this facility. Just compare it as it stands now with the facilities that are being offered by the Fed and the one offered to New Zealand, which I mentioned in my first intervention.

The Chairman explained that the U.S. Federal Reserve's new swap facility with the Reserve Bank of New Zealand would not offer favorable terms than those that would be available under the Fund's SLF. He understood that the U.S. Fed's facility with New Zealand would be available once during a period of six months, however the repayment terms would also be 90 days. The Fund's SLF purchases were available for a 90-day term per drawing during a two year period; however, unlike the Fed's facility there was a possibility of subsequent purchases.

Mr. Torres made the following statement:

Mr. Kiekens was giving bad ideas to the staff, so I hope you do not really take that advice of using this to create conditionality. I see the point that Mr. Nogueira Batista was making. This is basically a point we made as well, that this is kind of enticing countries into a short-term facility that would be very difficult to exit without a Stand-By Arrangement afterwards.

My question to Mr. Moghadam is why a country like Peru would not be eligible to apply for the SLF just because it already had previously requested a traditional Fund-supported arrangement to serve as a rubber stamp quality of its policies? It makes no sense that a member cannot have two agreements with the Fund. In the case of Peru, it demonstrated very a strong performance. It went to a precautionary agreement with very little access, less than a hundred percent of the quota. It did that precisely to get the rubber stamp of quality by the Fund of its policies. It got that and, indeed, that was recognized by rating agencies.

I would urge you that in the proposed decision, in Article III(c), where it says that the Fund may approve a purchase under the decision only in cases where the member does not have a Fund arrangement in place at the time of the purchase, we should say where a member does not have outstanding debts at the time of the purchase. Is there any legal impediment for a country that is currently under a precautionary arrangement, basically a signaling agreement, to ask for SLF financing? I would like clarification on that point.

Mr. Fayolle asked Mr. Torres why a member with unexpected financing needs, which already has a precautionary Stand-By Arrangement, such as that in Peru, could not initiate discussions with the staff and request increased access under the Stand-By Arrangement.

Mr. Torres explained that member countries might hesitate to request increased access under a precautionary SBA because they pay a commitment fee according to what they were entitled to draw. In addition, there were other cases in which countries requested Fund-supported arrangements for signaling purposes, including PSIs. If the Fund program was intended to help a member signal that they had strong policies, why would the Fund exclude them from the SLF? He also noted that Peru was just an example and he did not know if Peru intended to apply for the SLF financing.

The General Counsel and Director of the Legal Department (Mr. Hagan), in response to further comments and questions from Executive Directors, made the following statement:

> One of the issues that is motivating a lot of this discussion is this understanding of the difference between a purchase and an arrangement. It is not surprising that there is some confusion because, for a long time, most Fund financing has been provided under an arrangement. But I think it is important to distinguish between the two concepts, because this facility relies on purchases but not on an arrangement.
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> What is a purchase? A purchase is essentially when a financing transaction takes place, it is a swap, when the member provides its own currency to the Fund in exchange for freely usable currency. That is when a member uses the Fund's resources. It is a purchase.
>
> An arrangement is a line of credit. It is essentially a commitment by the Fund that, during a specific period and under certain conditions, the member is eligible to make purchases. You still have to make purchases, but an arrangement is a decision by the Board that during the specified period you will be eligible to make purchases up to an amount and in accordance with the phasing and other conditions specified under the arrangement.
>
> The reason we are not having purchases under an arrangement under this proposed facility is that one of the purposes of an arrangement—not the only purpose—is to provide a vehicle for what we can call ex post conditionality, to allow for program monitoring, phasing and performance criteria.
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> The member's program is outlined in the Letter of Intent. You extract those elements of the program that are considered to be particularly important; and you tie the phasing to the observance of those performance criteria. Given the fact that the all conditionality in the SLF is ex ante the purchase, it would probably not be appropriate and could send the wrong signal to have an arrangement.
>
> There is a benefit for the member of having an arrangement, as noted by Mr. Kiekens. Like any other line of credit, once a commitment is made and the members pay a commitment fee, and once the member has observed the conditions under the arrangement,

the member can make that purchase without any further Board approval.

If in fact a purchase under an arrangement is conditional only upon performance criteria which are objectively monitorable, and if those criteria have been met, that purchase can be made following a determination by the staff and the Board is not involved. That is a benefit for a member under an arrangement. The member would not get that under this proposed facility, which means that every time a member comes to request a purchase, as Mr. Fayolle has emphasized, it requires a Board decision. The Board will look at the eligibility criteria anew; and there is no automaticity that a purchase can be made.

However, the eligibility criteria will be specified in the Board's decision establishing the proposed facility, so assuming that policies have not changed or, as Mr. Kiekens has suggested, policies have been changed appropriately in response to changed circumstances, there is no reason why the member would be denied a purchase. However, it is important to understand the differences regarding not only the rights of the member, but the nature of this Board's involvement in every purchase.

Mr. Torres requested further elaboration on why a country that had a precautionary Fund-supported arrangement was not eligible to draw from this facility. He asked whether there was a legal impediment or a political decision.

The Director of the Strategy, Policy, and Review Department (Mr. Moghadam), in response to further comments and questions from Executive Directors, made the following statement:

We have to look at what is the facility for. This facility is for liquidity. It is a Short-Term Liquidity Facility, if the member is facing balance of payments difficulties which are perceived to be short term, for example because of market access issues or a sharp decline in reserves.

In the case you mention, there is already an arrangement in place. That arrangement in place provides a vehicle for addressing the balance of payments need. If that instrument is a Stand-By Arrangement, it provides sufficient flexibility both in terms of access and the needs of the member, and the policies need to be implemented to address that. Those are two separate instruments.

As I mentioned, when you have used the liquidity facility, you can use a Stand-By Arrangement or other facilities, because the liquidity facility would have been aimed at the problem which was faced at the time. If the situation changes, or if the member needs greater access to address its balance of payments problem, or if there are policy adjustments that need to be made, that can be done under a Stand-By Arrangement.

