July 14, 2009
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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 09/11-1

2:30 p.m., February 5, 2009

1. Review of the Adequacy of and Options for Supplementing Fund Resources

Documents: EBS/09/7 and Correction 1, and Correction 2, and Supplement 1

Staff: Tweedie, FIN; Weeks-Brown, LEG; Moghadam and Shannon, SPR

Length: 2 hours, 30 minutes

Executive Board Attendance

J. Lipsky, Acting Chair

Executive Directors	**Alternate Executive Directors**
	M. Majoro (AE)
	E. Nyambal (AF), Temporary
P. Pereira (AG)	
	C. Legg (AU)
	S. Rottier (BE), Temporary
P. Nogueira Batista, Jr. (BR)	M. Agudelo (BR)
H. Ge (CC)	J. He (CC)
	C. Mira (CE), Temporary
	P. St-Amant (CO), Temporary
A. Fayolle (FF)	B. Claveranne (FF)
	A. Rieck (GR), Temporary
	S. Krishnan (IN), Temporary
A. Sadun (IT)	
D. Kotegawa (JA)	
	S. Rouai (MD), Temporary
	S. El-Khouri (MI)
A. Bakker (NE)	
	J. Bergo (NO)
A. Mozhin (RU)	
A. Alazzaz (SA)	A. Al Nassar (SA)
	A. Chua (ST)
T. Moser (SZ)	
M. Lundsager (UA)	D. Heath (UA)
A. Gibbs (UK)	

G. R. Kincaid, Acting Secretary
T. Orav, Assistant

Also Present
Asia and Pacific Department: R. Salgado. External Relations Department: G. Bauche, M. Schrader. Finance Department: D. Andrews, S. Bassett, C. Beaumont, A.D. Dabney, S. Fennell, C. Hatanpaa, C. Hatch, C. Hemus, R. Lam, J. Lin, Y. Metzgen, M. Rossi, A. Tweedie, C. Visconti, S. Williams. Legal Department: S. Hagan, G. Rosenberg, B. Steinki, R. Weeks-Brown. Middle East and Central Asian Department: A. Bennett. Office of Technical Assistance Management: A. Kammer. Research Department: J. Di Giovanni. Secretary's Department: P. Gotur, P. Martin. Strategy, Policy, and Review Department: H. Bredenkamp, L. Giorgianni, M. Goretti, R. Goyal, B. Kelmanson, P. Khandelwal, I. Mateos y Lago, R. Moghadam, M. Shannon, A. Stuart. Statistics Department: R. Heath, R. Kozlow, A. Leone. Western Hemisphere Department: L. Jaramillo, M. Savastano. Senior Advisors to Executive Directors: W. Abdelati (MI), G. Aboobaker (AE), O. Demirkol

(BE), Y. Ha (AU), A. Joseph (BR), M. Kaplan (UA), D. Kihara (JA), B. Lischinsky (AG), S. Polak (BE), J.Poulain (FF), N. Riad (MI), A. Tolstikov (RU), R. Weber (SZ). Advisors to Executive Directors: S. Alnefaee (SA), M. Ghassemi (MD), R. Hills (UK), N. Imamura (JA), L. Jimenez (CE), P. Kanithasen (ST), R. Lin (CC), I. Mannathoko (AE), K. Mogensen (NO), T. Nguema-Affane (AF), Y. Shinagawa (JA), J. Sulemane (AE), M. Tomic (NE), H. Yung (CC).

1. REVIEW OF THE ADEQUACY OF AND OPTIONS FOR SUPPLEMENTING FUND RESOURCES

Mr. Kiekens submitted the following statement:

I agree that the IMF should seek additional resources that might be needed to provide adequate credit to member countries that face balance-of-payments needs. The Fund should carefully identify its need for additional resources and assess these needs regularly.

The current crisis is exceptional. The Fund may need additional resources in the near term. Therefore, the best strategy for the Fund is to seek borrowing arrangements with members whose balance of payments position is strong enough to provide additional temporary resources.

The Fund is more likely to be successful in raising these resources if it approaches possible lenders with proposals on the basis of fair burden sharing.

One obvious avenue for the Fund is to seek an increase in the amounts available under the NAB, by expanding the membership of the NAB and by increasing the amounts committed by the existing NAB members. The Fund should have assurances that increasing the NAB resources can be achieved in a timely manner. In many countries, increasing lending commitments under the NAB require parliamentary approval. I recommend that the activation procedures be revisited in order to ensure that they are appropriate for the present circumstances.

I agree that the Fund seeks additional bilateral loans from member countries to complement the increased NAB.

At this point, I do not recommend that the Fund seeks credit in international capital markets. The Fund lacks a credit rating. Its precautionary resources are limited. The gold stock does not provide any guarantee without the consent of the U.S. Congress.

The members that joined the Fund after 1981 did not receive an SDR allocation. The Fourth Amendment of the Articles of Agreement intends to correct this anomaly. A number of emerging market countries, which did not receive an SDR allocation, may soon face severe liquidity constraints. Therefore, I consider it necessary that the

Fourth Amendment be approved by countries that have not yet ratified it.

A new allocation of SDRs, in addition to the one included in the Fourth Amendment, could contribute to increasing global liquidity of international reserves. However, allocating SDRs is the unconditional form of credit which might not enhance the credibility of countries' policy frameworks. Moreover, an SDR allocation would not increase the resources available for conditional lending from the Fund. Conditional lending by the Fund is preferable as it enhances credibility and mitigates credit risk. Thus, an SDR allocation should be coupled with a retro-session by all or some countries of the allocated SDRs to the Fund. Such a scheme was discussed in depth by the Board and the Interim Committee in the period 1984-89. Even though it might be politically difficult to reach an agreement on such a scheme, it would be worthwhile for the staff to revisit this and to brief the Board on its most relevant aspects for today's crisis management.

Mr. Pereira submitted the following statement:

Today's discussion is of critical importance. We are asked to provide our assessment regarding the adequacy of Fund resources. There is strong sense of urgency in the midst of the worst global crisis in 75 years. However, what lies behind our decision is the role of the Fund in responding to the crisis and its intent to recover a central function in the global economy. Still, one fundamental question needs to be adequately addressed: On what terms is the IMF worth funding? The answer is not straightforward. Further actions beyond the expansion of its resources are needed to make sure that the changes will in fact be made to effectively fulfill a renewed mandate as a crisis-responder Institution.

We are living a systemic and global crisis that may well mark the end of globalization. To pave the way back to prosperity, advanced countries will have to spend and borrow like never before. We collectively call for concerted actions to prevent a complete breakdown of the international financial system, while averting a global recession now seems unavoidable. We still do not have a clear understanding of who is going to pay for past excesses. In general, developing countries have managed their economies well, resisted bad lending practices, built up high levels of foreign reserves, and prevented their banks from engaging in excessive risk taking, but they are now highly embroiled in the crisis and are suffering its results. We claim that any global solution—both short and long term measures—must pay due attention to impacts on the developing world. Briefly speaking, we have been caught in a crisis not of our making and differentiated responsibilities must be applied.

The Fund now openly recognizes that the huge financial needs of advanced countries will chock off the supply of credit to the developing world for years to come. Capital flows to emerging markets are in danger of collapsing and its impact will be acute, first for the corporate sector, and not without deep and swift consequences in employment and prospects of growth. It is regrettable that the staff did not bring to the fore some of these elements when discussing access limits and borrowing costs just a week ago. When dealing with the Fund's resources, all of them suddenly turn out to be critical: sizable potential financing needs emerged, global de-leveraging is likely to hamper the potential catalytic role of Fund financing calling for greater coverage of near-term financing gaps, access exceeding 1000 percent of quotas in many cases and scenarios, potential demand by advanced countries, etc. Whatever the reasons are, it is now uncontestable that a concerted multilateral response in this area is desperately needed. The Fund has a unique opportunity to rebuild members' confidence by ensuring ample financial assistance through solution-oriented and demand-driven facilities.

Yet, the Fund is still not responding accordingly to the scale and breadth of the crisis. Admittedly, despite a rapidly worsening outlook, only the most desperate countries are knocking on the Fund's door. Something must be fundamentally wrong that countries avoid coming to the Fund. Political inconvenience, limited financial assistance, and excessive conditionality is at the root of the problem. Even those countries with very sound economic and financial policies are hesitant to demand the Fund's short-term liquidity assistance, despite the drying up of international liquidity. The associated stigma problem and the risk that drawing will trigger a further run on the country have not been adequately handled. Progress has been made, but it is still confined to ad hoc and discretional decisions (some of them made outside the Institution). We will hardly rebuild members' confidence under a piecemeal approach. In our view, the global financial crisis and the world recession must be a sufficient catalyst for reforms and consensus among the membership about what changes need to be made. Crisis should bring progress too.

In reviewing the option of expanding the Fund’s resources, two additional issues must be collectively addressed. Firstly, we need to forge an agreement to revamp the Fund's lending function from the perspective of the borrowers. Increasing our own resources is a necessary but not sufficient condition for being an effective crisis responder. We claim, once again, that more needs to be done to ensure that the Fund’s arrangements are comprehensive in scope, of sufficient scale, and without undue conditionality. We need to ensure that we are truly responsive to members’ needs, substantially increasing access limits in light of capital account instability and terms of trade shocks, reducing borrowing costs, limiting conditionality to the core root of the crisis, ensuring a proper range of facilities are in place (including a precautionary large access crisis prevention instrument to cope with external shocks). From the countries’ viewpoint, the major concern is not that the IMF will run out of financial resources to lend, but its way of doing business.

If the Fund is committed to playing a central role in the global economy, we claim that an ambitious package of reforms with due regard to member countries’ needs must be agreed upon by April 2009. Unfortunately, there is still a big resistance from certain advanced countries to promote these crucial changes. The lack of resources and the level of precautionary balances are put in front of our own mandate as a straitjacket. This is inconceivable in many respects, particularly considering the source and scale of the crisis. It is important to recognize that, in this crisis, financial assistance from the Fund is critical for certain countries directly and also for other countries indirectly. By way of illustration, the Fund has repeatedly stated that Eastern Europe is a substantial source of imminent risks. The exposure of Euro zone banks to these countries and other emerging market economics is very high and, in many cases, potential losses could be significant and with high macroeconomic costs for all parties involved. If we propose to ensure sufficient flexibility and responsiveness in the Fund’s lending function it is because this crisis has already proven that no country or groups of countries can solve this on their own. Going back to the cooperative nature of the IMF at this critical juncture is of the essence.

Secondly, the increase in the Fund’s resources must be permanent and through quota subscriptions. Given the scale, the protracted nature of the deleveraging process and its manifest feedback to the real economy, the expansion of Fund borrowing can be seen solely as a bridge to the next general quota increase. Borrowing the amount proposed under a conservative scenario would clearly exceed the limits established by the Board in the borrowing guidelines and previous peaks in actual borrowing, entailing significant risk for the Fund as plainly explained in paragraph 30. Thus, to accelerate the Fourteenth Review is essential. An agreement must be forged now, not only about the timeframe of this process, but also on its overall outcomes. The G20 Summit has rightly raised expectations of a faster reform momentum. Building on this renewed political impetus, this Board must recommend to the Board of Governors to bring forward the general review by January 2011. However, in light of the multiple functions of quotas, a high-level political agreement must first be forged to ensure that the voting power of developing countries as a whole will be substantially increased. The critical guiding principle of future adjustments must be to expand the Fund's resources and increase the voice and representation of emerging and developing countries in this Institution. It is critical to increase the voice of borrowers in our attempt to ensure a multilateral institution capable of meeting members' needs. This group of countries is eager to take more responsibilities in the multilateral arena, but we need more voice and representation in the Fund's decision-making process. In a nutshell, increasing the Fund's resources and advancing governance reforms must be indivisible short-term tasks.

In dealing with this crisis and supplementing the Fund's resources, we fully support a special SDR allocation as a way to bolster members' own reserves. This will be an excellent way to address across the board the concerns of the members' regarding the drying up of international liquidity. We welcome the staff's proposal of some form of post-allocation redistribution agreements to countries most in need given that SDR allocation is in proportion to members' quotas. We would appreciate it if the staff would elaborate on this idea. Overall, we see merit in an SDR allocation and call upon the Fund to study this issue considering the inherent instability of the current international monetary and reserve system as part of the systemic reason behind this crisis.

Turning briefly to the options for supplementing the Fund's resources, we suggest that priority must be given to bilateral loan agreements as the most effective and swift temporary vehicle, with due regard to encashability provisions to sufficiently enhance the liquidity provision.

To conclude, determining the adequacy of the Fund's resources is a complex and interrelated issue that demands a comprehensive approach. Solely expanding resources will not suffice to promote confidence that the Fund will stand ready to meet members' needs at this time of extraordinary uncertainty. We urge Management to adopt all necessary actions to ensure an ample dialogue among the membership and proper sequencing discussions to deal with the critical issues of resources, responsiveness and voice. Failure to do so could seriously undermine the future of the Fund as a central multilateral institution.

Mr. Kotegawa and Mr. Kihara submitted the following statement:

We thank the staff for their comprehensive report and welcome the opportunity to discuss this important agenda.

The Need for an Increase in Fund Resources

This chair supports the staff's proposal to aim at a doubling of the Fund's pre-crisis lending capacity. As the effects of the current financial crisis deepen, it is an urgent task for the Fund to clearly present its readiness to support member countries vis-à-vis the international community. We must also foresee a relatively persistent shortage in world-wide liquidity, since it is not realistic to expect that the era of abundant liquidity, observed until 2007 and supported by high-leverage, will come back in the near future. For instance, the Institute of International Finance predicts that net private sector capital flows to emerging markets in 2009 will be US$165 billion, down from US$466 billion in 2008, and less than 20 percent of the capital flows in 2007.

