BUFF/09/116

July 9, 2009

**The Acting Chair's Summing Up**
**Borrowing by the Fund—Operational Issues**
**Executive Board Meeting 09/65**
**June 29, 2009**

Executive Directors welcomed the opportunity to discuss operational issues related to borrowing by the Fund and to review its borrowing guidelines. They noted that borrowing provides a temporary source of supplementary resources to meet the immediate financing needs of members during the current crisis. Directors emphasized that the operational modalities for the use of borrowed resources will need to remain flexible, subject to continuous review and revision, including in light of the concurrent discussions to reform the New Arrangements to Borrow (NAB). In this context, some Directors recalled the agreement at the April 2, 2009 G-20 Summit and the April 25, 2009 IMFC meeting to increase the resources available to the Fund through immediate financing from members of US$250 billion, subsequently incorporated into an expanded, more flexible NAB, increased by up to US$500 billion. Directors reaffirmed that quota subscriptions are, and should remain, the basic source of Fund financing. They therefore stressed the importance of completing the Fourteenth General Review of Quotas by January 2011.

Directors underscored that borrowed resources must be used in a manner that ensures prudent liquidity management, thereby giving confidence in the Fund's capacity to meet commitments to both borrowers and lenders. With the sources of borrowing less diversified than resources available under the Financial Transactions Plan (FTP), and with some bilateral commitments representing a large share of quota resources, Directors considered it desirable to set a limit on the immediate encashment of bilateral loans and notes when creditors have a balance of payments need. Most Directors agreed that an initial limit of SDR 15 billion per borrowing agreement is appropriate, and that this limit should be kept under review. In this respect, as more bilateral arrangements are put in place with reciprocity provisions allowing their use to repay other bilateral claims, consideration could be given to increasing the limit in light of the broader diversification of liquidity risks and potential sources available to help meet those risks. This issue of encashability should also be revisited at the time of the entry into force of the reformed NAB. If the limit on the immediate encashment of bilateral loans and notes is increased at a future date, Directors agreed that, with respect to any loan agreements and note purchase agreements that had incorporated a lower encashment limit, it would be appropriate for the Board to agree upon the request of the lender, to make the necessary changes to such agreements, so as to enable the lender to benefit from the higher limit.

Directors recognized that, in addition to the limit on immediate encashment, a number of additional factors help mitigate the risks associated with large-scale borrowing, including the reciprocal arrangements for drawing on other borrowings in the event of encashment in the bilateral agreements concluded to date. In that context, most Directors agreed that, to ensure the liquidity of members' claims on the Fund and to protect against an erosion of the Fund's resource base, a prudential balance ratio of 20 percent should be applied on amounts made available under bilateral loan and note purchase agreements. This would be consistent with the ratio applied to the quotas of members included in the FTP and to amounts activated under the NAB/GAB. A number of Directors were of the view that a lower ratio could be considered as more borrowing agreements are put in place and eventually as an expanded NAB becomes effective. Directors also agreed that unutilized borrowing capacity available over the next 12 months under currently active agreements should be reflected in usable resources in the definition of the one-year forward commitment capacity (FCC), and different sources of financing clearly identified. A few Directors felt that the probability of members drawing under the Flexible Credit Line (FCL) was low, such that commitments under this facility could be weighted at less than 100 percent in the computation of the FCC.

Directors considered the appropriate mix of borrowed and quota resources to guide the formulation of the quarterly FTP. They highlighted the importance of ensuring that the Fund's liquidity buffer will remain adequate in the event that it needs to draw down fully its available supplementary borrowing lines. In light of this, many Directors saw merit in the staff's proposal to target a ratio of borrowed to quota resources of 2:1. Many other Directors believed that a lower initial ratio of 1:1 would be more appropriate, given that less than half of the envisaged supplementary resources are available so far. Taking these various considerations into account, it was agreed that a 1:1 ratio would represent an acceptable starting point, on the understanding that this ratio will be kept under close review and adjusted as appropriate in the context of the six-monthly reviews of Fund liquidity, or more frequently if needed. Greater reliance on borrowed resources would need to be considered once more borrowing lines are in place, or if there is larger-than-expected demand for Fund resources, such as an FCL drawing, and staff is committed to returning promptly to the Executive Board if circumstances warrant.

Directors stressed that the Fund should aim to maintain an equitable burden sharing among lenders to the Fund by seeking, over time, broadly balanced cumulative drawings relative to amounts committed across the range of borrowing sources. Directors recognized that temporary departures from such proportionality may be necessary for operational reasons, such as the scale or currency of specific purchases, or as the transitional result of new borrowing agreements becoming effective. They considered that such departures should be corrected, to the extent possible, in the financing of subsequent purchases, including in subsequent quarterly plan periods if needed. With respect to repurchases, Directors agreed that amounts outstanding under bilateral loan and note purchase agreements should not be included in members' positions in the Fund for the purpose of the allocation of currencies received from repurchases, pending finalization of the expanded and more flexible NAB.

Most Directors agreed that it would not be appropriate to establish a limit on borrowing by the Fund at the present time. In line with past practice, a number of Directors nevertheless saw a role for a global borrowing limit in providing guidance on the acceptable extent of supplementing quota resources with bilateral contributions. Directors emphasized that the Fund's liquidity and financial position will need to be monitored closely, and, if warranted, the Executive Board could establish such a limit at any time. The Executive Board will review the borrowing guidelines once the expanded NAB has become effective.