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The Acting Chair's Summing Up
Review of the Adequacy of and Options for
Supplementing Fund Resources
Executive Board Meeting 09/11
February 5, 2009

The global economy has been hit by a crisis of unprecedented complexity, breadth, and scale since the adequacy of Fund resources was last reviewed in January 2008. Executive Directors therefore welcomed this opportunity to reassess the adequacy of Fund resources and to explore options for supplementing them.

Global Crisis and the Adequacy of Fund Resources

While the Fund's liquidity currently remains satisfactory, crisis-related balance of payments pressures have already led to sizable new Fund lending. With the real prospect of significant further Fund lending, Directors emphasized that the Fund should be fully prepared to play its central role in the provision of balance of payments support, while also giving full confidence to members that may seek Fund support later. Directors drew a distinction between a short-term response to the current crisis and longer-term issues of resource availability, with a number of Directors highlighting the temporary nature of the present borrowing need. Directors stressed the urgency of reaching agreement on concrete, practical, and flexible steps to boost Fund resources in the near term, while calling for a more comprehensive analysis of longer-term financing issues.

While recognizing the difficulty in assessing the scale of the additional Fund resources needed, most Directors considered it prudent to err on the side of preparedness, noting the relatively higher costs of a possible shortfall in Fund resources. These Directors agreed that a near-term doubling of the Fund's pre-crisis lending capacity (SDR 167 billion or $250 billion) would be appropriate, at least on a temporary basis. Some Directors considered that further analysis would be needed to determine the appropriate size of an immediate augmentation, and a few cautioned against aiming for an oversized financing capacity. Directors observed that the crisis is also likely to increase demand by low-income countries (LICs) for the Fund's concessional facilities, and looked forward to considering the forthcoming review of LIC facilities.

Modalities for Increasing Fund Resources

Directors reaffirmed that quota subscriptions are, and should remain, the basic source of the Fund's financing, and they welcomed staff's efforts to expand participation in the Fund's Financial Transactions Plan, which would have the effect of increasing the Fund's usable resources. They also concurred that reaching agreement on a general quota increase will take time, and that it is therefore not a suitable option to address near-term liquidity needs. Nevertheless, many Directors favored a general increase in quotas and called for advancing the timetable for discussions on the Fourteenth General Review of Quotas, in parallel with efforts to augment the Fund's resources in the short term. Many other Directors, however, did not see a compelling case at this juncture to accelerate this timetable, and considered it premature to assess the appropriate size of a permanent increase in the Fund. All Directors encouraged early action on the recently agreed ad hoc quota increases and related voice and participation reforms.

Directors agreed that Fund borrowing from the official sector is the most appropriate approach to providing a temporary supplement to the Fund's resources in the short run, owing to the Fund's experience with previous such borrowings. Directors viewed the various borrowing modalities—bilateral loan agreements, placement of Fund paper in the official sector, and enlargement and expansion of the New Arrangements to Borrow (NAB)—as all worthy of further consideration, although views differed as to the relative priority that should be assigned to these options.

Regarding bilateral borrowing agreements, Directors noted that such agreements offered valuable operational flexibility and could be put in place quickly. Directors particularly welcomed the willingness of Japan to provide a bilateral loan of up to $100 billion, and looked forward to its early agreement. Directors supported efforts to identify other official creditors in a timely fashion.

While the Fund had previously approved a framework for issuing promissory notes, there was no experience with such notes. Nonetheless, if some official creditors would prefer notes issued by the Fund, a number of Directors considered that this borrowing modality should be further explored, including alternative approaches to placing notes, timing issues, and potential administrative costs.

Directors generally favored an enlargement in NAB resources and an expansion of NAB participants to supplement the Fund's resources, noting that the NAB is specifically designed to meet an increase in resource demand in exceptional situations that pose a threat to international financial stability. A broader participation would also help distribute the financial burden more evenly across the membership. Some Directors observed that this process could be time-consuming given the need to obtain parliamentary approval in some countries. A few Directors suggested amending the NAB's activation procedures and criteria to facilitate early drawing and better address crisis-related needs.

Use of Borrowing and Risk Management

Directors underscored that all borrowing will need to be closely monitored by the Executive Board. While noting that traditional encashability provisions facilitate the treatment of these loans as members' international reserves, Directors also strongly encouraged the inclusion of provisions to help reduce the Fund's liquidity risks. Moreover, borrowed resources should be used in a manner that takes into account the need to maintain adequate liquidity buffers. Directors therefore looked forward to the development of the Fund's policy on the timing, and sequencing, of different sources of borrowing, including under the NAB/GAB.

Directors stressed that, to the extent possible, each source of borrowing should be designed to provide the operational flexibility necessary to meet members' needs, and to limit the Fund's exposure to financial risks. Borrowing should be denominated in SDRs, and the interest rate paid on borrowings should be linked to the SDR interest rate and allow scope to accumulate reserves rapidly so as to mitigate credit risks. A number of Directors urged a timely review of the need to raise the target level of precautionary balances in case of a significant expansion of Fund lending.

Directors considered that timing mismatches between Fund borrowing and lending should be avoided. If such mismatches cannot be fully avoided, the Fund should manage the resulting liquidity by temporarily holding currencies in the General Resources Account. A few Directors preferred to establish borrowed resources suspense accounts in the General Department, following the practice adopted in the early 1980s.

Directors urged members' acceptance of the amendment of the Articles of Agreement providing for a special one-time allocation of SDRs. A number of Directors indicated that consideration should be given to a general SDR allocation to bolster members' reserves, and that a voluntary post-allocation redistribution of SDRs should be explored. A number of other Directors considered that a general SDR allocation is neither feasible, nor desirable, to address the current crisis.

Next Steps

I conclude from today's discussion that there is a consensus to temporarily supplement the Fund's resources to address the current crisis. There is also general consensus that official borrowing is the most promising approach. The immediate priorities are to bring the borrowing agreement with Japan to the Board for approval, and to agree on the operational guidelines to govern the use of borrowed resources. Staff and management will also work with other members to assess their interest in bilateral borrowing agreements, and in possible note placements. We also need to explore with existing participants the possible scope for enlargement and expansion of the NAB, and for simplification of the criteria and procedures for activation.