As the staff pointed out in the Staff Paper, it is clear that the size of the Fund's quotas rapidly declined after the 1998 Eleventh Review, in relation to GDP, global trade, and capital inflows. From the demand side, since last November, the Board approved eight Stand-by Arrangements for a total of SDR 32 billion. This commitment is equivalent to about 25 percent of the Forward Commitment Capacity existing at the end of October 2008. In addition, if other programs, which are currently under discussion, were to be approved, this ratio might soon increase to around 40 percent. All these facts indicate the need to consider an increase in Fund resources.

We also believe it would be desirable if such consideration could lead to concrete measures quickly. Recently, we have seen the world economic environment rapidly worsen, while the Fund is required to respond to financial crises within a short-period of time. (i.e., last November, the Fund approved four Stand-by Arrangements worth SDR 28 billion in twenty days.) Also worth noting is the fact that the sufficient capacity of the Fund, in itself, could contribute to the stability of the international financial markets.

Quota Increases

Given the Fund's basic structure, which uses the exchange of reserves among member countries, quota increases should continue to be a primary measure to increase the Fund's resources. In this sense, we call for promptly starting our discussion regarding the next round of quota increases. At the G20 Summit held last November, Japan proposed that the Fund's financial resources be doubled. We note that the Fund shares our thinking having made its proposal in line with ours.

Modality for Increasing Fund Resources

While we support the initiation of the next quota increase discussion, it is true that we need some time before reaching an agreement. With this in mind, Japan expressed its preparedness to lend a maximum of US$100 billion to the Fund, as an interim measure before a quota increase takes place. Our authorities are working closely with Fund staff in order to work out technical details on a borrowing arrangement. We hope that Japan's borrowing arrangements will become available at the earliest opportunity. We also call for other member countries to make similar contributions to the Fund's resources.

Borrowing Arrangements

We recognize that each borrowing arrangement requires flexibility in order to respond to a lending country's specific constraints. Nonetheless, it would be better to maintain some of the basic characteristics of past arrangements, such as the SDR denomination, link with SDR interest rates, and the maximum use of a “pass-through.” We also understand that lending members can continue to treat their loans to the Fund as liquid reserve assets.

In order to increase the Fund’s resources along the lines with the proposal, the staff is expected to consider some issues, including borrowing limits expressed in terms of total Fund quotas or its liquidity management. This chair views that the Fund could be much more flexible than in the past with regard to its borrowing policies since the number of Fund members expanded and the ratio of FTP members’ quota to total quota increased. We look forward to our discussion in the direction toward increasing the capacity to borrow by the Fund in a timely manner.

Another issue raised in the Staff Paper is the appropriate sequencing among different funding resources, namely quota, multilateral borrowing arrangements (GAB and NAB), and bilateral borrowing arrangements. We also look forward to discussing basic principles on this topic. For the coming discussion, it might be useful to note: (i) the bilateral borrowing arrangement, including that with Japan, is activated gradually with the approval of each Fund program, and (ii) the upper limit of a borrowing arrangement is not a goal, but rather aims at providing confidence in international financial markets.

Special Drawing Right (SDR) Allocations

SDR allocations do not necessarily lead to an increase in Fund resources. Nonetheless, under the current circumstances, it would be helpful that countries, which have not yet approved the Fourth Amendment, could reconsider the benefits of the Fourth amendment. The Fund could also explore possible new SDR allocations as a way to complement the Fund’s resources.

Mr. Bakker and Mr. Lambregts submitted the following statement:

There is a strong case for increasing financial resources, to demonstrate that the Fund can continue playing a key and convincing role in providing countries BOP support in these extraordinary times To make a ‘credible threat’ of a sizable intervention with the aim of preventing a disorderly adjustment in member countries and cross-border spillovers, the Fund should have sufficient usable resources at its disposal. While the Fund’s forward commitment capacity (FCC) is still about SDR 95 billion, this capacity can quickly erode given the likelihood of ongoing financial deleveraging and therefore growing countries' financing needs. In fact, actual usable resources are smaller than the FCC is suggesting, because of the need to have an adequate liquidity buffer.

We can support staff proposal to double the Fund's pre-crisis lending capacity, even though its underpinnings are not entirely clear as the scenario analysis is based on aggregated emerging market data. There is a good reason to err on the save side, given the risk of more persistent financial deleveraging and global economic contraction and the need to work towards a more flexible lending framework, including the possibility of high-access precautionary arrangements. A sizable increase, as staff proposes, may also enhance the signaling effect and avoid that the Fund has to raise money twice.

Given the need to act quickly, we agree with staff that borrowing seems the most effective way of mobilizing liquidity The scale of the required resources are likely to compel the Fund to resort to more than one borrowing option. In raising resources, we have a preference for measures the Fund has used more often in the past and is thus most familiar with. In that regard, we favor enlarging the NAB. Its purpose is exactly to insure the IMF against exceptional events, such as the current crisis, which require a temporary boost to the Fund's resources. Since the required resources may go beyond what can be delivered by the NAB's current members, we support expansion in the number of NAB participants. This would spread the burden of increased borrowing over a larger group of countries, including those whose share in the world economy has increased. To allow for a prompt drawing by the Fund, the rather cumbersome procedures for activating the NAB need to be relaxed.

While we prefer NAB enlargement to provide additional Fund resources, we appreciate Japan's willingness to enter into a bilateral loan agreement with the Fund Provided that bilateral loan agreements respect the Fund's policies, resources could be raised from countries that consider providing more funds than might be achievable through the NAB. Staff are invited to elaborate on the likely characteristics of such a bilateral loan agreement. To attract creditors who prefer to invest in paper rather than engaging in a loan agreement, the Fund could also consider the placement of paper. However, given that the Fund does not have experience with issuing notes, implementing note purchase agreements or broader note issuance programs might ask for more discussion and time.

Greater borrowing and lending by the Fund is not without risks, and strengthens the case for having prudent precautionary balances. A dramatic rise in lending may justify a more frequent review of the adequacy of the precautionary balance target. To keep exchange rate, interest rate risks and income risks contained, we agree with staff that Fund borrowing should continue to be denominated in SDRs. Moreover, the interest rate should closely reflect the SDR rate. We also stress the importance of the maximum use of pass through to avoid time mismatches and liquidity risks.

The current environment provides a good opportunity for completing the special SDR allocation of 1997. Allocating SDRs would not help to supplement Fund resources, but would contribute to increasing members' reserves. Completing the 1997 decision would double the cumulative SDR allocation to SDR 42.8 billion. While such an allocation might not be enough to be effective in relieving emerging markets' liquidity constraints, it could help strengthening the Fund's legitimacy and clout by enabling all IMF members to participate in the SDR system on an equitable footing. After all, countries that joined the Fund after 1981—more than one-fifth of the current membership—have never received an SDR allocation. A substantially larger SDR allocation would probably not be feasible on a short notice, given the rather heavy procedures to get this approved.

A general quota increase is not a feasible option for quickly raising resources in response to the current crisis. Quota increases take considerable time to agree and to become effective. In fact, ad hoc quota increases from the last quota and voice review have not yet been implemented. Instead of discussing new quota increases, we encourage those countries that did not yet ratify their 2008 quota increases to do so swiftly.

Mr. Stein and Ms. Rieck submitted the following statement:

The Fund needs to be properly equipped to play its mandated role, in general as well as in the current crisis. Given the temporary increase in demand for Fund financial support in connection with the ongoing crisis, we agree that there may be need for expanding available Fund resources accordingly. To this end, efforts should focus on measures that are temporary in nature and can be implemented rather quickly. Longer-term considerations, such as the optimal size of the Fund in the 21st century, will have to be addressed at a later stage in a comprehensive manner.

It is difficult at this stage to predict the exact amount needed to ensure appropriate lending capacity. We acknowledge the considerable uncertainties regarding the likelihood, amount, and modalities of demand for Fund lending in the near future. To better gauge the situation, it might have been helpful to weight expected financing needs with probability estimates. We agree with staff that the costs of a possible shortfall of Fund resources would be higher than those of an excess. Yet, we should strive for a realistic, i.e. not deliberately oversized lending capacity. We have to be careful not to send a wrong signal that might turn into a self-fulfilling prophecy and, furthermore, could make it difficult to maintain adequate safeguards for Fund resources.

In the current context, we see an increase in the NAB as the key element for extending the Fund's credit capacity. This instrument is well-established, transparent, designed to meet a temporary excess demand, and the broadly quota-based structure allows for a fair burden-sharing. We would invite new members to join the NAB, in particular countries that have accumulated sizeable foreign reserves over the last years as well as G20 members that do not yet participate. This would not only supplement lending resources but at the same time distribute the burden more evenly across the Fund membership. In addition to such an enlargement, existing NAB members could consider augmenting their current contributions.

In case the increase of the NAB proves not timely or sufficient in providing the required resources, it could be complemented by bilateral loan agreements. This might be particularly helpful to bridge an excess in justified demand for Fund resources while other options are being worked out. Ideally, in this scenario, bilateral contributions would converge to the extended NAB. We appreciate the offer by the Japanese authorities to provide up to $100 billion through such bilateral agreement.

We do not consider the placement of Fund papers, a general quota increase, or an SDR allocation appropriate ways to address the current challenges. Given the lack of expertise, paper issuance would imply a large administrative burden for the Fund and require time to be implemented. A general quota increase is not a viable option for a quick augmentation of Fund resources, nor is it an appropriate means to meet a temporary demand. The same it true for an allocation of SDR. The essential pre-requisite to allocate SDRs, namely a long-term global need for reserves, is quite questionable in an environment where global reserves have quadrupled within the last 10 years. Still, we call on all IMF members to ratify the 4th amendment of the Articles of Agreement to allow the special SDR allocation agreed by the Board of Governors in 1997 to be implemented.

We agree with the staff proposals regarding the denomination and interest rate of possible Fund borrowing in order to protect against exchange rate, income, and credit risks. On the latter, we see a need for stronger provisioning in line with increasing risks from higher and potentially more risky Fund lending. We fully support the maximum use of a "pass-through" type mechanism on new borrowing to avoid timing mismatches. Indeed, the enlargement/expansion of the NAB would meet this requirement, and bilateral borrowing arrangements could also be designed accordingly. If timing mismatches of borrowing and lending still occur, borrowed resources should be held in a suspense account, thus indicating that those are not permanent resources like the GRA resources.

Mr. El-Khouri and Ms. Riad submitted the following statement:

The unprecedented nature of the current crisis warrants a pragmatic and forward-looking assessment of the adequacy of Fund resources. Compared to relevant economic and financial metrics, the size of Fund resources have diminished significantly since the last general quota increase in 1998. Despite considerable uncertainty surrounding estimates of potential demand for Fund financing, staff scenarios suggest that under fairly plausible scenarios the call on Fund resources in the near term may very well exceed existing lending capacity, including resources available through the GAB/NAB facilities. Undoubtedly, overall liquidity should be large enough to instill confidence in the Fund's ability to assist its members in weathering the crisis. We therefore support staff's proposals exploring options and modalities to expand lending capacity.

We concur with the view put forward by Messrs. Kotegawa and Kihara that quota increases should continue to be a primary measure to increase Fund resources, and we echo their call for a prompt initiation of discussions on the next round of quota increases. However, in the meantime, borrowing seems to be the most viable option to mobilize supplementary liquidity in a timely manner. Members with strong balance of payments positions could be approached to provide additional temporary resources. We support the staff's proposed modalities for borrowing—bilateral agreements, placement of note purchase agreements, and expansion of the NAB. The approaches are not mutually exclusive and the Fund should proceed on all three fronts simultaneously. An appropriate limit on the amount of resources that can be borrowed would have to be agreed taking into account prevailing circumstances in the world economy.

The staff's proposals to mitigate liquidity risks in terms of timing mismatches and encashment clauses appear reasonable. To the extent agreed with potential creditors, we support the use of pass-through arrangements on Fund borrowing. However, in view of the severity of the current crisis and the projected scale of potential borrowing, we believe that further deliberation is necessary on the implications of mitigating liquidity fluctuations, either through the GRA or through suspense accounts.

An SDR allocation would help mitigate the need for expanding Fund resources by directly bolstering countries' reserves. We encourage timely ratification of the Fourth Amendment of the Articles of Agreement to allow for an SDR allocation. The staff's proposal for a new allocation of SDRs is worth pursuing, and we look forward to future Board discussions on this matter.

Mr. Chua and Mr. Kanithasen submitted the following statement:

The issues raised in the staff paper are not only pertinent to the current crisis but they should also be viewed in the context of the medium-term financial and strategic direction of the Fund. It is unfortunate that one of the repercussions of this crisis is that the Fund's capacity to provide financial assistance to affected members has been called into question in some quarters. This would not have occurred had the Fund been more forward-looking in past quota reviews. The charts on page 5 clearly show that the Fund's lending capacity has declined in the past decade.

Quotas, by their design and purpose, are supposed to mirror members' needs. The current crisis makes it obvious that if the level and distribution of actual quotas are not on par with global developments, the Fund's ability to discharge its lending role will be challenged. While we regret that the April 2008 reforms will only marginally increase the size of the Fund, we should all be more concerned if the gravity of the situation fails to prod us into coming up with more durable solutions.

