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IMF Executive Board Has Preliminary Discussions on Access Limits, Charges and Maturities

On January 23, 2009, the Executive Board of the International Monetary Fund (IMF) discussed the Review of Access to Financing in the Credit Tranches and Under the Extended Fund Facility, and Overall Access Limits Under the General Resources Account; and Charges and Maturities—Proposals for Reform.

Background

As part of the IMF's review of its financing role in member countries, the Executive Board conducted a preliminary discussion of options to reform key aspects of the terms of IMF lending under the General Resources Account (GRA), which is the main vehicle through which the IMF lends to its members on nonconcessional terms. The discussion focused on (i) access limits, which are intended to provide members with confidence regarding the scale of possible Fund financing and also to preserve the IMF's liquidity and the revolving nature of its resources; (ii) surcharges, which are one component of the cost of borrowing from the IMF and contribute to the accumulation of precautionary balances to mitigate credit risks while encouraging early repayments of loans and safeguarding the revolving nature of Fund resources; and (iii) the policy on time-based repurchase expectations, which is a mechanism that is intended to encourage early repayment to the IMF. The Board's discussion is also part of a broader review of the IMF's lending role, which aims to ensure that the IMF's lending toolkit continues to meet the financing needs of members, including during the current period of global financial distress.

Staff have proposed a doubling and a two-thirds increase, respectively, in the annual and cumulative access limits, to 200 and 500 percent of quota, from 100 and 300 percent currently. When measured against economic magnitudes that are related to potential need and capacity to repay, absolute access within the existing limits has declined significantly, in particular in the decade since the last general quota increase under the 11th General Review in 1998. On surcharges, staff propose a reform of surcharges aimed at simplifying the cost structure of high-access Fund lending and to reduce the sources of misalignment of lending terms across facilities. Specifically, for lending in the credit tranches and under the Short-Term Liquidity

Facility, staff propose to remove the existing 100 basis point surcharge for access between 200 and 300 percent of quota. Credit outstanding above 300 percent of quota would continue to be subject to a surcharge of 200 basis points. To create incentives for early repayments, a new time-based surcharge of 100 basis points would be applied when credit outstanding remains above 300 percent of quota for more than three years. Regarding the time-based repurchase expectations policy, staff propose that it be eliminated—a move that would lengthen loan maturities—and replaced with the time-based surcharge in the new surcharge proposal. The proposed reforms aim to strike a balance among the competing objectives of reducing complexity, preserving income, and upholding the cooperative nature of the Fund.

The Board's informal discussion offered an opportunity for Executive Directors to exchange views on staff proposals and to give guidance to staff on how best to move forward. Formal decisions on the adoption of specific reforms of access limits, surcharges and the time-based repurchase expectations policy are expected to be taken up by the Executive Board at the earliest possible opportunity, but in any event before the 2009 Spring Meetings of the IMF and the World Bank.

Executive Board Assessment

We have had a very constructive discussion on access limits, surcharges, and time-based repurchase expectations (TBREs). A reform of these policies is needed both as a key element of the comprehensive review of the Fund's lending framework that is currently under way and as an important aspect of the Fund's response to the global financial crisis. The issues involved are important and difficult, and some will require further elaboration before we adopt final decisions on how best to reform these policies.

Access. Although in recent months the Fund has amply demonstrated its ability to meet members' sizable financing needs, a fresh look at access limits is timely in light of the significant uncertainty surrounding prospects for the global economy and financial markets. Higher access limits would provide members greater confidence regarding the scale of possible Fund financing, while strengthening its signaling and catalytic effects. Directors noted that, when measured against economic magnitudes that are related to members' potential need and capacity to repay—including global GDP and trade and capital flows— amounts available under existing access limits have declined significantly. They therefore supported an increase in access limits to restore the relevancy of Fund lending within normal access limits. In this context, however, many Directors considered that this objective would be achieved more fundamentally through adequate increases in, and realignments of, quotas. A number of Directors considered that future analytical work on Fund lending should further examine metrics other than quotas for determining access. A number of Directors recommended that access limits for concessional facilities used by low-income countries (LICs), including the PRGF, be also reviewed, and looked forward to the opportunity to do so in the forthcoming review of LIC facilities.