The Stand-By Arrangement has the flexibility and, if it is already in place, the logic would be to use that, not an instrument on top. Legally, I understand that we cannot have two arrangements in place at the same time. When the precautionary Stand-By Arrangement is in place, it can be activated to become disbursing, but it cannot be supplemented with a liquidity facility.

Mr. Torres wondered whether a member with a Stand-By Arrangement with access limited to 50 percent of quota could increase that access limit to 500 percent of quota in a short period of time.

The Director of the Strategy, Policy, and Review Department (Mr. Moghadam) affirmed that access levels could be augmented under an existing facility.

Mr. Bakker made the following statement:

I have one question for Mr. Hagan on paragraph 10 of the decision. It is also referred to in the Supplement on page 4, which actually invokes Article VI, 1, the famous Article on the capital account. I was not so sure whether it would be indeed a good signal at this time that we give the Fund authority to condition the approval of financing on the SLF on the adoption of capital controls. It would be precisely the wrong signal at this stage. I do not agree with that paragraph, but I would like to first hear from Mr. Hagan on what he has to say about that.

My second point is on this question of an FSAP, and I take Mr. Nogueira Batista's point. But could I make a proposal in the decision for paragraph 4(b) at the end. Could we insert a sentence that the member would be expected—it would not be a requirement—to make a request for an FSAP or an FSAP Update if there have been no FSAP missions over the past two years.

It would not be a requirement, but the Board would express an expectation. I remember from earlier decisions that Mr. Hagan commented that this is the sort of expectation that the Board can express in a decision.

The General Counsel and Director of the Legal Department (Mr. Hagan), in response to further comments and questions from Executive Directors, made the following statement:

Before I respond to Mr. Bakker's point, I will give some comfort to Mr. Torres. First of all, there is no per se legal constraint in having an arrangement and then separately having financing from another facility like this. In fact, some Directors who were here back in the early 1990s will recall that we had the Systemic Transformation Facility which, in fact, envisaged a special facility aimed at providing financing at the time of the arrangement. This is a policy issue, not a legal issue. But Mr. Moghadam's point is that, given the nature of the problem, and the nature of the conditionality, it seemed appropriate to keep these very distinct.

I would like to point out two things, though. First of all, the constraint here is that at the time of a purchase under the new facility you cannot have an existing Fund arrangement in place. If after the purchase and while amounts remain outstanding, a member wants to have a Fund arrangement approved, there is no problem.

The second point is that a member has a right to cancel a Fund arrangement whenever it wishes. It does not require a decision of this Board. A member could transfer from an arrangement to this facility very quickly. That is a unilateral right of a member to cancel its existing arrangement.

On Mr. Bakker's question, let us discuss paragraph 10 of the proposed decision, because this provision comes from Article VI, Section 1 of the Fund's Articles of Agreement. We did not use the word "controls"; we used the word "measures" because we did not want to highlight this issue. But we have to recognize that we are still operating under the constraints of the Articles. Article VI, Section 1, which was adopted in 1945, reflected a world where there was a significant concern about the limited nature of the Fund's resources and that those should basically not be used to finance capital outflows. They should be used primarily to enable members to maintain their obligations on current account transactions, and capital restrictions are specifically authorized.

If you look at Article VI, Section 1, and I will read: "A member may not use the Fund's General Resources to meet a large or sustained outflow of capital. . . ., and the Fund may request a member to exercise controls to prevent such use of the general resources of the Fund."

The first point here is that we could not use this facility to finance a large or sustained capital outflow. That is not the intent. The intent here is to build up reserves, and building up reserves is a specific criterion for balance of payments need. That is not a problem. The question, however, is that could there be a circumstance where in a particular country there may be a concern that these resources will be used to finance such an outflow?

This is not a new issue, and the Board has looked at it when approving other special facilities such as the SRF. Given the nature of the balance of payments issues covered by the SRF, which is for countries with open capital accounts, there was a concern of capital account volatility, the Board felt that it was appropriate to incorporate this language in the SRF decision to make it clear that it was not designed to finance large or sustained capital outflows.

This provision is not necessary in this decision, but one would have to explain why it was in the SRF and it is not here. That is why we felt it was appropriate as a matter of consistency to include it in the proposed decision.

Mr. Bakker made the following statement:

The answer is clear that this reference to capital controls is not needed here. The authority is there because the Articles are still in place. My point is that it would give the wrong signal to have it in the accompanying paper now and to have it as a specific article or provision paragraph in this decision. It is not needed. The authority is there.

But here explicitly we say that we, as the Fund, may put as a condition that a country imposes capital controls. I think that is not adequate at this moment, and we should not put that here. If the country wishes to have capital controls, then we might go back to Article VI and that this would not stand in the way of a Short-Term Liquidity Facility.

But it is different to explicitly state as a precondition that before a country can apply for the Short-Term Liquidity Facility, it should have capital controls. I have a problem with the formulation, and my proposal would be to delete that paragraph. It would not in any way abrogate the IMF's authority, but it is not needed here and it gives the wrong signal.

Mr. Nogueira Batista made the following statement:

I fully understand the explanation that was given to us by Mr. Hagan. I think it is entirely consistent with the Articles. That paragraph is important, because we cannot have this facility financing capital outflows.

If I am not mistaken historically, this provision in the Articles goes back to a concern that was very dear to one of our founders, John Maynard Keynes. The special liquidity facility is consistent with role of the Fund that Keynes envisaged. I think it is entirely appropriate that we also recall this aspect of Keynes's thinking, the concern about the possibility of capital controls.

I looked at the announcement by the Federal Reserve yesterday and also the announcement by the Reserve Bank of New Zealand. What it says here is a facility of up to $15 billion with a window through April 30, 2009. That means a window of six months, more or less. It amounts to, as I said, more than 1,000 percent of New Zealand's quota in the Fund. Whether this will be provided through a 90-day swap arrangements or not, it is not expressly stated here. My point would be that in this case the Board of the Federal Reserve will not be meeting after 90 days to decide whether New Zealand can go on with the facility or whether the facility will be suspended. It is an entirely different mechanism where you are giving confidence to your counterparty and not submitting him every three months to a fresh look at all the eligibility conditions and Board approval, as was explained right now by Mr. Hagan. The SLF is more or less close to the old style 90-day review of conditionality in standard arrangements.