Level of the Fund's Resources

We agree that there is an urgent need to expand the resources available to the Fund to meet the potential needs of members in the current crisis. In terms of the quantum of the increase, however, we are unable to assess whether a doubling of the Fund's pre-crisis lending resources is appropriate or adequate given that the paper's analytical underpinnings should be enhanced in a number of areas. In particular, we would like to ask staff to consider the following enhancements and additions to the analysis.

The staff have noted that current potential commitments would amount to SDR 22 billion (¶13). As the paper was prepared before a number of new programs were brought to the Board's attention, we would be interested in seeing an updated estimate. The estimate should include not only Board-approved programs but also potentially large programs currently under negotiation. Additionally, since we have set a precedent of approving an exceptional access program on a precautionary basis, we think staff should incorporate this into their calculations going forward. Taking these developments into account would give a more accurate picture of the current commitments.

In view of Iceland's program, we believe that the staff's analysis should not only take into account the financing needs of emerging market countries, it should also consider the potential needs of advanced economies. While we agree that another advanced economy coming to the Fund for assistance is a tail event, the last two years have been a succession of tail events. We would ask the staff to come up with scenarios that would take this into account.

All three scenarios also assume that the Fund would finance 60 percent of the total financing package. We are not certain whether this, too, reflects the current state of play. In recent years, we have witnessed large-scale financing packages in which the Fund is the sole creditor. Amidst the current turmoil, it will be more difficult to seek bilateral assistance and hence many crisis countries may have to rely on the Fund as the main, if not sole, recourse to financing. For instance, we recall the uncertainties in donor funding in the recent case of Belarus. The staff's projections will need to take the likely level of bilateral support into account when assessing what the Fund's role might be.

Finally, the level of resources currently available to the Fund may not be as large as it appears on paper. In particular, a number of members of the New Agreements to Borrow (NAB) include countries that may wish to protect their reserve holdings. Hence the commitment figure of SDR 34 billion may overstate the true extent of resources the Fund can draw on.

Options for Enhancing the Fund's Resources

There appears to be a preference in the paper for the Fund's efforts to focus on borrowing. We believe that the best way to move forward is to use a combination of methods discussed in the paper. All have inherent difficulties and will take time to work through. In such a situation, it would be more prudent that staff look into concrete and comprehensive plans for each option, outlining details which should include the maximum and most likely amounts for each alternative, an assessment of the optimal mix of methods and appropriate sequencing. In relation to the specific methods, we make the following comments:

Quotas—We disagree with the staff's view that this option is too difficult to pursue. The paper implies that because quota reviews take time and effort, the Fund should focus on other alternatives, particularly borrowing. In this regard, we reiterate that quotas should be at the core of the supply of the Fund's resources—and the role of quotas should not be downplayed. While we agree that the recent reform efforts were protracted, the membership has demonstrated a capacity to move with speed when there has been urgency to do so, including through the ad hoc review mechanism. We believe that efforts to ratify the April 2008 reforms should proceed, alongside further work on quotas.

Borrowings from members—As a short-term measure, we believe that the Fund should consider both bilateral loan arrangements and the placement of Fund papers with members. While the details of such arrangements should be elaborated in a more detailed paper, as a starting point, we believe that the borrowing arrangements should continue to be denominated in SDR and the interest rate should be closely linked to the SDR rate. We welcome Japan's recent commitment to support the Fund. We invite staff to provide an update on these discussions. We would also ask for an update on whether staff are currently engaged in discussions with other countries. The Fund should also consider the feasibility of augmenting the NAB and GAB as part of an optimal mix of means to enlarge its lending capacity.

Increasing the allocation of SDRs—We believe that the Fourth Amendment of the Articles of Agreement, approved by the Board of Governors in 1997, should be ratified. We also agree that enlarging the allocation of SDRs beyond what was agreed to in the Fourth Amendment could prove helpful in the current climate. Having said that, we recognize that the SDR allocation mechanism would lead to the bulk of any increase in SDRs to flow directly to members with large quotas. Still, additional SDR liquidity could help at the margin. We would like staff to provide some elaboration regarding the quantum of the proposed increase.

Parallel financing arrangements—We are not sure that parallel financing arrangements would be attractive to potential lenders, given that they would have to bear the credit risks associated with the loans. Should there be interest by creditors in using this avenue, however, we could support more work.

Private sector financing—We share staff's reluctance to source funds from the private sector. First, we believe that in the search for additional resources, the Fund should only deal with authorities of its members to maintain credibility. Second, during a period of distress in credit markets, concerns relating to crowding out may arise, and the private sector is not likely to be a reliable source of funding.

We note that staff have not proposed specification plans or decisions in the paper. We ask staff to inform the Board of the proposed next steps and timetable for follow-up action.

Mr. Legg and Mr. Ha submitted the following statement:

We join others in acknowledging the importance of this issue, and welcome the Board discussion which is both critical and timely.

The urgent need for a significant increase in the Fund's resources seems undeniable. Given the severity and likely protracted timeframe of the current crisis, the working assumption should be that there will be further significant demand for Fund lending. Staff has provided a range of useful scenarios and while we note that the confidence intervals around the estimates are large, we agree that a doubling in the Fund's pre-crisis lending capacity would be prudent and would instill confidence in the Fund's ability to meet members' potential needs. We also agree with staff that the costs associated with a shortfall or excess of Fund resources are asymmetric, with much higher costs resulting from inadequate resources—particularly in the current environment when global de-leveraging will place a greater onus on the Fund relative to private external financing.

Perhaps most importantly, a decision now to materially increase resources would provide a powerful signal that the international economy is pulling together to overcome the crisis, by giving substance to the November 2008 G20 Leaders' call for adequate Fund resources to allow it to fulfill its mandate in these challenging times. It will ensure that the Fund remains well placed to play a central role in a unified global response, easing pressure on, and bringing coordination to, bilateral and regional initiatives.

But we also need to look beyond the current crisis, difficult though that is, and consider the longer term lessons for the Fund, including its mandate, governance, tools and capacities, operational practices, and the implications of all of these for resource levels. In this regard, we agree with those colleagues who emphasize that the paper before us needs to be considered as part of a more comprehensive, far-sighted approach.

The paper highlights the steady decline in the size of the Fund relative to various metrics for the global economy. The questions posed by the current crisis regarding the role of the Fund—in particular with regard to the growing prominence of capital account challenges, the case for enhanced precautionary capacities etc.—will need to be addressed if we are to reach a consensus on the implications for the appropriate level of longer-term resourcing for the Fund. If there is a case for a permanent increase in the Fund's resources—and we consider that the evidence for such is mounting—this should be achieved through an increase in quotas.

Given that such a dialogue will take time we do not currently have, we support an initial focus on borrowing options to expedite an increase in the Fund's resources. Nevertheless, we need to signal a clear commitment to engage in the dialogue about longer term resourcing needs. We are disappointed, therefore, that the paper does not address the timing of the 14th General Review of quotas. We consider a strong case exists to bring forward the timing of the 14th Review, to begin as soon as practicable with completion by 2011.

This would also signal the Fund's commitment to address the quota and voice reform on a faster timetable. Certainly, we urge all members to implement the 2008 package of quota and voice measures to as soon as possible

In order not to pre-judge the outcome of this review of longer term needs, the borrowing options we adopt should not only be capable of being activated quickly but also easily reversible as the crisis subsides. Most importantly, borrowing arrangements should not undermine progress towards the longer term objectives and principles underpinning the 2008 quota and voice agreement.

On the specific borrowing options outlined in the paper:

- We believe there is merit in pursuing bilateral loan arrangements, and welcome the progress reported on Japan's offer to enter into such an arrangement. (It would be helpful if staff could indicate whether there have been approaches to, or from, other potential bilateral creditors.)

- Enlarging and expanding the NAB would also be an option meriting further consideration given its established legal framework, but note that there would likely need to be amendments to the administrative procedures to allow for funds to be drawn quickly.

- On the possible placement of Fund paper, we note that this approach presents greater difficulties to mitigate timing mismatches and could increase the financial risks to the Fund.

As such we agree that these risks would need to be managed by the mitigation measures (callable paper, varying the maturity of paper being issued).

- More generally, we fully support the use of a pass-through type mechanism along with the proactive management of members' reserve tranche positions to manage the timing risks associated with borrowing.

It would be helpful if staff could indicate the extent to which a combination of these borrowing modalities are likely to be required in order to double the Fund's credit capacity, including whether there is a preferred hierarchy among the various options. For instance, if there are sufficient bilateral loan commitments, would staff consider pursuing the expansion of the NAB and/or the issuance of Fund paper? Similarly, what would be staff's strategy in the absence of sufficient bilateral loan commitments?

Like Messrs. Bakker and Lambregts, we stress that the increase in credit risks resulting from the sharp increase in Fund lending calls for greater urgency to reach a prudent level of precautionary balances. We also believe that this strengthens the case for establishing a dividend policy within the precautionary balances framework to ensure that funds can be returned to members as economic conditions normalize.

With regard to an allocation of SDRs, while this would not directly increase the Fund's lending capacity, we agree that it would provide members with much needed liquidity. In this context, like other Directors, we encourage members to ratify the Fourth Amendment, which would also favorably address the equity concerns for (mainly emerging market) members that have yet to receive an SDR allocation.

Finally, we need clarity about the timetable for taking decisions on these issues, in order to meet the expectations of G20 Leaders and the broader global community that the Fund can, and will, move quickly. A clear decision to bring forward the 14th General Review of Quotas, and to address longer term issues in that context, will signal the Fund's commitment to face up to these challenges.

Mr. Guzmán and Ms. Mira submitted the following statement:

There is a clear and pressing need to provide the IMF with additional resources so it properly fulfills its responsibilities. As the document illustrates, the size of the Fund has dramatically declined over the years in relation to GDP, trade and capital flows. Furthermore, we are currently living the worst crisis in the past 75 years, and demand for Fund credit has significantly increased. Simulations show that if several additional countries were to request IMF financing, the resources currently available could be easily depleted, including the NAB/GAB. The just-released WEO and GFRS updates paint a somber picture looking forward.

We suggest the Fund should be at the forefront of the international cooperation, not only through its efforts to mitigate the impact of the crisis and to contribute to its resolution, but especially by striving to prevent it from spreading further. Taking into consideration this additional preventive function, providing the Fund urgently with sufficient resources to assist members in this period appears even more imperative.

We can support the suggested target of doubling our pre-crisis lending capacity. While we understand that the establishment of any particular target is a matter of judgment subject to a substantial degree of uncertainty, the SDR 167 billion seems to us like an ambitious while realistic figure.

Since the overarching objective of this exercise is to allow the IMF to count with sufficient resources to respond to requests that may be shortly forthcoming, we need to be pragmatic concerning the modalities to increase the Fund’s resources. In that sense, we could be supportive of any compromise solution that provides a sufficient amount of resources in a fast and efficient way, minimizing costs; under the current circumstances, speed is key, and we are willing to consider this as the overriding principle and give prominence to these temporal, practical considerations.

Therefore, we can agree that a general quota increase would not be a pragmatic way of providing the needed resources to the institution. Nonetheless, this does not preclude us from restating our belief on the need for a general quota increase. Fund Guidelines for borrowing correctly interpret that quota subscriptions are and should remain the basic source of the Fund's financing. We reiterate that at the heart of the difficulties we are facing, -i.e. the expected shortage and the need to turn systematically to exceptional access agreements-, lies the fact that quotas have become outdated and do not reflect actual economic weight. We thus concur with Mr. Kotegawa and Mr. Kihara and other colleagues that the measures we are currently discussing will only be a temporary solution, while a general quota increase, combined with a realignment, materializes.

The negotiation of the required general quota increase should not interfere with the ratification process of the already approved 2008 reform package (which we expect will shortly come into force). Until the Fund adapts its quota base to reality, member countries should be prepared to adopt access policy decisions in reference to the total available financial resources of the Fund (including borrowing agreements), and should not proceed to ration credit according to borrowing countries' quota, often irrelevant.

We also see the potential disadvantages of a SDR allocation, though we would like to restate the importance of ratifying the agreed 4th amendment to the Articles of Agreement, so that the special SDR allocation can become effective and provide additional liquidity to countries in a moment when it is urgently needed.

The more pragmatic and feasible options may be to turn into some kind of borrowing modality, which could include a combination of some of the proposed mechanisms, which should become complementary.

We see a case for an increase in the NAB in terms both of expanding its membership and considering increased contributions by current members. This would be a transparent and straightforward mechanism to extend the IMF's credit capacity. Nonetheless, the requirement of parliamentary approval by some members may severely delay its implementation. To overcome this serious difficulty, we would suggest that any decision adopted in this sense be accompanied by a compromise by members to use emergency procedures to obtain the parliamentary approval, when needed.

As for the placement of IMF paper, we could see the advantages in terms of flexibility. We are not convinced by the arguments against having another large sovereign (multilateral) issuer, since we understand that this could be counteracted through a restrictive selection of creditors. However, the fact that the Fund has never issued debt makes it somewhat difficult to implement this alternative rapidly. We would nonetheless support that the Fund carries out preparatory work and explores how best to move forward in this direction; a strategic decision should be adopted by Governors.

Bilateral contributions may be an appropriate and fast way to move forward, and in that sense we would like to convey to the Government of Japan our gratitude for their commitment to provide $100 billion to the IMF. Japanese authorities have shown leadership and have reminded us of the need to internalize the interdependence of our economies in our decision making as we confront tough challenges.