Surcharges and Time-Based Repurchase Expectations (TBREs). The experience reviewed suggests that, all things considered, the policies on surcharges and TBREs have helped meet their underlying objectives. Surcharges allowed a necessary build up of precautionary balances and, together with repurchase expectations, contributed to early repayments when the external position of borrowers had improved—although in some cases, factors such as the stigma of borrowing from the Fund have also been at play. The policies on surcharges and TBREs are, however, complex, including because they vary across General Resources Account (GRA) facilities. For these reasons, Directors agreed that comprehensive changes in the current system of surcharges are required.

Proposals for Reform. Directors expressed broad support for staff's proposals to increase access limits to 200 percent of quota on an annual basis and 500 percent of quota on a cumulative basis. Some Directors considered that larger increases in access limits would be desirable given the severity and scope of the current crisis as well as the sizable financing required to meet capital account crises. Directors stressed, however, that higher access limits would need to be accompanied by a rigorous application of the exceptional access policy together with ensuring other essential safeguards for Fund resources. Most Directors saw merit in replacing the policy on TBRE with a time-based surcharge. Some Directors were concerned that time-based surcharges could make Fund lending too complex and costly for borrowing members.

Directors' views were mixed on the staff's proposal for surcharges. Many agreed with the importance of striking an appropriate balance between simplifying the cost structure for high-access Fund lending and better alignment of lending terms across GRA facilities, while still retaining an incentive for early repayment. They stressed that any changes to surcharges should not lower income to the Fund, given the importance of building an adequate level of precautionary balances to mitigate credit risks associated with high access to Fund resources. A few Directors emphasized that surcharges would need to be able to generate adequate precautionary balances to assure creditor members that reserve tranche positions are liquid and risk-free. Some Directors stressed, however, that, given the severity of the current crisis, the need to build up the Fund's precautionary balances should be carefully weighed against the cost of borrowing to members and the importance of the Fund's lending role. Although a number of Directors supported the staff proposal on surcharges, many others saw merit in aligning the threshold for surcharges with the proposed cumulative access limit (500 percent of quota), while a significant minority of the Board favored a multi-tiered approach that would better assure income neutrality and a surcharges system aligned with the proposed annual and cumulative access limits. A few Directors were skeptical about the desirability of a time-based surcharge.

Alignment across Facilities. Directors recognized that time-based surcharges would create cost differentials across GRA facilities with different repurchase periods. To avoid this outcome, a number of Directors saw merit in having a different trigger for the time-based surcharge (shorter than 36 months for the Supplemental Reserve Facility (SRF) and longer than 36 months for the Extended Fund Facility (EFF)). However, other Directors felt that having different triggers for the time-based surcharge would undermine the goal of simplifying the system of surcharges. Most Directors agreed with staff that the goals of simplifying and aligning the system of surcharges would be best achieved through the elimination of the SRF that has not been used frequently.

While some Directors could support elimination of the EFF, most favored retaining the EFF in view of its usefulness for low-income countries. A few saw merit in the establishment of the principle that the EFF should not be used as to provide high access to members with balance of payments difficulties. Some Directors called for a review of commitment fees and service charges levied for the use of Fund resources.

Transitional Provisions. Directors noted that provisions would need to be agreed for the transition to the new system, with many stressing that efforts should be made to minimize the disadvantages of the new system for existing borrowers. A few Directors suggested that the proposed time-based charges be applied only to purchases under new arrangements. A few Directors were of the view that the new time-based surcharge policy, if adopted, should be deferred till the pressures of the global financial crisis have receded. Staff was requested to come back to the Board with a specific proposal.

Next Steps. On the basis of our discussion, staff will prepare a follow up paper, including decisions for Board approval to increase access limits, reform surcharges, and eliminate TBRE, along with a proposal on transitional arrangements. These decisions would be brought to the Board for approval at the earliest possible opportunity, but in any event before the 2009 Spring Meetings. Directors stressed that these proposals should be formulated with careful attention to the other related aspects of the Fund's financing policies to ensure a mutually consistent, well-integrated, and simplified lending framework.