Mr. El-Khouri suggested that, if paragraph 10 was retained in the decision, the word “measures” should replace “controls” on page 4 of the supplement 1 to be published.

Mr. Guzmán made the following statement:

> I would like to take sides quickly. I strongly support Mr. Bakker’s proposal. This is written in the Articles of Agreement. That is our top guarantee. That is the fundamental law of this institution. There is no need to repeat the Articles of Agreement everywhere.
>
> I understand the reasoning given, but we are in a situation where we are going to be discussing over the next few months a number of measures to reform the international financial architecture and other aspects of the international financial markets, regulations, etc. In the midst of this debate, one of the important risks that we are facing is that we take steps back in history and in progress, and decide unilaterally, some countries might decide that capital controls are a good measure under the circumstances.
>
> Although we all understand what it means within the context of the Articles of Agreement, it is important that the IMF does not go out there with a financial line that apparently suggests that capital controls are a way out of trouble. We know they are, but please let us not promote it.

Ms. Lundsager made the following statement:

> To come back on the New Zealand point, what you said earlier is absolutely correct. In fact, the New Zealand swap sunsets next year, late spring or early summer. The sunset clause is even shorter than the Fund’s. You are absolutely right, Mr. Chairman, that the actual drawings can be a few days, few weeks, maybe up to 30 days. It is not six months.
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> Those terms have not been revealed, and they may differ at different times. They are revealed ex post. But, no, it is more restrictive. I do not think it is exactly what the Fund is proposing here,

and I do not think it is exactly the way I would think most people around the table would want to go.

I was a little taken aback on the capital controls point in paragraph 2. Of course, it is still in our Articles. We never took that out; we never had a capital account amendment. I am sympathetic to Mr. Bakker's point about not sending the wrong signal.

I had forgotten that something like this had been in some other decisions on some other facilities. I admit I did not go back and do a historical search on this. I can be flexible on this. Mr. El-Khouri made one point. I am open to suggestions, but I agree that we do not want to be sending the wrong kind of signal.

Mr. Kotegawa asked whether the swap arrangement between the U.S. Fed and New Zealand would require collateral.

Mr. Torres preferred to keep the reference to Article VI and capital controls. It would give the wrong signal to tell the world that the Fund would use taxpayers' money to finance financial outflows from countries.

The Director of the Finance Department (Mr. Tweedie), in response to further comments and questions from Executive Directors, made the followings statement:

If I can just respond quickly on three points that came up. First, to pick up again on Mr. Gibbs's points on the mechanics of how this will work, it is a repurchase after three months of the original purchase and then a new purchase. As we have discussed, this new purchase requires a Board decision.

Those are the mechanics. We are working on how we would do this in a way that does not lead to a destabilizing event. The idea is that it will happen the same day, and that is what we were trying to arrange. But it does require that we have in place the currencies of the members in the Financial Transactions Plan for the new purchase. We should be able to do that. We will know in advance that the member is requesting a further three months, and so we will be able to make the arrangements. This will all have to be sequenced. It is not a totally trivial event and will require some work, but it can be done.

Second, there were a few comments in the grays on the liquidity trigger. Many Directors supported the idea of a trigger if outstanding purchases under this facility reached SDR 60 billion. Some raised the question whether the trigger should not come earlier. As we explained in the paper, we thought roughly half of the existing capacity would be the right point or a reasonable point for the trigger, but obviously there is nothing that precludes an earlier review of the Fund's liquidity. We can do that at any time. We monitor the Fund's liquidity closely. We report to the Board at a minimum of twice a year. If needed, we can come back sooner, so this is not precluded. This is an additional trigger specific to this facility.

Finally, let me address Ms. Lundsager's question of whether a member using the SLF would be excluded from the FTP. This is something that we are considering, but my initial thinking is in line with hers. The criterion for inclusion in the FTP is that a member has a sufficiently strong balance of payments and reserves position. In looking at that, we look at a whole range of indicators. Looking at the specifics of countries that would draw under the SLF, they are countries that would have strong policies, and strong underlying fundamentals. This is also a facility that is short term. So, I think it would be reasonable to keep countries that draw under the SLF in the FTP. We have discretion under our policies, and we have used it in the past, to not necessarily use all members in the FTP for new purchases, so we have that flexibility as well. That is probably the way we would treat it.

Ms. Sucharitakul requested that the staff explain the need for the sunset provision.

The Director of the Strategy, Policy, and Review Department (Mr. Moghadam) explained that a sunset clause was needed because the SLF was designed outside of the ongoing review of Fund facilities. Those discussions, and papers expected in the coming months, would address the possibility of introducing crisis prevention and crisis management instruments on a more permanent basis.

The Chairman made the following statement:

We are doing something which is rather new, so it is not surprising that there are a lot of questions and we need a lot of explanation even if we already had some meetings about this. We had some meetings recently, but I asked the staff to work on this two weeks ago, so I commend the staff for working quickly.

Of course, the bad counterpart or the downside of moving rapidly is that things need to be adjusted and that is the reason for such a long meeting this morning. But I think it is useful and it shows that we are able to move fast when it is necessary.

Many Directors made comments trying to redesign the facility in a way they prefer, which is absolutely normal, because everybody here around this table has their own ideas, which are not exactly the same ones as their neighbors of what the facility should be. It is unavoidable that there may be these kinds of differences, and unavoidable that we have to find a compromise: either do nothing or, if we do something, it has to be a kind of compromise for everyone here.

It is possible that everybody would have preferred to go this way or to go that way, because we do not have the same idea in mind, which is normal. It is a compromise, but sometimes it is a difficult compromise, because some points are sometimes contradictory.

Some members of the Board are saying that the eligibility criteria will be strict and that a very small number of countries will be eligible. Some others recommend that we have to put a ceiling to SDR 60 billion, because we may reach the ceiling, and maybe we should even have a lower ceiling. It cannot be both. I do not expect the United States or Germany to request financing.