We would be supportive of the measures suggested by staff to deal with exchange rate and interest rate risks derived from the borrowing arrangements, namely that Fund borrowing would continue to be denominated in SDRs and to link interest rates to the SDR interest rate. A maximum use of "pass-through" to minimize time mismatches would also be adequate.

Mr. Kishore and Mr. Krishnan submitted the following statement:

The staff paper presents an opportunity to discuss the issue of the adequacy of Fund resources in the context of the global financial crisis and the economic downturn.

Need for Resources

The metrics against which the adequacy of Fund resources are being judged—GDP, trade flows, and capital flows—are very relevant and appropriate. It is relevant to note that not only are the Fund's resources, with reference to these metrics substantially lower than at the time of the Eleventh General Review of Quotas (GRQ) in 1998, but also since 1978. This chair is of the view that the Fund's size is inadequate to provide the requisite confidence to a wide cross-section of its membership, particularly in times of crises. The sharp upturn in the demand for Fund resources and the bleak economic outlook, add urgency to the need to expand the Fund's size.

On the size of the increase, we find the analysis in Section II D very useful. The scenarios presented appear realistic, if not conservative. Given the crucial role the Fund plays in preserving confidence, it is very important that an adequate sized resource increase is targeted. In that context, we agree that a doubling of the resources of Fund would be a reasonable target in the immediate term. Further, with the global crisis still unfolding, the adequacy of resources should continue to be kept under review.

Quota Resources

We believe that the best option to expand the financing capacity of the Fund is a substantial general increase in quotas. Such an increase would also help in reducing the number of cases of exceptional access. Such cases indicate that not only overall quota resources, but also the quota size of individual member countries are inadequate. Further, the size of the April, 2008 ad hoc quota increase was kept very limited on the argument that there was no immediate liquidity need for the Fund. The November 15 G20 leaders' declaration has called for a comprehensive reform of the IMF to reflect the changing economic weights in the world economy and to ensure that emerging and developing economies should have greater voice and representation in the Fund. Such a shift is possible only with a substantial quota increase. Precisely for the reason that a process of quota review would take time, it should be commenced at the earliest and concluded within a targeted timeframe.

We are disappointed that the paper has not analyzed the issue of a quota increase in any depth. In the light of the assertion in paragraph 2 of the paper that borrowing is a bridge towards a permanent increase in quota resources, staff need to indicate when they intend commencing the process of a quota increase. A proposal has been made to bring forward the 14th GRQ and complete it by January 2011 which we believe represents a reasonable compromise and should be seriously pursued.

Borrowing

Since a decision on increasing quota resources would be a longer process we agree with staff that the borrowing should be the immediate and temporary measure adopted to raise resources. We request staff to indicate, in terms of financial implications to the Fund, the difference between the cost of utilizing quota resources and the cost of borrowed funds.

On the borrowing options which have been proposed, we are willing to support both options—bilateral loan agreements and placement of Fund paper, as the differences between them appear not to be very significant.

The staff may clarify whether the bilateral loan agreements involve any specific commitments on behalf of the Fund giving the lenders additional comfort. The staff may also indicate the current status of the loan agreement proposed by Japan.

Clarity on the basis on which potential lenders to the Fund would be identified is also essential. Will the Fund be approaching the prospective lenders or will they be expected to come forward on their own? Will the Fund be targeting any minimum and maximum levels for participation by members in the borrowing program?

We are of the view that broad basing the Fund's borrowing from as many prospective lenders as possible and limiting the amounts to be borrowed from any one member may be an appropriate strategic objective as it would spread risks. The modalities of the borrowing operation and the terms of the loan agreements or of the placement of Fund paper may have to be appropriately designed to achieve this objective.

New Agreement to Borrow

On the New Agreement to Borrow (NAB), would it be possible to link the size of the NAB to a set of metrics based on which a periodic revision could be possible? Could a linkage be established between FTP participation and participation in the NAB? From foot note 20 it appears that US Congressional approval would be needed only for increasing the US participation in the arrangement or if the terms of such participation are altered. Will such approval be required even if the size of the participation of other members is increased or if new members are added? Given the complexities involved in expanding the NAB, but also recognizing that it represents a quick and laid down method of borrowing, it may be appropriate to consider the expansion and enlargement of the NAB alongside the general quota review, as the timeframes would be appropriate and in cases where

Parliamentary approval is required, it could be taken for all resource raising mechanisms at the same time.

Financial Risks

The analysis of the financial risks to be borne by the Fund in entering into borrowing arrangements is very useful. On the whole, it is important to balance the risks and also keep in mind the need in the current situation to ensure that the Fund stays relevant and attractive to its membership in a time of financial and economic stress. Therefore, an overemphasis on raising the effective rate at which the Fund lends should be avoided. At the same time, providing prospective lenders with encashability options in the loan agreements would be a useful mechanism to make lending to the Fund an attractive proposition, preserving the international reserve character of resources lent to the Fund.

We support the continued denomination of Fund lending in SDRs to protect the Fund against exchange rate risks. We also support the pass-through mechanism of lending to avoid maturity mismatches. We believe that when such mismatches cannot be avoided, they can be managed through the GRA by appropriate changes in the reserve tranche positions.

Allocation of SDRs

We support an SDR increase in the present situation to enhance reserve holdings by members. The possibility of renunciation by a portion of the membership and the allocation of such SDRs to multi-lateral development banks for lending to developing countries for infrastructure could also be considered. We invite staff to examine this option in greater detail. We also urge the membership for an early approval of the Fourth Amendment which provided for a doubling of the present level of 21.4 billion SDRs.

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

A discussion on the adequacy of Fund resources, while the global economy is in the midst of the most severe slump since the Great Depression, is most warranted. Although the Fund’s lending has risen sharply in recent months, the Fund has so far committed a relatively small proportion of the available resources. However, additional requests by members are to be expected; thus it would be a prudent policy to increase the Fund's ability to cope with unforeseen circumstances. This could assuage uncertainty and thus could contribute to stabilizing the financial markets. On the other side, we have to be careful not to convey the wrong message, namely that the IMF does expect a sharp deterioration of the current crisis.

In the past few months, the Fund has committed about SDR 30bn. to support members' funding; this has reduced the one-year forward commitment capacity (FCC) to SDR 98bn. Potential Fund commitments under discussion are of the order of SDR 22bn.; however, staff simulations indicate that the total demand for Fund lending could reach SDR 200bn. Accordingly, staff recommend to double the pre-crisis lending capacity of the Fund to SDR 167bn.

We concur with staff that an adequate increase of resources is appropriate to allow the Fund to respond to possible contingencies. However, we note that the conclusions hinge on a set of assumptions and very sensitive parameters. Therefore, we would like to see the results of this mechanistic approach compared to a bottom-up analysis based on the staff's assessment of possible members' requirements.

Sending the Right Message

Strengthening the Fund's ability to cope with future crises could reduce uncertainties and stabilize the financial markets. On the other hand, we have to be careful not to signal to markets that we expect a much sharper crisis ahead. External communication should be handled with the utmost caution.

Temporary Nature of the Crisis

Considering the exceptional character of the current crisis, the additional resources should be provided on a temporary basis. A discussion on the optimal size of the Fund as well as a decision to increase resources on a permanent basis are not appropriate at this juncture. Indeed, the discussion could be counterproductive as this approach entails lengthy and complex procedures, in many cases requiring parliamentary approvals. Therefore, we share staff's view that a general quota increase is not warranted under the current circumstances. On the contrary, we encourage the full implementation of the decisions agreed in April 2008, in the context of quota and voice reform.

The Preferred Approach

Among the various options to supplement the Fund's resources on a temporary basis, increasing the NAB is the best option . For a fair burden-sharing, the participation to the NAB should be enlarged by inviting new members, especially those that have accumulated large reserves. We ask staff to report as soon as possible on the feasibility of such proposal in terms of administrative procedures and envisaged time needed for its implementation.

Bilateral arrangement appears to be the most rapid solution. In case the expansion of the NAB will require a lengthy negotiation, we see merit in exploring the possibility of bilateral loan agreements. In this respect, we welcome the Japanese authorities' willingness to lend up to $100bn to the Fund. We urge the staff to update the Board on the ongoing discussions with potential lenders and on the terms under discussion.

Issuing Fund promissory notes does not appear to be suitable. We are not convinced that the placement of Fund papers to raise additional resources is an appropriate solution at this time. Although the Board approved a framework for the placement of notes in the early 1980s, this option has never been used and its activation, under the current circumstances, might generate high administrative costs and entail consistent implementation lags.

Minimize Potential Risks to the Fund

The financial risks to the Fund should be reduced to a minimum by following a prudent policy and constant monitoring. Therefore, we are in favor of SDR denominated borrowing to protect the Fund against exchange rate risks as well as in favor of SDR-linked interest rates to contain income risks and to allow for an adequate reserve building. Moreover, we support the maximum use of a "pass-through" type mechanism on new borrowing to avoid timing mismatches.

SDR Allocation

Finally, we notice the difficulties in designing, in a very short period of time, a special SDR allocation and we also have serious doubts on its effectiveness. On the contrary, we urge members to implement the special SDR allocation already decided in 1997 by ratifying expeditiously the 4th amendment to the Articles of Agreements.

Mr. Rutayisire submitted the following statement:

We thank staff for this comprehensive paper and welcome Board's discussion on this critical and timely issue.

The global financial crisis has vividly demonstrated the need for additional resources to ensure that the Fund has adequate tools on hand to meet the potential demand. Given the dimension of the current crisis and the level of exceptional access applications that the Fund has recently received from members, there is evident that we need substantial resources. In normal circumstances, a general quota increase should have been the route to enable the Fund to fulfill its mandate. But given the usually long time needed to complete a general quota increase and in light of the pressing needs associated with the current financial crisis, we consider that expanding Fund borrowing is the most appropriate way to provide a temporary supplement to the Fund's resources and a possible bridge to the next general increase.

Level of Fund's Resources

Given the acute impact of the current global crisis, we agree with the need to expand the Fund's resources because the cost associated with an inadequate resource base would be higher than the impact of disorderly adjustment on member countries. At this stage however, it is difficult to predict the amount of resources needed to ensure that the Fund can credibly play its catalytic role, owing to uncertainties associated with the size of the demand and potential financing partnerships with other donors. We therefore invite staff to take into account all relevant demand drivers that could put further strain on Fund's capacity to meet potential needs. Accordingly, we support the doubling of the Fund pre-crisis lending capacity to partially restore the ratio of available Fund resources to the global economy, to face additional demand from emerging countries, to increase the liquidity buffer and to inspire confidence in the Fund's capacity to fulfill its mandate. We would also appreciate staff comments on potential needs stemming from demand for SLF and crisis prevention, the likely demand by advanced countries beyond Iceland and financing needs arising from the potential decline in the Financial Transaction Plan.

Options for Increasing Fund's Resources

We agree that efforts to mobilize supplementary liquidity should focus on borrowing to address the immediate need to increase Fund resources. Going forward, we advocate for a combination of the options presented by staff with detailed plans showing an optimal mix for sustainably mobilizing resources. Such an exercise should take into account a number of basic principles. The Fund should seek access to sources of funding with large proceeds, low cost and appropriate maturity. Given the fact that Fund is a standard setter for policy performance, it is important to ensure that resource mobilization does not compromise the quality and independence of Fund's policy advice.

In relation to the specific options, we invite staff to provide a more detailed synopsis of each option in the next paper for discussion. We clearly exclude borrowing from the private sector because of the risk of crowding out private borrowers in international capital markets and uncertainties associated with reliance on private sources of funding in difficult times. We believe that parallel financing arrangements, although boosting the Fund's catalytic role, are not a secure financing option because lenders would continue to bear the credit risks associated with parallel lending. As regards the placement of Fund papers, we wonder whether Fund's traditional borrowing arrangements, precautionary balance policies and disclosure mechanisms conform with the requirements that markets expect from other participants and if not, we would like to know what is needed for the Fund to meet financial market standards. Staff comments are welcome.

We fully support bilateral loan agreements with members, as long as they provide the Fund with the required flexibility to assist member countries. We look forward to discussing Japan's loan offer to the Fund, which if successfully implemented, could serve as a basis to devise a framework for future bilateral lending. Having said that, we would like to add that for safeguard purposes, the Fund should avoid borrowing from a member country one year prior to conducting that country's surveillance, so as to avoid conflict of interest. We also endorse the enlargement and expansion of the NAB and GAB beyond G-20 countries, to include all members that have accumulated sizeable foreign reserves over the last few years, sovereign Funds that comply with the recently adopted guidelines and any other autonomous institutions or trusts created by governments to manage their resources.

Although new SDR allocations will not increase resources available for Fund conditional lending, we support this proposal because it will contribute to increase global liquidity of international reserves, while correcting imbalances against members that joined the Fund after 1981 without receiving an SDR allocation. To address this anomaly, we encourage all members to ratify the Fourth Amendment of the Articles of Agreement adopted by the Board of Governors in 1997. Although quota increases could be a source of additional funding, we know that in the corporate world, raising funds through share increases is adopted as a last resort solution because no shareholder wants to continuously be diluted. Our membership also cannot afford any such continuous dilutions. As we propose to raise resources through quota increases, protection for members to be diluted should also be instituted. The current quota formula and the dilution safeguard imbedded in it must be all the more reinforced.

Managing Financial Risks

Under the doctrine of "implied powers", the Fund has the unique privilege of being able to choose the currency and rate at which it can borrow to protect against exchange rate and credit risks. Going forward, this is not a realistic position. Noting that the Fund recommends to the Treasury Departments and Central Banks of member countries to allow market forces to play their role in Treasury and Central Bank bill markets, we are opposed to staff's apparent double standard aimed at insulating the Fund from market dynamics. We therefore

encourage staff to investigate how the Fund could participate in financial markets like any other participants and under the same conditions. We also support the "pass through arrangements" on new borrowing to avoid timing mismatches and invite staff to design the enlargement of the NAB and new borrowing arrangements to minimize mismatches. In cases where timing mismatches cannot be avoided, we prefer that borrowed resources be managed separately in suspense accounts different from GRA resources.

Mr. Alazzaz submitted the following statement:

I thank the staff for the timely review of the adequacy of and options for supplementing Fund resources. The global economy is facing its most severe financial crisis since the establishment of the Fund and demand for borrowing from the Fund has risen sharply over the past three months. Substantial additional demand for Fund financial support is also expected, especially if the crisis deepens further. At the same time, the Fund still has ample resources and the Fund's role has always been viewed as catalytic, although its share of financing members' needs has been increasing. Also, only a fraction of emerging market countries will both need and qualify for the new short-term liquidity facility.

Against this background, I concur that it would be prudent to increase Fund financial resources, given the substantial uncertainty regarding demand for Fund financial support and the importance of providing confidence to members. At the same time, I agree with Mr. Stein and Ms. Rieck that "we should strive for a realistic, i.e., not deliberately oversized lending capacity."

To raise additional financial resources, borrowing from member countries is the most desirable approach for two main reasons: 1) the importance of raising resources in a timely manner, and 2) the expected increase in demand for Fund resources is for a temporary period and therefore should be financed by temporary resources such as bilateral loans from member countries, and/or an increase in the resources of the NAB. Indeed, a general quota increase is not appropriate to meet the current needs of the Fund and the quota exercise should be a medium-term endeavor as the focus now should be on addressing the crisis.

Regarding an SDR allocation, it is important for countries that have not yet ratified the Fourth Amendment of the Articles of Agreement for a special one-time allocation of SDRs to do so in a timely manner. As Mr. Kiekens rightly notes, "a number of emerging market countries, which did not receive an SDR allocation, may soon face severe liquidity constraints."

Mr. Fayolle submitted the following statement:

We thank staff for an excellent paper which provides insightful inputs to the critical issue of the adequacy the Fund resources to meet increasing members' needs to face the crisis, and how best to supplement these resources. We share the views that this paper makes a compelling case for a temporary increase and that the best vehicle for this would be an expanded GAB/NAB framework complemented by bilateral loan agreements. We should not underestimate the time needed to set things in place and we should keep in mind the risk of not being ready, or even of being perceived as such, when additional resources will be needed.

We welcome staff's convincing assessment which highlights the need for supplementing the Fund with sufficient resources so that it can adequately respond to the current crisis. We note that the estimates are based on an assessment of potential needs of members with credible and plausible assumptions. In our last WEO update meeting, the risks of crowding-out effects were stressed; they are likely to put increasing pressure on external financing of emerging countries. Of course, these needs should be regularly assessed and updated. In this regard, we appreciate the "scenario approach" to assess potential short term needs. Like Mr. Bakker and Mr. Lambregts, we think that the size of the increase should be sufficient to avoid that the Fund has to raise money twice.

We therefore favor an option that is best targeted towards this objective and that could be set up as quickly as possible: the expansion of the GAB/NAB together with bilateral loan agreements seems to be the most pragmatic, flexible, and efficient way to proceed.

First, such an increase should be considered in the light of the Fund's response to the ongoing crisis and is a different issue than that of the adequate size of the Fund in the long run. The expansion could be effective until the end of the crisis and terminated thereafter.

Second, the GAB/NAB have proved to be an efficient way to provide the Fund with resources in past crisis, and the experience gained should help implementing a new framework more rapidly.

The expansion should be two-way:

- the NAB could be enlarged to members of the G-20 which are not participating yet, and to other members with sizable current account surpluses which have accumulated large reserves, and more generally to members with strong enough external positions.

- its overall size should be significantly increased to provide the IMF with temporary additional resources which could be used if needed. Of course, as an important shareholder of the Fund, France would stand ready to contribute to such an increase. The contributions could be broadly based on quota shares of participants in order to provide an adequate burden-sharing between members willing and able to help enhancing the Fund resources.

The expansion of the NAB could be complemented with additional loan agreements if needed. In this regard, we are most grateful to the Japanese authorities for their proposal to lend up to 100 billion USD and welcome the ongoing discussions between the authorities and the Fund to set up the details of their agreement. Last, there would be a need to have a fresh look at activation procedures to see how they could be simplified. Staff comments are welcome.

The other options presented in the paper seem less directly in line with the identified objective.

- In particular, agreeing on the need and the extent of quota increase is a long process. For the moment, the focus should be on implementing the quota reform agreed in April 2008 and which is still pending and awaiting for the agreement of several national Parliaments. This stresses another major drawback of this option: beyond legislative issues, it is almost impossible for many countries, in the current context, to pay their quota increase in due time and even if they did, their external position may not be considered sufficiently strong to include them in the FTP. In these circumstances, many subscriptions would not provide the Fund with additional lendable resources.

- Moreover, before considering any SDR allocation, we urge members which have not done so yet to ratify the 4th amendment to the Articles of Agreement to allow the special

> SDR allocation agreed by the Board of Governors in 1997 to be implemented. A further analysis of the Fund long term needs and of the global liquidity needs would then be warranted before assessing the relevance of a new allocation. We also note that as such, SDR allocation do not provide the Fund with additional resources.

A substantial increase in the Fund's lending activity calls for adequate safeguards to mitigate the risks the Fund will be facing. In this regard, like other Directors, we share the views that IMF loans should continue to be denominated in SDRs and carry an interest rate closely linked to the SDR rate. In addition, we agree that there should be a maximum use of a "pass through" mechanism to deal with the adverse consequences of timing mismatches between the lending and the borrowing operations.

Last, for obvious consistency reasons, we demand that the simulations of precautionary reserves accumulation under the different scenarios of reform for the surcharge system be based on these assessments of potential credit outstanding. Unfortunately, staff's mildest scenario in this paper is that of a credit outstanding reaching 100 billion SDR which is twice as much as the worst case scenario envisaged in the paper on surcharges. We are convinced that the revised paper currently prepared by FIN following our latest Board meeting on surcharges will work under these assumptions.

Mr. Gibbs and Mr. Hills submitted the following statement:

Expansion of the Fund's Resources

We support an increase in IMF resources of the order of magnitude set out in the staff paper. It is important not only that the Fund has sufficient resources to meet the immediate financing needs of its member countries, but also that the Fund is seen to have sufficient capacity to meet Members' potential needs in a crisis. Any uncertainty over the Fund's continued ability to support its members would further undermine confidence, and should be avoided.

Options to Mobilize Supplementary Liquidity

We do not think that it is helpful, at this stage, to rule out any options for achieving an increase in the Fund's available resources.

That said, it is important to distinguish between the short-term response to the current crisis, and longer-term considerations. It is therefore vital that we reach agreement as soon as possible on some concrete and practical short-term steps.

In the short-term, we agree that borrowing is probably the most practical way of supplementing Fund resources. Japan's willingness to lend up to $100 billion to the Fund is extremely welcome, and we would strongly support similar initiatives by other surplus countries. The precise form that this should take would depend largely on the preferences of individual creditors. Bilateral loan agreements, issuing IMF paper, and an IMF-administered trust fund all appear potentially viable options (although we understand concerns that it would be a new departure for the Fund to issue its own paper).

In the medium-term, we are not inclined to be too prescriptive at this stage. One potentially fruitful route could be to expand the countries that contribute to the NAB to include more of the surplus countries and G20 countries that do not already participate. An alternative could be to create an addition to the NAB, based on a burden-sharing mechanism other than quota (e.g. foreign exchange reserves). Considering a general quota increase, we believe the immediate focus should be on implementing the reforms agreed in April 2008. And we agree with Mr. Bakker and Mr. Guzman that a general quota increase is not a feasible option for augmenting resources in the short term.

Denomination of Borrowing

We agree that borrowing should continue to be denominated in SDRs. If the Articles do not currently permit the Fund to hedge exchange rate risk, this seems to be the most pragmatic alternative approach. Similarly, it makes sense for the interest rate to be linked to the SDR rate, given that the interest rate on credit outstanding is based on the SDR rate. This is already established practice with the NAB.

SDR Allocation

We agree with staff's assessment that the SDR allocation would need to be very large to have much of an impact on global demand. And lending via the SDR is untargeted, unconditional and very cheap, compared to other types of lending. We nevertheless support, on equity grounds, the implementation of the Fourth Amendment, and, like other chairs, would urge those countries that have not yet approved the amendment to do so as soon as possible.

Other Comments

We note that some external commentators have proposed various schemes in which the IMF could act as the guarantor for EME sovereign borrowing. At face value, this seems an effective way to maximize the impact of the IMF's expanded resources, because the Fund would need to hold only a relatively small amount of capital against the guarantee. Could staff please comment on how such a scheme might be considered to affect the Fund's available resources, and whether this is a feasible option more generally?

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

We thank staff for their illustrative analysis of the adequacy of Fund resources and the proposed options for supplementing Fund resources, which are of critical significance and urgency in the face of the still unfolding global crisis.

The inadequacy of Fund resources is self-evident and long-standing. Quota resources, as the most reliable source of the Fund's lending capacity, have fallen well below their previous level relative to key economic and financial indicators. Moreover, the concentration of exceptional access cases has accentuated the inadequacy of its resources, casting doubt on the Fund's fulfillment of its core mandate of maintaining global financial stability. Such a shortfall, unless addressed immediately, would jeopardize market confidence.

The optimal size of the Fund's financial resources is subject to change as the financial turmoil evolves with great uncertainty. Nevertheless, staff's illustration clearly indicates that the Fund's one-year FCC can barely cover the financing needs from emerging market economies, not to mention a possible scenario where a situation turns out worse than expected and the crisis spills over to other country groups. As a leading financial institution with a mandate for crisis resolution and confidence boosting, it is crucial for the Fund to possess ample financial resources. In this connection, it would be better for the Fund to err on the side of caution.

Turning to the options for replenishing Fund resources, we are of the view that the fundamental solution for addressing this financing gap over a longer-term is to increase its overall quota resources as these resources are the primary and most reliable source of financial strength. Although quota increases might take considerable time for agreement and to become effective, this should not be used as a pretext for not accelerating the quota increase process. Instead, we should use this round of crisis as a window of opportunity to fundamentally address the inadequacy of Fund resources. We urge an early initiation of the Fourteenth General Quota Review and formulation of a detailed timetable, which in itself could be an important confidence factor.

As temporary measures, we can support alternative contingent solutions as a bridge to the next general quota increase. The Fund should maintain full flexibility in determining a specific borrowing modality by taking into account the actual needs of potential lenders and its own financial risks. The ad hoc agreements are welcome. However, we see attractiveness in an establishment of a reliable, predictable and market-based supplementary financing mechanism, such as the placement of SDR-denominated Fund paper, which can be triggered automatically whenever the outbreak of financial crisis warrants an increase in supplementary resources. Under this mechanism, all official entities would be allowed to subscribe to a certain amount of notes on a voluntary basis. Compared with the ad hoc approach, the more predictable and standardized modality would save time and staff resources, a critical factor in times of crises. Admittedly, the Fund has so far lacked experience with the placement of SDR-denominated paper despite the approval of a framework for such a practice in the early 1980s. We encourage the staff to come up with a specific proposal that makes it an attractive instrument for the investment of reserves, in particular as regards liquidity and rate of return.

In addition, we also see merit in an SDR allocation as a way to enhance member countries' ability to buffer against financial crisis and mitigate the instability of existing international monetary and reserve systems.

As indicated in the paper, consideration would also need to be given to the linkage between the different sources of borrowing and their appropriate sequencing. As the coexistence of different borrowing modalities is highly likely due to diverse preferences of potential lenders, we encourage the staff to follow-up on this issue.

Mr. Moser and Mr. Weber submitted the following statement:

The latest WEO and GFSR updates have provided ample reason to be concerned about the near-term economic consequences of the sharp global downturn for advanced, emerging market, and low-income countries alike. We concur with staff that the deterioration of the global economic and financial environment might generate a wave of substantial additional demand for Fund resources. It seems also plausible that there are currently few market-based alternatives to Fund financing and diminished catalytic effects. While the Fund has been appropriately proactive in assuming once again its traditional role as a crisis lender, it seems to be a matter of prudent foresight to consider an increase in lending capacity, should existing resources (including the GAB/NAB as supplementary arrangements) not suffice.

Expansion of Lending Capacity

Given the severity of the current crisis, we can thus support an expansion of the Fund's available lending resources that will provide an additional cushion to cover any exceptional further borrowing needs by members as well as a liquidity buffer. However, we see such an augmentation as an element of crisis response under the current exceptional circumstances and would want it to be flexible and of a temporary nature. Given that it is borne out of immediate necessity, it should also be reversible. Like Messrs. Kotegawa and Kihara, we see an agreed target for augmentation as a backstop or an upper limit, not a goal to be achieved.