There are other contradictions. Some say if we do something like this, it will totally change the nature of the Fund and what the Fund has done until now. At the same time, Mr. Kiekens says we can do it already with what we have. These kinds of contradictions are unavoidable probably, but it shows that it is not black and white. It is a bit different from what we did before. It is not so different that it changes the nature of the Fund, but it is true to say that we could in a way do it.

The question is do we want to address the stigma question, do we want to show that we are able to respond in a new situation, do we want to design this new facility or we do not want to? If we want to do it, and I think there is a majority to want to do something, we need to make this kind of compromise.

The compromise that is on the table today is a viable compromise. It is difficult. Some want to extend the term, but if we extend the term we have no majority anymore. Some want to increase the ceiling, but if we increase the ceiling we have no majority anymore. There are always a lot of very good arguments to push in this direction or another direction, but the problem so far, at least the problem for me, is try to find the intersection of all of your proposals.

The point which is at this intersection, which is acceptable for all of you even if it is not exactly your dream proposal, is close to what we have on the table.

We may make some changes. There is a majority to change what has been written on transparency. I think we should do that and come back to the normal rules of transparency and a good argument for what is written in the text. There is a majority to say that we already have all the rules which allows us to deal with transparency so we do not need to add something.

I would make the same point on the question of the capital controls. We can get rid of this. The fact that it has been written previously and so we need some consistency is a very good lawyer's argument, but nobody has in mind what has been written before. I would be surprised if somebody points to this from outside from the Fund and says that it is not consistent with the SRF. It is better to simplify from this point of view.

Some other broad arguments are very important, not technical ones. I am very sensitive to Mr. Kiekens's idea that the SLF may split the membership. I do not think it is the case. We already have some facilities which may be accused of splitting the membership, the PRGF for instance, distinguishes the eligible countries from the non-eligible countries. In this case, it is less than that because there is no list of countries. A country will come, apply in a confidential way, and because there is no list, this idea that it will split the membership is a bit too strong.

I already said a few words about the fact that we can do this in the same way as the SBA. I am very sympathetic with the argument that, for the sake of simplicity, what can be done with an existing instrument should not be developed through another instrument. But it is not exactly the same thing. We know how countries may be reluctant to come to an SBA, especially for short-term liquidity problems. I think we are adding something to our toolkit. As Mr. Bakker and Mr. Murray asked, this should not prevent us from developing a crisis prevention instrument which is something different.

The question of the rollover has been extensively discussed, so I do not come back to this.

A question about a possible joint statement with another institution has been raised. We are going to have our own statement as usual. It is the right way to do for the Fund. Probably I confused everybody yesterday by offering this possibility of a joint statement. It is certainly not a good way of doing things so there is no problem about that.

On the sunset clause, I agree with what Mr. Itam said. It is normal, and many of you have asked for that at one point in time the Board would like to review and to see what to change. What is finally the substance of the sunset clause? It is only to say that if we want to renew it exactly as it is or to change a little, it needs an 85 percent majority. What is the point of a sunset clause? We need an 85 percent majority, which is acceptable. If we want to change the design of the facility, it is correct to ask the same majority as the same majority which is needed to create it. So the sunset clause is not such a big problem for me. We will see in two years where we are. Maybe the Board will want to review this before if it appears that, for one reason or another, something we have not seen needs or implies this kind of change.

One thing absolutely true which has been underlined by Mr. Fayolle is that, when we compare this facility to another one, and it is a point which has been explained by Mr. Hagan, this facility will ask for much more involvement by the Fund than the other one. That is true. But I understood in a lot of the discussions during last year that the Board wants to be more involved on strategic questions and less in micromanagement and day-to-day business of the Fund, but more in this kind of question.

I see nothing wrong in the fact that this facility will ask more involvement from the Board than some others for which, as you say, the purchases and the agreement are automatic, and discussion with the staff occur without involvement of the Board. Because I want the Board to be as much involved as it will accept itself, I think this is right. Coming back to the Board every three months for something like this, if the country wants it, is acceptable for me. If it is an Executive Board as you want it to be, then you have to make the Executive decision.

The question is whether we can go on with this, and I ask you to do so because I see no possibility to change really the parameters. Even if I can agree with some arguments, if we reopen the question of the ceiling, we will not find a solution.

If we reopen the question of the 3 months and 3 months and 3 months, even though there are good arguments that it should be 6 months and 6 months, or 6 months and 3 months, I think we will not find a solution. It is a one-point equilibrium, so I do not think there is another one.

For this reason, if we take into account what I said about transparency and what I said about the capital account then we should go on with the proposal as it is. We can have an informal Board discussion of how it is going in four months, or five months or less, as you like, to see where we are. We may have countries requesting assistance from SLF or not, and if not, why? We will just be pragmatic and see how this instrument functions.

Mr. Guzmán affirmed that he could support the facility in its current form, although he would have preferred higher access limits and a longer maturity. He requested that the external communication of the facility should include a detailed explanation that the three month term of borrowing could be extended twice over a period of nine months.

The Chairman reiterated to Mr. Guzmán that the SLF would be available during a period of two years, and that was the appropriate comparison with the nine month period that the U.S. Fed's facility would be made available.

Mr. Bakker considered that the current proposal was a viable compromise. However, he would have preferred a recent FSAP to be a requirement for access to the SLF. The staff was asked whether there were any details available about how the Fund would play a catalytic role to help mobilize additional multilateral financing arrangements.

The Chairman made the following further statement:

> I do not want to speak on behalf of other partners, but we always see the Fund as having a catalytic role and it has to keep it, even if in some more traditional arrangements we may sometimes be alone. For instance, on Ukraine today we have no catalytic role and we do it alone on the contrary of what we are doing on Hungary. By the way, probably you have seen the results of the markets on Hungary this morning, which are very encouraging so far. I do not know what is going to happen tomorrow. In the equity markets and also on the currency, the results are really the ones we could expect.
>
> As I told you yesterday, when we had this informal meeting in my conference room, I made some phone calls. Where we are today, and it may change over time, is that the ECB is not prepared to have this kind of arrangement. The ECB will look at that possibility and will possibly do it. In this case, if there is no problem for us to do it together and even to discuss how we can share the needs.
>
> The same thing is true with the U.S. Fed, where the connection is very good. I do not know who is catalytic compared to the other one, but at least things are going to be done together in some cases where important amounts can be concerned. I think that this will appear really as part of a coordinated action and that is one of the good results that we can expect.
>
> I do not want to say that the ECB is likely to do something in the coming weeks, because this was not said to me explicitly, but obviously they are open to the idea and said they are going to look into that. That was the result, the main result of this call I told you I would make yesterday.

Mr. Henriksson agreed that the current design of the SLF was an acceptable compromise.

The Executive Board should have an opportunity to provide input to the Managing Director prior to his expected participation in the economic summit on November 15, Mr. Henriksson continued.

The Chairman confirmed that there would be an informal discussion for Directors to share their views on the upcoming economic summit. The economic summit would discuss significant issues but it was important not to create large expectations about what these meetings would achieve.

Mr. Cipollone made the following statement:

We agree with your remarks, and particularly on the one-point equilibrium concept. In the spirit of compromise, we are ready to support the proposal of the staff on the table, although we would have preferred only one renewal rather than two given the specific nature of the facility, as pointed out by the staff.

More renewals or a longer period of this facility will blur its objective and also its signaling role vis-à-vis other facilities, particularly the Stand-By Arrangement. In the last decade the duration of the Stand-By has been much less than 20 months, so to offer a longer duration SLF would give a different signal to the market.

Finally, on transparency, we fully agree that this facility should comply with the transparency policies that we recently reviewed.

Mr. Torres made the following statement:

My concern is about how we can market this to the public. It should not be understood by the outside world that this is all we have to offer for this crisis. Everybody knows that we have the Stand-By Arrangement, but I do not have to say that they do not have much sex appeal. We should offer something else to the market.

My suggestion would be that when we come out with the news that we have created this new facility and we sweeten that statement as much as possible, we could also say that we also have and endorsed the Emergency Financing Mechanism, and recall that it enables the Fund to provide rapid and large front-loaded financial support to members that are facing crises.

This liquidity facility will only be available for a few members, so the question is what about the rest of the membership? We should include an endorsement of the Emergency Financing Mechanism, and I would suggest that we could say that the Executive Board has entrusted you to make flexible and agile use of this financing facility. That would be a better way of marketing this.

Mr. Mojarrad supported the consensus on the SLF decision. However, he reiterated that extending the repurchase from three months to six months would attract greater use of the facility.

Mr. Kishore expressed amazement that the proposal put forward in the staff paper was exactly the same as what was being described as a "consensus" view of the Board after three hours of discussion. While modifications to this facility should be considered during the upcoming overall review of Fund financing facilities, he supported the proposed decision.

The Chairman noted that the SLF proposal contained in the staff paper was the product of earlier Board discussions and consultations. He agreed that it was important to continue to review this facility over time.

Mr. von Stenglin would not support the proposal. He noted that many countries that accessed PRGF facilities faced a protracted balance of payments problem. What was the main difference between the countries that would be eligible for the Short-Term Liquidity Facility and those that were supported by the PRGF? Was it that the former had access to capital markets?

The Chairman affirmed that unlike the PRGF, the countries eligible for the Short-Term Liquidity Facility must have access to capital markets.

Ms. Sucharitakul urged that the Fund be humble in the announcement of the creation of the SLF. The SLF would be a contribution to the resolution of the current crisis; however, much needed to be done expeditiously, particularly by the major advanced economies, to resolve the broader crisis.

Mr. Nogueira Batista considered that the Managing Director's comments did not reassure potential users of this facility that the staff would not use access to the SLF as leverage to influence members' policies. This had occurred in other circumstances where the staff would refuse to bring a request for use of Fund resources to the Board for discussion unless certain actions were taken.

The Chairman did not agree that the SLF would increase the leverage of the staff to influence the policies of members seeking to use the facility. The new facility was conceived precisely to answer the needs of countries with strong policies that did not want the conditionality of traditional Fund program. The advantage of ex ante conditionality was that eligible countries deemed by the staff to have strong policies would face no further conditionality.

Mr. Nogueira Batista made the following statement:

I understand, as Mr. Hagan explained, that we will look again every three months at the eligibility issue. There will be a full review. You gave a different assessment, but I heard and read in the grays and heard here large support for an extension of this period to six months, or even longer. It will be difficult to convey optimism. Indeed you will have to be very humble in conveying this to the public opinion, because it is less of a change than we hoped for.

Let me tell you something else. When I listened to this discussion, I do not want to be too bitter or too destructive, and Mr. Murray is no longer there, but I hope that one day I would be able to join this club, because it is clearly very difficult. I will be a bit cryptic in what I am going to say here, because it is a delicate thing.

We were discussing this instrument until yesterday in a different setting. I am saying this because I am not sure what my authorities will say if the setting is different, if something comes out that was not fully expected, such as establishing links between arrangements. The ECB is not prepared. What is the link? It is part of a coordinated action? What does this mean? I am full of questions that I did not have before, because we were proceeding on a certain line with no implication that there was a link. That is a concern I raise now.

The Chairman made the following statement:

I understand your concern. We are trying to implement a short-term facility. When we look the financial world outside, what does short term mean? For central banks, short term is 7 days, 28 days or, at most, 84 days. What we do is already short term, but three months is a much longer term, than the current central bank arrangements, especially when it is renewable.

The countries have to come back every three months. I do not really see why a country which would be eligible on October 1st would have problems renewing the facility three months later. If the policies are strong and the economic situation is good, but an exogenous shock on the currency causes need for some short-term help to provide liquidity, it is hard to imagine that the policies will have changed so much that it will be a problem for us.

For example, if we were considering country X or Y, that has pursued strong policies for three months, probably has had strong policies for one year, two years, three years, so there is no reason why in the coming three months it is going to change.