Two main factors in our view preclude a permanent expansion of the Fund's lending capacity at this juncture:

- First, the uncertainty about the persistence of systemic stress and about the trajectory of an eventual global recovery is very high, allowing only for a tentative determination of potential demand. We have not received clear evidence that more lending resources are actually needed. The metrics used in support of an expansion of the Fund's lending capacity do not do full justice to the evolved role of the Fund over the past 30 years, namely in surveillance and signaling, as private cross-border capital flows and global trade have surged. Staff's scenario analysis to gauge the extent of potential future demand seems a more useful approach, but it also has its limits. The sensitivity of the results to the underlying assumptions is a crucial caveat, as acknowledged by staff. The range of possible outcomes is wide, underscoring the hypothetical nature of the calculations. We would be interested in learning more about the program negotiations under way, or on the assumed horizon, which would allow for a concrete estimate of the demand on Fund resources.

- Second, fundamental policy issues regarding the Fund's lending role that have significant resource implications (e.g., signaling vs. financing, contingent lending, required safeguards for the Fund's finances) remain to be discussed and clarified. We are particularly concerned with maintaining the integrity of the Fund's finances as well as the fundamental importance of adjustment for lending. To what extent is the anticipated higher demand for Fund credit based on an assumed introduction of a new crisis prevention instrument?

Borrowing Arrangements

Regarding the way Fund lending resources could be supplemented, we see most merit in making use of tested procedures and mechanisms given the need for timely implementation. Our preferred option is for borrowing by way of bilateral agreements with members. Such borrowing is flexible in terms of participation and it can hopefully be implemented quickly and with limited administrative effort. We welcome Japan's readiness to provide significant resources to the Fund for on-lending if needed. The Fund should strive to broaden participation in the provision of potential supplements to the Fund's resources and make sure the burden is shared fairly. Switzerland would consider contributing to such an extraordinary line of defense, based on demonstrated need.

Bilateral agreements will require close monitoring and a careful and enhanced management of financial risks as rightly stressed in Paragraph 30. A level of precautionary balances adequate to the substantial additional bilateral liabilities incurred is essential. We agree with staff that pursuing this option would imply a need for reserves higher than the current reserve target. Timing mismatches should be minimized as far as possible through negotiations between the Fund and its lenders. In cases where such mismatches cannot be fully avoided, we would favor the creation of suspense accounts. This allows to clearly distinguish quota resources and reserve tranche positions from borrowed resources. However, we would like staff to provide further information on the concrete legal and financial consequences of the two alternative mechanisms for managing liquidity fluctuations on the Fund and its lenders.

In comparison, the enlargement and expansion of the of the GAB or the NAB would also be a viable option that could be explored, although agreeing on and ratifying such amendments may be intricate given the many members involved. It would be subject to a diversity of domestic approval procedures and parliamentary authorization in most members, including Switzerland. This seems to preclude a quick response but such an augmentation could be more of a longer-term solution. We concur with staff that a quota increase is not feasible in the short-term. Like Messrs. Bakker and Lambregts, we encourage those members that have received a quota increase in 2008 to ratify it swiftly.

SDR Allocation

The case for a general SDR allocation, i.e. a long-term global need to supplement existing reserve assets, remains to be made. We consider that the next regular review of this issue, ahead of the 10th basic period for a general SDR allocation beginning in 2012, is the appropriate venue. We would, however, support the implementation of the special one-off allocation resulting from the acceptance of the amendment of the Articles of Agreement approved in 1997. This would be complementary to the broader set of measures in response to the global crisis. It would send a helpful signal of members' determination to take concrete joint action, and in the process also allow to resolve the long-standing equity problem.

Denomination of Fund Lending

The SDR as a unit of account is deeply ingrained in the Fund's work and in members' interactions with the Fund. Using the SDR has generally proven its worth also in terms of mitigating different risks. We see no need to change this.

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

We welcome this opportunity to review the adequacy of Fund resources and to act expeditiously to strengthen confidence in the institution's capacity to fulfill its mandate. We regret, however, that the Fund had to wait for a financial crisis of systemic proportions to conclude that its resources were inadequate, despite the indications provided by regular reviews confirming the trend decline in the size of the Fund, as compared to traditional global indicators (Table 1). Similarly, although the Articles of Agreement were specifically amended to enable the Fund to create SDRs to supplement international liquidity and to make the SDR the principal reserve asset in the International Monetary System, total SDR allocations are negligible and the instrument itself has been rendered obsolete. In our view, the urgency of responding to the crisis should not detract the Board from focusing on the Fund's financial structure, and the reform of the international monetary system to achieve greater stability.

The expansion of Fund resources through borrowing seems to be a sensible option under the current circumstances. Because Fund borrowing amounts to a recycling of liquidity from surplus countries to countries in need, it tends to underplay the global liquidity need. However, the severity and duration of the financial crisis and its origination in- and expansion to- traditional creditor countries raise the issue of the adequacy of global liquidity, and not only that of Fund resources. The Fund is the only body chartered with the oversight of the international monetary system and with the assessment of the adequacy of global liquidity. This work used to be conducted by staff and discussed regularly by the Board. However, the regular assessment of the adequacy of global liquidity has been discontinued. Comments by management or staff on the relevance of the adequacy of global liquidity in the current financial crisis are welcome.

Turning to the issues for discussion, our preliminary views are as follows.

Our Chair’s preference is for an early agreement on a satisfactory reform of the quota formula, and a political commitment to substantially increase the voting power of developing countries as a whole as key prerequisite for a sizable quota increase. In this regard, we urge an acceleration of the timetable for the remaining work on the new quota formula, in particular with regard to variability and openness. Because of the uncertainties associated with the current crisis, and the need to dispel any doubt about the institution's capacity to fulfill its mandate, we support the emphasis on short-term solutions as a bridge to more fundamental reforms.

Option 1—Financial Transaction Plan (FTP): We support staff's efforts to expand the list of countries with sufficiently strong external positions to be included in the FTP. We note that eight additional countries are under consideration, which would raise the coverage of the FTP to 83 percent of total quotas and augment the Fund's one-year Forward Commitment Capacity (FCC) by about SDR 5 billion. In this regard, it would be useful to review the criteria for a country's inclusion in the FTP and for the calculation of the FCC in order to use all potential available quotas resources. Staff comments are welcome.

Option 2—Borrowing: We support initiating negotiations with NAB members to increase current participants' credit arrangements, and to expand the number of participants, together with an increase in the aggregate size of the NAB. We also support reliance on bilateral loan agreements with member countries, and look forward to discussing the proposed loan agreement with Japan. We have an open mind regarding the placement of Fund papers, if such instruments offer more flexibility to official creditors. The proposal to set up Trust funds to administer parallel financing arrangements merits further elaboration. Such arrangements could have been useful in recent Fund programs. Specifically, we would appreciate staff clarifications as to why parallel financing arrangements were not considered for recent programs involving support from the EU. Staff refers to a number of difficult issues associated with borrowing from the private sector. We share these concerns, and would like to point out that access by the Fund to international capital markets, at this stage, may further crowd out borrowings by emerging market countries.

We note that borrowing by the Fund raises a number of potential financial risks. We are satisfied with the Fund's practices to cover liquidity risks and other contingencies associated with exchange rate and interest rate risks, including denominating borrowings in SDRs, linking remuneration of borrowing to the SDR interest rate, and matching the timing of borrowing with that of the use of Fund resources. However, because of the exceptional size of potential borrowing and the diversity of options, the Board may need to consider carefully the risks of new borrowing, review the guidelines for borrowing by the Fund, set the overall limit on borrowing, and reassess the adequacy of precautionary balances.

Option 3—Allocations of SDRs: The lack of the required majority for the entry into effect of the Fourth Amendment of the Articles of Agreement to provide for a special SDR allocation is unfortunate, and we urge the remaining members to ratify the Amendment. Such support will not only allow all countries to receive SDR allocations but, most importantly, will revive the SDR instrument and, hopefully, open the way for more regular allocations. Many arguments were made within, and outside, this Board regarding the need for an SDR allocation, and we do not see the need to reiterate them here. We would rather offer one additional argument. The current financial crisis is seriously impairing financial intermediation at the country level, with banks hoarding liquidity and cutting credit despite enormous liquidity injections. It has also sharply raised the cost of funding in the international capital market, and has led to large drawdown on foreign reserves. If the Fund cannot demonstrate now the existence of a global need to supplement existing reserve assets, we wonder when, and under what circumstances, such a case could be made. The SDR is a Fund creation and is part of the Articles of Agreement. As a matter of good governance, the Fund should not wait for outside advice and proposals in this area. Therefore, we ask management to initiate work on global liquidity needs and new SDR allocations.

Finally, the current review of the adequacy of Fund resources is not relevant to a large part of the membership i.e., low-income countries (LICs) since they are financed outside the GRA. In his speech at the African Union Summit, Mr. Kato rightly pointed out that "while the headlines have been dominated by the impact of the crisis on advanced economies and emerging markets, the crisis also poses a severe challenge for African countries, which the international community must not ignore". We urge donors to increase their contributions to PRGF Trust and call for an increase in access under the PRGF in the context of the forthcoming Board discussion on the Fund's lending role and facilities for LICs.

Ms. Lundsager and Mr. Kaplan submitted the following statement:

In the face of the adjustment still to come in many countries, we agree that it is prudent to anticipate additional requests for IMF financing. The Fund must have the resources needed to meet reasonable requests for financing, consistent with the purposes of the Articles. We welcome this exercise in contingency planning.

The IMF's forward commitment capacity (FCC) as of October 30 stood at $192 billion, with $50 billion more in the NAB available if needed. IMF programs approved since then have committed $48 billion. Obviously, there will be more demand in the pipeline. However, with reasonable assumptions, plausible baseline estimates can be put forward which leave the Fund with significant headroom.

Furthermore, Japan has already committed $100 billion to temporarily augment the resources of the Fund. We thank them for their commitment, as we would welcome other members' commitments, seeing it as an affirmation of the Fund's central role in the international monetary system, and a willingness to recycle excess reserves.

We are open to continuing discussions with a view to exploring the likelihood—and duration—of extreme downside risks for the adequacy of resources. I would be happy to discuss the details of risk in executive session, or in an informal restricted setting, but the Board should have a more informed discussion of the likelihood of demand for lending.

Let me be clear—we can support the Fund entering into temporary supplementary borrowing agreements with a subset of the membership. For the United States, however, increasing our own contingent exposure to the Fund, whether by supplemental lending or by quota, will require a Congressional process. We appreciate the staff's scenarios, which demonstrate that there are extreme states of the world where one could imagine truly massive IMF financing. However, we would need to have a much more informed discussion of the likelihood of such financing needs before we would have a basis for seeking the budgetary appropriations that would be necessary before the United States could increase contingent financing to the

Fund. We do not yet see a well reasoned case for a doubling of the Fund's resources.

Colleagues should also recognize that additional borrowing by the Fund would not occur in a vacuum. An expansion of claims on the Fund would raise additional concerns on the adequacy of precautionary balances, and whether the Fund retains enough liquidity to allow creditors to reverse their positions in the event of their own balance of payments needs. The Board has the fiduciary responsibility to ensure that the ability of the Fund to function as a credit cooperative—the exchange of liquid risk-free reserve assets—is maintained with a strong financial structure. If the Board can seriously envisage expanding IMF credit outstanding to the point where supplemental borrowing is necessary, then the Board should be seriously questioning the adequacy of the rate of increase in precautionary balances.

We support an enlargement of the membership of the NAB. Indeed, there are members of the FTP who are conspicuous in their absence from the NAB, and we took note from the most recent report on the FTP that additional members will soon be joining the FTP.

We note the staff's apparent indifference to the form of supplemental borrowing, whether by lines of credit or as securities. The financial structure of the GRA requires that a member treat its reserve tranche position, and claims under the NAB, as an element of its foreign exchange reserves. This is settled practice. In the absence of a compelling reason to try something new, we discourage new methods of financing the Fund that may need to be justified afresh. The issuance of securities may also require significant administrative costs.

Colleagues recall that the United States was prepared to accept a larger quota increase, with more voting share allocated to fast-growing underweight emerging markets, than could meet the 85 percent threshold for agreement. We welcome the increasing participation of emerging market members as creditors to the Fund, recognizing that the pooling of their reserves to assist members, now including wealthier members, is a major turning point in the international monetary system. It is critical that the Fund continue and intensify the process of governance reform. My authorities will continue to strongly back shifting weight from over-represented to under-represented dynamic emerging market economies.

With reference to a general SDR allocation, although individual members may lack foreign exchange liquidity at critical periods, it is difficult to assert the presence of a long-term global need to supplement existing reserve assets.

The Fourth Amendment, sent to Governors in 1997, lost momentum with the 1998 quota increase addressing the need for IMF conditional liquidity during the emerging market crisis of the time. However, my authorities are aware of the United States' vote in favor of the Governors' Resolution on the Fourth Amendment.

Mr. Majoro submitted the following statement:

We support the proposed doubling of Fund's resources to address the current global crisis as well as increased quota in the medium term to align it with either of global output, trade, or capital flows. As adjustments to quota would be a lengthy process, we support borrowing, denominated in SDRs, through any of the modalities presented in the paper. Finally, we would prefer that the SDR allocation be covered in a separate discussion, as it would not meet the objectives of augmenting fund liquidity.

There is a good possibility that more members, including possibly advanced economy members, may have recourse to Fund lending or precautionary arrangements in the near term. In this connection, the discussion of a staff paper examining the adequacy of and options for supplementing Fund resources is timely and welcome.