The trap you were talking about, I understand what you mean, but in fact it is not a trap at all. You may say no country is strong enough for that. That is another point. But if a country appeals to the staff and the Board as eligible, I see really no reason why three months later we will say that what has been done during these three months is so awful that we would change our minds.

I think the review by the Fund every three months is needed for legal reasons, owing to the difference between purchase and arrangement. Okay. But de facto the possibility to renew it is on the table. We are creating something which is a liquidity facility, with ex ante conditionality, which can go up to nine months.

If we want to do something different, which is a medium-term facility, we should call it different if it is needed. I do not know. It is something different. But it is difficult to make it credible that we have something which is designed as a short-term facility and we will go over the nine months that we already have in the paper.

Mr. Torres agreed with Mr. Nogueira Batista's concerns about that the uncertainty of renewal of SLF financing after three months was troubling. He suggested that the Chairman's summing up should state that after three months there would be a presumption that a renewal would be approved by the Board if requested.

The Chairman agreed with Mr. Torres's description that there would be a presumption that a renewal would be approved by the Board if requested. Qualified countries would have a strong track record and would be expected to maintain those policies or adapt them if needed, so the presumption was that the subsequent request would be approved. That presumption would be expressed in the summing up.

Mr. Nogueira Batista supported Mr. Torres's requested language in the summing up. In light of new communication from his authorities, as well the accelerated schedule of Board meetings on the SLF, he requested that the Board reconvene after lunch to continue the discussion.

The Chairman made the following statement:

On the first point, which is your agreement with what Mr. Torres asked, if there is no opposition, we can put this idea in the summing up.

On the second point, well, we can always reconvene, but I am not sure that we will improve the quality of the message. It appears that either we do it or we do not do it. But if we do it reluctantly, then it will be very difficult to say that the Fund did something important to try to bring a contribution to the crisis resolution. It is a bit contradictory.

I do not see really the point that makes it difficult. In terms of the design of the facility, we can discuss the access limit and the duration, but that does not change the essence of the proposition. The essence of the proposition is totally in line with what was proposed at the beginning. Let us go on discussing and we will see what we can do.

Mr. Kiekens made the following statement:

The binding text of what we decide today is the proposed decision, and not your concluding remarks. I want to make it very clear: I will be bound by the decision, not by what additional is in your commentary that you would formulate at the suggestion of Mr. Torres.

My understanding is that good policies need to be in place at the time of every drawing, and very strong policies are not something that you assess in the abstract. It is something that is relevant for the difficulties with which the country is confronted at any given moment.

My last remark, is that probably the most important asset for the Fund is to be well understood by the markets what it is that we do. This is very important when you explain what we have decided today, that markets would not become confused and that from now on, countries can get money without conditionality. This is very important.

Six months ago I spoke with some private bankers in Hungary. It was a confidential conversation, but relevant to what we are discussion today. I asked this banker, would you like to see Hungary request a Stand-By Arrangement. The answer was yes, very much so. I asked why because there are so many countries that are very reluctant to ask for an SBA. The answer was very clear: he would be assured that the policies of the country were closely monitored by the Fund.

It is not a surprise that all the cases that we have so far would clearly not fit in this arrangement, and I would be worried if the message or at least the impression in the market would be that now the new instrument is the standard instrument that we are going to apply from now on.

Ms. Lundsager was on the mark when she said that she expects few countries to apply to it, but I observed that only a minute later my neighbor referenced the large number of countries requiring this facility. How strong is our understanding on what we really agree today?

Let us not confuse the markets. We must explain that this facility is for good performers, but we must make it clear that countries that need to adjust or that have problems are recommended to come to the Fund in time for help. I think that the case of Hungary—thank you for mentioning it and thank you for the very strong support that management and staff have given—is a good example of how well the traditional instruments can function.

The Chairman commented that this facility did not exist when the Fund initiated program discussions with Hungary; however, this facility would not have been appropriate for Hungary's case if it had been available.

Mr. Kiekens underscored that there was a risk that every country, regardless of whether it had strong policies or not, would now be more hesitant to request an SBA and would prefer to request access to the SLF in order to avoid conditionality.

The Chairman underscored that it was not correct to state that the SLF had no conditionality. Access to the SLF would require pre-conditionality, which would be demonstrated by a strong policy track record.

Mr. Kishore made the following statement:

I do not want to reopen the question of consensus, but two things must be clear. This facility must be introduced on the clear understanding that we are not introducing a new set of confusing and exacting conditionality. Today is not the time for this.

I am surprised. I have great admiration with regard to my neighbor colleague, Mr. Kiekens, but today we are talking about the sensitivity of markets who are the perpetuators of this crisis, and not taking into account the countries which are victim of these conditions. We are there to hold their hands. At this time, three months term for SLF is too short a period. Let us give them more time to stabilize.

If you cannot change the structure of the proposal in the interest of consensus, it must be clear that we are not coming back again and again, trying to explain the bona fides to the staff and getting the approval of the Board in a rigorous examination of conditionality.

In case this requirement stands, I would not advise countries in my constituency to subject themselves to this kind of conditionality. The entire premise was flexibility, fast-moving access, and minimal conditionality. The reality of conditionality has been drilled into our minds, our perception over the last 10 years, 20 years, and 30 years.

There is a track record. Each time we are bringing countries to be held accountable to this. Why? Markets should get the signal. Billions of dollars have been spent on the markets' wrongdoing. I am not concerned about the markets. I am concerned about the health of my member countries who are suffering on account of the markets.

The Chairman made the following statement:

I do not understand where all these concerns come from. The idea is that we will select—I do not know how many at the end there will be—countries on the basis of track record. We will ask them as precondition, call it the way you want, to go on with the policies that they have. I see no reason why those countries will change their policies, especially in the three months we are providing funding.

The only question is, do we want to come back to the Board because it is a short-term facility and to call it a short-term facility, or do we want to build a nine-month facility, which is something totally different. In this case I am sure we will not have a majority in the Board to build it. The only way to do it is to rely on this idea which, in my view, is sensible, that good performers will not change their policies in the three months we are working with. That is it.

If you have a country pursuing something totally different during these three months, these could also be strong policies. I do not want to quote any kind of country, but say for example a country which the Board views as a good performer, with all of the prerequisites to benefit from this short-term facility applied for the SLF. Then three months later the pressures are not over because the way the world is working and the markets are working, and the pressures are still there, we will renew the facility just because the policies are the same three months after as it was three months previously.

It is not reintroducing any kind of new conditionality. On the contrary, it is acknowledging the fact that anything can happen during the period of at least three months, six months, or nine months. Nobody knows what can happen; you may have a change in government or you may have totally a change of policy, but there is no reason for that. The process is a process in which finally we will provide a nine-month short-term facility in a way that did not exist before.

But, if everybody around the table is either reluctant to do it for principle reasons, I have a feeling I will not advise my country to do it, just do not do it. I mean, if everybody is as reluctant at the end, it may appear that finally we already have all the instruments we need or the Fund does not have the right instrument yet. Perhaps the member countries to would prefer to go to central banks, I do not know, and then the Fund has no role providing some short-term facility with precondition and not conditionality applied to the purchase itself. If we fail, then that is it.

We cannot be in and out. We cannot say it is something, which, as Ms. Sucharitakul said, is our contribution to the resolution of the crisis, to help even a small part of the membership. But even if one country will use it, it will be useful to have spent hours to help one country.

I do not know how many at the end of the day we will have. I think we will have some, especially because we have some overlap with what the swap agreement with the central banks may do and so they are willing to work together. In the world today, all public entities want to work together to try to solve the crisis. We provide something to help.

But if it appears to the Board of the IMF that it is not good enough for some countries or it is too difficult or it is too far from our principles, then do not do it and we will say that we are just unable to provide something like that. We will go on offering the current range of our facilities to countries that need it. There are a lot of them, Hungary and some others. But then the proof will be made that we are just unable to add something to the toolkit to help countries deal with short-term liquidity problems.

Mr. Rutayisire considered that there would be an issue of unequal treatment across the membership if the purchase period were significantly extended. He supported the current proposal, which was supported by a consensus of the membership. A longer repurchase period would exacerbate the issue that a large portion of the membership was inequitably excluded from access to the SLF.

The Chairman acknowledged that it was a small set of countries that would be likely to access this facility. Most advanced countries would not need the Fund's help to address short-term liquidity problems, while many other countries would not meet the preconditions. Whether members in a Director's constituency would likely use this facility was not an appropriate basis to decide whether this facility should be established. It was likely that at least one country would request access to this facility and that was enough justification for these efforts.

Mr. Kotegawa made the following statement:

I support Mr. Nogueira Batista's view, expressed some time ago, which was actually supported by Mr. Torres. Perhaps we can put on the record in this summing up those issues raised in this meeting so that we will not forget in the review what had been discussed.

However, I fully support approving of this proposal right now, and I ask Mr. Nogueira Batista to go along with it without taking some rest for lunch. This is the first step and that is a message I would like to tell Mr. Nogueira Batista, because nobody knows whether this would actually take care of all the problems we face now. If we would see the change or the aggravation of this crisis, the Fund might be asked to think about something more. This is just a start.

> But I believe that one of the most important responsibilities of the Board, apart from your behind-the-scenes efforts which have occurred in the past, is to come up with some kind of new facility, a new product of this institution which our customers can choose whether to take or not.
>
> In that spirit, I hope this summing up can take care of those issues right now, including your explanation on the specific inquiry about the concern on this matter, so that we can actually wrap up this argument.

Mr. Gibbs agreed that there was a consensus to support the proposal and suggested that the Board should move to a decision. On the issue of renewing the purchase after three months, if necessary, the onus would be on the Board to ensure that the facility operated smoothly.

Mr. Nogueira Batista concurred with Mr. Kotegawa's appeal that this facility was a starting point and other solutions should be considered as conditions evolved. He suggested that the Board reconvene in the afternoon to discuss the summing up and the way that the decision would be communicated. It should not appear to the outside world that there was a link between the establishment of the SLF and similar facilities to be offered by other institutions.

The Chairman made the following statement:

> I understand. I have no problem in reconvening at 2:00 to discuss how we are going to present this to the public. It is in the interest of the Fund and the membership for it to be presented in the best way. But we now must make a decision.
>
> If we make a decision, then if you agree, we can at 2:00 see how it could be presented with all the reservations which have been made, and I agree with Mr. Kotegawa that it is a first step. As we said, it is a new thing. Probably, if we could have waited for more time, most of the problems and the misunderstandings could have been avoided.
>
> I am not sure that having this discussion on Friday would have changed the outcome, because then we would have exactly the same discussion we had this morning on Friday morning. Nevertheless, it is true that we have moved quickly. There are some advantages to moving quickly, and there are also some drawbacks.

I would propose that the Board make a decision now, and reconvene at 2:00. One hour might be enough to see how this important question is going to be presented. If we have some misunderstanding that we must clear between us, we may expect there could be misunderstandings outside of the Fund.

To avoid this, we need to have a common wording on what kind of facility we have created. We are rather close and it will not be so difficult. But a common wording is something very important. One different word may induce a different understanding. It is important to consider how we are going to define it outside of this institution.

The Secretary (Mr. Anjaria) clarified the changes that were made to the proposed decision that were agreed during the Board discussion and would be incorporated into the final decision.

The Chairman made the following summing up:

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.

The meeting adjourned at 12:40 p.m., and reconvened at 2:00 p.m.

The Chairman made the following statement:

We need to briefly discuss our public messages on this facility. For me, the message is fairly straightforward, but I am prepared to listen to your views.