We agree with the conclusion made in the paper that the size of Fund, as measured by members' quota has not matched growth trends in global output, international trade and capital flows and that as a result, the Fund's lending capacity is inadequate to provide cover to all potential borrowing. The Fund would therefore need to mobilize additional resources, including through borrowing. However, we see borrowing as a short-term solution. In the long term, the Fund must increase the quota of its members to align it with key global metrics that influence balance of payments need.

Regardless of developments in lending at any time, IMF quota must closely match either/or a combination of global output, trade, or gross capital flows. As global economic management becomes more complex through rapid market innovation and bubbles form in various markets, the risks of crises have increased. Thus, the Fund should always be in a position to give assurance to all its members of the adequacy of resources to provide assistance when needed. Given that this has not happened, we agree that the quickest way to increase Fund resources would be to borrow. We also support the range of supplementary modalities presented in the paper.

The proposed doubling of the IMF's pre-crisis lending capacity represents a substantial increase in lending and so implies that a significantly higher reserves target will be necessary to address credit risk. This in turn has implications for interest charges on current Fund lending. Could staff comment on the bearing of this issue on the recent discussion on charges and maturities for IMF facilities?

We welcome Japan's offer to provide $100 billion to the Fund and are encouraged that Staff have begun consultations. In line with our support for borrowing in the short term, we advise Staff to formulate terms that could be negotiated with all potential lenders. We support the proposal to mobilize additional official resources for disbursement in parallel with Fund lending, as well as issuing promissory notes, and we would wish to know whether tradability of such notes has been considered. We feel that the Fund must seek upfront commitments and terms in all cases to give assurance that the appropriate level of funding is available.

We agree with Staff that their estimates of potential needs for Fund resources could be conservative, particularly as they excluded members that have so far not experienced severe difficulties as well as advanced countries. With damage to Sub-Saharan African economies emanating from collapse in exports, drying up of trade finance, a stop in foreign direct investment, possible slow down in ODA, and freezing of credit markets, many of these countries are likely to seek larger and long-term access in low income facilities such as the PRGF and ESF in the near future. Such support would be on a protracted basis, as recovery is likely to be slower. Fund's resource mobilization efforts should therefore also extend to low-income facilities, taking into account that financing could be needed for the long term.

It appears that the proposal for an SDR allocation to all members would fall far short of needs. Even if a 'large' allocation could be made, it would not provide the Fund the capacity it needs to lend to members with need. We find an SDR allocation to be important and we believe it would be appropriate to cover it in a separate discussion.

Mr. Henriksson and Ms. Mogensen submitted the following statement:

We see a potential need to increase the Fund's resources, at least in the short- to medium-term. We are in favor of multilateral and transparent processes and solutions and welcome the staff paper as an initial contribution towards this end. The Fund needs to be well financed to fulfil its mandate and we find it important to start preparing for a potential increase given the time lags involved.

It is a matter of judgment whether the increase should be USD 250 billion or less. We welcome staff's efforts to gauge over the potential need for Fund resources and acknowledge the significant uncertainties associated with such estimates. In this light, we would welcome staff's elaboration on how the simulated liquidity shocks compare to events in countries with recently approved large-scale programs.

We would distinguish the short- to medium-term financing needs from longer term considerations of the Fund's appropriate size.

In the short- to medium-term, enlarging the NAB should be a key element in expanding the Fund's lending capacity. As noted by Mr. Stein and Ms. Rieck, the NAB is well-established, designed to meet temporary liquidity needs, and provides a transparent framework for ensuring a fair burden sharing.

Accordingly, we believe increasing the number of NAB participants should be the first course of action. In particular, countries with surpluses and G20 members that do not yet participate should be invited to join the NAB. This could be supplemented by an increase in the size of current participants' credit arrangements.

If an enlargement of the NAB is not feasible or sufficient in the short run, bilateral borrowing arrangements could also be used. Such arrangements should be short-term and either terminated or phased into the NAB in the medium term. If negotiating bilateral borrowing agreements also turns out to be problematic, we would not rule out the issuing of Fund papers as a short run measure even though this is not our preferred option.

For any kind of borrowing, the Fund should seek to minimize the financial risks from borrowing. Hence, loans should be denominated in SDRs, the interest rate should be closely linked to the SDR interest rate, and there should be maximum "pass-through". We would be open to consider both managing eventual remaining mismatches through the GRA and alternative mechanisms.

In the long run, quota resources should be the basic source of Fund resources. Considering the sizeable time gap between initiating a discussion on increasing quotas and the execution of the eventual agreed quota increase, it is not a well-suited tool for quickly increasing the Fund's resources. It also appears reasonable to first conclude the April 2008 agreement before starting with the next general quota increase. A quota increase with the purpose to increase the Fund's resources should be discussed under the regular quota review. By the time of the next regular review, we will also be in a better position to judge the long-run resource need of the Fund.

We do not see an SDR allocation as the way forward. However, we urge those members who have not yet done so to endorse the 4th Amendment, thereby enabling the special one-time allocation of SDRs decided in 1997.

Mr. Mozhin and Mr. Tolstikov submitted the following statement:

Over the past several years the relative size of the Fund to the world economy has declined substantially and stands well below its average level broadly maintained over the period between 1978 and 2003. Looking backward, we have to admit that the decision not to increase quotas during the Thirteenth Review in 2008 was a shortsighted one. As the current crisis has shown, systemic market failures in advanced economies are not history yet, and an increased volatility and magnitude of capital flows requires a bigger lender of last resort. However, the issue of the optimal size of the Fund over the medium term should be addressed later on. The focus now is on the challenges posed by the ongoing crisis, which requires measures that could be implemented relatively quickly.

In assessing the necessary size of crisis-related increase of the Fund's resources we have to deal with an unprecedented uncertainty. On the one hand, we feel some comfort that available resources (including current GAB/NAB) are sufficient to meet demand in two hypothetical crisis scenario cases presented in the report and - with the help of Japan's loan—in all three cases. On the other hand, staff rightly points at other factors that may further aggravate the situation and require additional resources, including the use of the SLFs by the countries with relatively strong external position, crisis in one or more advanced economies or decline in the available FTP resources. We also agree that the Fund's overall liquidity should exceed the projected immediate financing needs to provide the confidence in the Fund's capacity to fulfill its mandate in the most difficult circumstances. Therefore, we can go along with the proposed size of increase in the Fund's resources.

We agree that a general quota increase is not a practical solution in the current situation. Quota increase requires considerable time for ratification by the majority of the Fund's membership even in the best of times. In the situation of substantial disagreement between members on the principles of quota distribution, the process would be much longer. We agree with Messrs. Ge and Lin as well as Messrs. Kishore and Krishnan that the discussion on the Fourteenth Quota Review should be initiated as soon as possible in order to have a sustainable solution in the medium term. However, we would not rely on the success of this process for addressing the current crisis. Priority should be given to measures that could be implemented quickly and, probably, reversed when conditions return to normal.

Borrowing looks like the most feasible option. We see considerable advantages in the enlargement of the NAB. This is a well-established and tested mechanism, with a relatively broad participation. For contributing countries, it is always easier to participate in collective actions than to go alone. The enlargement of the NAB requires concurrence of participants representing 85 percent of the total credit arrangements. As we understand, the biggest NAB participant is not ready to increase the amount of its obligations. We hope that this will not be an obstacle to possible general enlargement of the NAB resources. We would welcome staff's clarification on this issue.

Should the consent for enlargement of the NAB be stalled or delayed due to member's legal procedures, the Fund should seek a solution in bilateral loan agreements. In this regard, we highly appreciate Japan's generous offer to provide US$100 billion through a bilateral agreement. We note that the IMF and Japan are still working on technical details of the agreement. In this case and for other possible future arrangements it would be desirable to establish standardized terms of bilateral agreements gravitating to the terms of the NAB.

All other borrowing instruments, such as the note placement program within the official sector or establishing the trust for parallel financing, have certain drawbacks that make them inferior to bilateral loan agreements or the NAB arrangement. The main problem is the lack of experience with these instruments, which may require additional time and administrative costs for their introduction.

As many other Executive Directors, we urge for ratification of the Fourth Amendment of the Articles of Agreement. The additional SDR allocation would not only address the long-standing issue of equity of the Fund's members. With its emphasis on the new Fund members, it would be particularly helpful to the Eastern European countries, which are facing the most severe crisis risks.

Finally, we agree with the staff's proposals aimed at containing risks associated with the Fund's borrowing, including continued denomination of the Fund's borrowing in SDRs, the close link of the interest rate to the SDR rate and the maximum use of a "pass-through" type mechanism on new borrowing to avoid timing mismatches.

Mr. Horgan and Mr. St-Amant submitted the following statement:

We thank the staff for a paper that provides a good discussion of potential financing needs and of options to increase Fund resources.

We believe that the resources available to the Fund need to be increased. The simple metrics of such things as IMF resources as a proportion of world GDP, capital flows or trade suggest that the IMF is under funded. Moreover, we do not believe that the period of relatively low borrowing from the Fund over the past number of years represents a steady state. Indeed, that could well have been a symptom of some of the fundamental problems that have led us into the current financial and economic crisis. This argues for some level of permanent increase in the resources available to the Fund.

By the same token, the current and prospective demand for Fund resources in the present environment should not be seen as a steady state. This suggests, therefore, that there is a need for both a permanent augmentation of IMF resources supplemented by a temporary increase to address current, exceptional needs. These needs are of two orders: one, to deal with country situations as they arise; and, two to send a clear and stabilizing, confidence-building signal to markets that the IMF stands ready.

The question, of course, is how much more is needed and how much should be temporary versus permanent. On this, we have no final views, but would welcome further assessment and dialogue. We welcome, for example, the use of scenario analysis to assess potential financing needs and would like to encourage the staff to continue developing this approach. The scenarios presented in the staff's paper imply financing needs ranging from SDR 65 billion to SDR 160 billion. This compares with liquidity under the FCC of SDR 98 billion plus potential borrowing under the NAB/GAB of SDR 34 billion.

However, even after allowing for necessary buffers, it is not clear to us that the staff's paper makes the case strongly enough that the Fund's lending capacity needs to double. The simulations seem to indicate that a somewhat more modest increase in resources would be sufficient to cover likely financing needs. Could the staff please provide comments on this? Also, we find it difficult to assess the plausibility of the more severe simulations in the staff's paper. We also note that some argue that the need for Fund resources could be limited by the fact that a number of countries have access to alternate liquidity facilities, e.g., swap arrangements. Could the staff please comment on the risk of the scenarios and the durability and robustness of alternate sources of liquidity?

While quota subscriptions are and should remain the basic source of the Fund's financing, a general quota increase will take time, both to get agreement and to become effective. As a consequence, we do not see such an increase as a practical solution to the current, pressing problem.

We would recommend that serious consideration be given to the option of a note placement program with official entities. A framework for this was approved by the Executive Board in the early 1980s. This approach would permit a maximum diversification of creditors and provide flexibility for the Fund to augment its resources quickly when needed. There are undoubtedly difficulties, including administrative ones, to be surmounted in developing such a program. We would appreciate that the staff provide more information about the nature of those difficulties and the practicality of this solution.

We also support enlarging and expanding the NAB, as this would allow for multilateral and flexible borrowing arrangements while balancing the counter-cyclical need for Fund resources. However, enlarging and expanding the NAB may take some time and a number of challenges would have to be overcome, including the fact that legislative approvals appear to be needed in some countries.

Bilateral arrangements also need to be considered and we are grateful to countries that have already committed to participating in such arrangements.

We agree with the staff's proposed measures to limit the various types of risks associated with borrowing. In particular, we agree that a significantly higher reserves target would likely be needed if Fund lending were to expand to the point of requiring recourse to borrowing and we agree that the terms of the borrowing arrangement should allow for a rapid accumulation of reserves in the event of a sharp increase in lending.

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

We thank the staff for an informative paper.

The staff rightly indicates that, given the severity of the current crisis, there is an urgent need to increase the Fund's resources. The last general quota increase was in 1998 and since then the world economy has expanded in all aspects in terms of flows. The IMF has shrunk relatively to world GDP, trade flows and capital flows. Without a substantial increase in the resources at its disposal, the institution will not be able to adequately fulfill its mandate. The Fund will also be hampered in making a sufficient contribution to the coordinated response to the ongoing crisis that developed and emerging market countries have been trying to put in place since the end of last year.

We support a large and immediate increase in Fund resources. The staff's proposal of a doubling of the Fund's pre-crisis lending capacity, including the GAB/NAB of SDR 167 billion, should be considered seriously. We should even stand ready to consider more ambitious increases, if the crisis becomes deeper, more widespread and protracted than is currently expected. The enlargement of the Fund's resources would be important not only to accommodate member countries' potential demand in the current crisis, but also to allow more flexibility in the design or review of lending instruments. The Fund, if equipped with larger resources and appropriate lending instruments, could be of crucial importance in solving what is now widely recognized as the worst global crisis since the 1930s. At the very least, we should expect the Fund to help calm down markets and reduce the stress in the international economy. More broadly, we should view the Fund's role as part of a larger countercyclical international initiative that includes, in the immediate future, four main components: a) coordinated fiscal expansion in several systemically or regionally important economies; b) further monetary easing in various developed and developing countries; c) ambitious financial sector restructuring in the advanced economies; and , last but not least, d) a substantial augmentation of the resources of the IMF and the World Bank and a thorough-going review of their lending structure (including facilities, costs, maturities, access limits and conditionality).