> I would begin by saying that the Fund's existing loan facilities are fundamentally designed for countries that require both financing and policy adjustment—not for countries that, despite strong initial macroeconomic positions and policies, face short-term liquidity pressure. The Short-Term Lending Facility seeks to address this problem, which is particularly relevant at the moment.
>
> I would then explain that the purpose of the facility is to provide large, up-front, and quick-disbursing short-term financing, using IMF resources for countries having good track records, but are facing a temporary liquidity problem.
>
> I would explain the terms we have decided upon, including access of up to 500 percent of quota. Eligibility may be the most important problem, relying on a track record of sound policies, which have to be assessed positively by the IMF in the most recent Article IV consultation discussions.
>
> At this point, I would explain some of the points that we discussed earlier this morning. Borrowers will be expected to continue their commitment to maintain a strong macroeconomic policy framework. As a counterpart, the Board is expected to launch, if asked, the facility for a three month period, which should pose no problem because policies have not changed.
>
> I will also underline the fact that the Fund has already activated the Emergency Financing Mechanism, which is another element of the Fund's activities in response to the financial turmoil. This activation has been used for Iceland, Hungary, and Ukraine, showing that the Fund is ready to respond flexibly and rapidly to our membership's needs. This is the basic outline of what I intend to say to the press, but I am prepared to take on board the remarks you would like to make.

Mr. Kiekens welcomed the Chairman's remarks, but felt that he should also note that the Fund's existing facilities could be used by countries not needing to undertake policy adjustments.

Mr. von Stenglin asked for clarification on the procedure on the summing up.

The Secretary (Mr. Anjaria) replied that the summing up would be circulated to Directors in the normal fashion, and finalized thereafter.

Mr. Nogueira Batista wondered when the summing up would be circulated.

The Secretary (Mr. Anjaria) replied that it could be done the following morning.

Mr. Nogueira Batista suggested that in its public statements the Fund should signal a definitive break from previous practice, stressing that the Short-term Liquidity Facility involved no performance criteria, monitoring, or Letter of Intent.

The Chairman responded that he was prepared to clearly signal that the Fund wanted to move very quickly to address the needs of countries with the requisite track record. He would explain that countries interested in the facility would make a request in confidence, which would be quickly assessed by staff, and with management's agreement brought to the Board. This process would represent a clear departure from previous practice.

Mr. Nogueira Batista said that the Chairman should highlight key attributes of the SLF: a fast-track procedure; no conditionality; no quantitative targets; no performance criteria; and no traditional Letter of Intent.

The Chairman suggested that the facility could be explained as a simple purchase, as noted earlier by the Legal Counsel. Once a purchase was completed, there would be no further follow-up, as was the case with performance criteria under a Fund arrangement.

Mr. Nogueira Batista doubted that the general public would appreciate the difference between arrangements and purchases. The Fund needed to be more explicit on what the SLF meant in terms of change.

The Chairman proposed the following clarification: 'given the strong emphasis on past performance, financing would be made available without the standard phasing and conditionality of a Fund arrangement.' While noting the range of reservations voiced by most Directors, he considered that the SLF needed to be presented as a step forward for the Fund.

Mr. Nogueira Batista inquired whether the creation of the SLF would be announced simultaneously with initiatives being planned by other institutions. He stressed that the SLF should not be linked to actions by outside parties.

The Chairman stated there was no link between the SLF and actions of other institutions. However, he did not believe that the Fund should be prevented from commending other institutions that might be establishing similar credit lines.

Mr. Nogueira Batista agreed that the Fund could commend such actions, but that it needed to be done in a context, given that the Fund's internal work on a liquidity instrument had taken place independently of other initiatives. He stressed that the SLF should not be seen as a facility that was imposed from the outside.

The Chairman concurred with Mr. Nogueira Batista. However, not commenting on actions by other institutions could create the impression that actions were not being coordinated, with institutions rushing to address the same problem.

Mr. Henriksson suggested that the Chairman explain that: 'it is more important to save the world than to settle political problems in a particular country.'

Mr. Torres expressed difficulty following the cryptic discussion on coordination. He asked for clarification on what other institutions were contemplating actions and when those might occur.

The Chairman replied that the U.S. Federal Reserve and other central banks were preparing to announce swap agreements in the near future, possibly the same day. For that reason, he had called for an early morning Board meeting in the interest of arriving at an early decision. In doing so, he hoped to minimize the risk that the Fund appeared to be merely mimicking the actions of other institutions.

Mr. Nogueira Batista felt that if the Fund's announcement were to precede others, then there need be no reference to later decisions.

The Chairman said that he understood Mr. Nogueira Batista's case. He pointed out that a recent Fund press release on Hungary commended actions being jointly taken with the EU and World Bank.

Mr. Torres agreed with the Chairman that the Fund's actions should not lag those of others, but wondered if the communiqué would acknowledge something that had already taken place, or abstractly refer to an event yet to occur.

The Chairman clarified that he intended to hold a press conference shortly to announce the Board's decision. If no other institution had made an announcement by that point in time, then he would simply read his statement and make no reference to actions yet to be decided. However, if the Fed were to announce actions, he would be obliged to respond. In any case, the SLF would not fulfill the same function as a swap agreement between central banks. He wondered if Ms. Lundsager could shed light on a pending announcement by the Federal Reserve.

Ms. Lundsager replied that she had nothing to announce. Noting the Hungary press release, she agreed that it was important to convey a sense of coherence among the major institutions, even if those actions were not formally linked, since they were complementary.

Mr. Nogueira Batista noted that in the case of Hungary a package solution was being considered, which was a different approach from that envisaged for the SLF. He also pointed out that the Board's independent discussions on the SLF had been ongoing for some time, only to be recently informed that a simultaneous process was taking place elsewhere. Bearing that in mind, he hoped to avoid a repeat of the most recent IMFC meeting, where the Committee endorsed a statement by the G-7, since it would look bad for the Fund.

The Chairman noted that the Fund, in taking this action, was responding to a recent request by the IMFC. Indeed, the Fund had shown extraordinary dexterity in fulfilling this request within three weeks. That said, he acknowledged Mr. Nogueira Batista's concerns, and thanked Directors for their comments.

The Executive Board took the following decision, with two abstentions from Mr. Kiekens (BE) and Mr. von Stenglin (GR):

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

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.
(SM/08/324 Sup.2, 11/3/08)

Decision No. 14184-(08/93), adopted
October 29, 2008

APPROVAL: December 30, 2008

SHAILENDRA J. ANJARIA
Secretary