Our target should be to have a general quota increase as soon as possible. This increase should be implemented together with the redistribution of quotas with the objective of strengthening the institution's governance and legitimacy, by giving more quota share and voting power to emerging market and developing countries so as to reflect their increasing importance in the world economy. One alternative is to anticipate the discussion of the Fourteenth General Quota Increase to January 2011, as has been proposed in the discussions of IMF reform in the G20. We can accept, as a temporary bridge, a borrowing by the Fund from official creditors. We welcome Japan's offer of US$100 billion. This is a very significant step that shows Japan's commitment to the Fund and to the international economy. We remain open to any other modality that could mobilize resources for the Fund. In our view, all options mentioned in the staff's paper merit consideration.

The Acting Chair (Mr. Lipsky) asked the Director of the Finance Department to report on the Fund's discussions with the Japanese authorities with respect to a borrowing arrangement.

The Director of the Finance Department (Mr. Tweedie) made the following statement:

> Given the wide interest, we thought it might be useful to update the Board on the status of our discussions with the Japanese authorities on a new bilateral loan agreement. At the outset, I would like to thank Mr. Kotegawa, his staff, and the Japanese authorities for the excellent cooperation we have received in this process.
>
> We initiated informal discussions on the possible elements of such an agreement late last year. Our aim was to be in a position to move as quickly as possible in order to put in place an agreement once the Board had a chance to consider the broader issues, which we see on the table today—the overall adequacy of the Fund resources and the options for supplementing them.
>
> I am pleased to report that we have made very good progress. We hope to be in a position to bring a proposal to the Board for its consideration as soon as possible, and that I think may be very soon.
>
> Let me outline just some of the broad elements of the proposal as it currently stands.
>
> First, as Directors know, the loan agreement would be for up to a maximum of $100 billion. This would represent a very important part of the overall proposed increase of the financial resources available to the Fund to address the global crisis. The initial commitment period would be for a period of one year, but the Fund could extend this arrangement on an annual basis for up to a maximum of five years.
>
> The agreement has been modeled on previous bilateral loan agreements and also on elements of the New Arrangements to Borrow and the General Arrangements to Borrow. In particular, it envisages a pass-through approach under which the Fund would have the flexibility to draw on the agreement according to its needs, subject to maximum weekly and monthly limits on total drawings. I should add

that this includes a large measure of flexibility on the timing of its use. The agreement would also provide the Fund with the operational flexibility to use the resources to finance purchases under any GRA arrangement or facility, and also potentially to repay other official borrowings mobilized as part of this multilateral effort.

All drawings would be denominated in SDRs and they would be subject to the SDR interest rate, except in a case where the Fund was to pay a higher rate on other borrowing, in which case Japan would also receive that higher rate. All drawings would be subject to a nominal three-month maturity, but could be automatically extended for successive three month periods up to a maximum period of five years, at the initiative of the Fund.

Japan would have the right to request termination of the agreement and early repayment of any outstanding drawings if it represents that it has a balance of payments need, and if it represents that its balance of payments and reserves position justifies such action. In these circumstances, the Fund would give this representation the overwhelming benefit of the doubt. Given the potentially large amounts involved, the Fund would have a period of up to 12 months to repay, thereby providing the Fund with a significant element of protection against the associated liquidity risks. Let me outline just some of the broad elements of the proposal as it currently stands.

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Ms. Lundsager thanked Mr. Kotegawa and his authorities for their willingness to commit to lending to the Fund. She wondered if a determination had been made on the point at which a decline in available GRA resources would trigger a Fund drawing on the arrangement with Japan.

The Acting Chair (Mr. Lipsky) replied that no such determination had been made as yet.

Mr. El-Khouri recalled that under borrowing arrangements in the early 1980s creditors stipulated that the Fund observe specific prudential ratios and wondered if a similar condition might be included in the proposed arrangement with Japan.

Mr. Rouai appreciated the Japanese authorities' support and asked if the arrangement would impact Japan's reserve tranche position.

Mr. Nogueira Batista also welcomed the possible arrangement with Japan and hoped that it would spur other members to do likewise. He asked for staff to elaborate on its remark that the borrowed resources could be used to repay official creditors.

Mr. Pereira also expressed appreciation to the Japanese authorities.

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

> I can confirm the Chair's response with respect to Ms. Lundsager's question on timing of Fund drawing on the borrowing agreement with Japan. The agreement gives the Fund flexibility, but the operational issues need to be clarified with the Board before we would draw on the agreement.
>
> To Mr. El-Khouri's question, there are no specific prudential stipulations on the Fund under this agreement.
>
> On Mr. Rouai's question, the borrowing agreement should not have an impact on Japan's reserve tranche position. Borrowing would be operated as pass through operation, i.e., as the Fund draws upon the arrangement, it on-lends to members.
>
> Finally, on Mr. Nogueira Batista's question, we are envisaging the possibility that we could have significant borrowing, in so much as the proposal is to augment the Fund's resources by $250 billion. In that situation, we think it would be useful, from the Fund's point of view, to have maximum flexibility. We suggest in the report that borrowing from one source could be used to repay another, should we need to repay a borrowing of a creditor. This agreement would give us flexibility to do that for all official borrowings.

The Acting Chair (Mr. Lipsky), while noting that there would be subsequent occasions to extend thanks to the Japanese authorities, expressed management's appreciation for their response and the important flexibility that it provided to the Fund. A paper outlining the agreement would be provided to the Board as soon as the details could be finalized.

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

> I will start by responding to Directors' questions on financing issues and then I would turn to my colleagues to follow-up on the questions on the demand projections and the legal considerations.

Let me start with the general point that we are dealing with a very uncertain and rapidly evolving situation that has led to a much deeper crisis than virtually all commentators had envisaged. While the paper tries to capture the potential demand for financing under different scenarios, there are limits to how much weight one can put on these exercises in such a fluid environment. In the end, the proposal to seek additional financing of $250 billion involves a judgment on: (i) what might be needed; and (ii) what would be viewed by both the markets and the membership as a credible increase in the Fund's readiness to address the effects of the crisis.

This is clearly a large number. We believe that it is attainable, but attaining it will require strong support from the membership; in particular, those members that are in a position to contribute. We have had inquiries from several members indicating a wish to join this effort. I would encourage members that are willing to offer such support to approach staff or management at an early stage so that we might advance this work. This will also help us to refine the ideas presented in the paper on the borrowing modalities, which will certainly take into account Directors' comments at this meeting.

There was a question about whether we have minimum or maximum targets in mind in terms of participation. The short answer at this point is no. I think we are not at that stage yet, certainly not in terms of maximum targets. A minimum target might be an operational issue, but at this point we would want to encourage broad participation, as has been the case in the past. Let me just cite two examples where the Fund has borrowed actively before: in the late 1970s, in connection with the financing of the supplementary financing facility, the Fund entered into bilateral agreements with 14 members and agencies; in the early 1980s, the Fund signed agreements with the Bank of International Settlements and with 18 central banks. Thus, when we have borrowed on a substantial scale, it has been a broad effort.

A third general point I want to make—and this is a point I already raised in regard to the question from Ms. Lundsager—is that we will come back to the Board as quickly as possible with a paper outlining the modalities of how we would propose to draw down borrowed resources, the implications for Fund liquidity, and the various other operational sequencing issues. Given that we may not have a full picture of the borrowing available from all sources, we may need to build a fair bit of flexibility into this process. I should signal that the staff's thinking is that we may well need to draw on borrowed resources relatively early in the process. The rationale essentially is that, since be may be facing borrowing of up to $250 billion, we would need to retain a significant buffer in terms of quota resources to meet the potential liquidity demands, associated with a substantial expansion in the Fund's balance sheet.

Let me turn now to some of the specific questions on financing. A Director asked whether there is a preferred hierarchy on the options proposed in the paper. At this point, we are aiming to lay out a range of feasible options rather than to be too prescriptive prior to hearing Directors' views. In general, we would prefer the options that give the Fund flexibility in how the borrowed resources are used, as was typically the case with past bilateral agreements. As I mentioned, the proposed agreement with Japan will offer considerable flexibility both on timing and use. Further, while the Fund has not issued its own paper before, we believe that this could be designed in a way that is also flexible for the Fund. The NAB and GAB, however, offer significantly less flexibility, and I will come back to this issue in a moment.

On placements of Fund paper, there was a question on potential difficulties and whether these are surmountable. Indeed, this is not something we have done before, so we are being a bit cautious, since it is difficult to anticipate what issues might arise until we actually get into more specificity on how this would work. I should add that the proposal developed in the early 1980s was the product of significant consultation with central banks. This proposal, which the Board ultimately approved, but did not use, resulted from significant consultation with potential creditors. So, we believe that it should be possible to design a note placement or bond issuance scheme that would largely mimic the sort of flexibility we have under a bilateral loan agreement. That said, I think we will have a better sense as we think through the issues a bit more.

There was a question on whether the paper would be tradable. We envisage that it would be tradable within the official sector, but not beyond, as this would raise essentially the same issues that arise with issuing paper directly to the private sector, which are more complex and far reaching, and would thus take significantly more time to resolve.

There were a number of questions and comments on the scope for expanding and enlarging the NAB. My colleague may want to pick up on some of the legal issues. The general point on the NAB is that this envisaged change would need to be agreed with the participants, so this is not something the Fund can do unilaterally. I would like to make three or four points in that regard.

First, the NAB is a very important backstop for the Fund. It provides liquidity support, insuring that we have resources to meet large and urgent needs.

Second, NAB and GAB have been used in recent times as a backstop, in that they have been called upon when the Fund's liquidity has reached very low levels. The only occasion when the NAB was activated was 1998, which was a signal that a quota increase was needed.

Third, the terms of the NAB are not flexible. It can only be called upon under precisely specified situations, requiring a judgment that there is an impairment or a threat to the international monetary system. It can be called on only to finance specific types of transactions, and these differ depending on whether the financing is for another one of the participants of the NAB, or for a member who is not a participant of the NAB.

Fourth, the activation procedures are also not flexible. They involve several steps, including two rounds of informal consultation with participants, followed by a formal call by the Managing Director. Finally, any activation has to be approved by an 80 percent majority of the participating credit arrangements. Given the steps involved, it would be drawn on for only specific transactions.

All of these terms and conditions could be changed given a sufficiently large consensus among the participants and the agreement of the Fund. It could be made more flexible and participation could be broadened. Indeed, an expansion of the number of participants would likely itself lead to questions of whether we need to make the process more flexible. We already have 26 participants in the NAB, and as it becomes larger, some of these modalities are likely to require adjustment, both in terms of the annual briefing we hold for participants, and more substantively on the procedures for calling upon the NAB.

There was a question about the linkages between the NAB and the Financial Transactions Plan (FTP). The membership of the FTP is larger than that of the NAB. There are currently 47 members in the FTP. There is no specific link between the two. It is fair to say that the bar for NAB participation has been set significantly higher than that for the FTP. In fact, one of the considerations that was taken into account when, at the time of the first renewal, a new member was added to the NAB—the Banco Central de Chile—was the fact that Chile had been a member of the FTP for a substantial and uninterrupted period of 6-7 years. That was viewed as a sign of Chile's appropriateness for NAB membership. This may partly reflect the nature of the NAB as a longer term and more permanent liquidity backstop for the Fund's financing. It may also reflect the potential use of the NAB to facilitate drawings by another participant in the NAB of its reserve tranche or of its first credit tranche. This option is not available for drawings by nonparticipants of the NAB. These issues would need to be considered by the participants. Changes could take time to implement because they may require parliamentary approval, e.g. following the original NAB decision there was a period of almost two years before the necessary ratifications were in place.

There was one question on the difference in the cost between using borrowed resources and using quota resources. At the margin, the cost to the Fund of using quota resources is the SDR rate. So, the cost of using borrowed resources would be the same if the Fund is able to borrow at the SDR rate. As I mentioned, that is what is envisaged in the agreement with Japan. It would be important for the Fund to borrow at the SDR rate, as it would allow the Fund to accumulate precautionary balances against the risks that it would be taking on if there is a sharp increase in lending that would require borrowing on a large scale.

There was a related question on the implications for the discussion on charges and maturities. All the calculations that staff has undertaken to date in the paper, in the supplement, and the medium-term income projections have assumed that the Fund's marginal cost of funds is the SDR rate. So, again, if borrowing were significantly more expensive than the SDR rate, it would have implications for those calculations, particularly how quickly the Fund could build up precautionary balances. Thus, it could have implications for the discussion on charges.

There was also a question on the consequences of the two mechanisms that we mentioned in the paper for handling timing mismatches stemming from when we obtain borrowed resources, when we lend them, when we are repaid, and finally when we have to repay the borrowed resources. If those mismatches are handled in the General Resources Account (GRA), they would affect the reserve tranche positions of FTP members. This was a concern to some members in the 1980s and led to the creation of the Borrowed Resources Suspense Accounts. We have moved to a system where the FTP seeks to balance reserve positions relative to quotas across participants, so this may be more manageable now. The alternative system would keep the flows essentially in the General Department, yet outside of the GRA, so they would not affect reserve tranche positions. They would be invested, as was the case in the early 1980s, in SDR-denominated accounts, either held in the BIS or in other central banks. There were some financial and administrative costs associated with that approach, so that would be one consideration we need to take into account. More generally, we do not at this point have a good sense of how big an issue this is; so, I think if there is potential for sizable liquidity mismatches, it is something we would have to look at in more detail.

Lastly, there was a question about the criteria for including countries in the FTP. The criteria that we use are discussed in the most recent paper, which was just issued at the end of January for the current quarter. There is a set of criteria that has been decided by the Board, which was last reviewed in 1997. Inclusion in the FTP involves a broad assessment of a range of indicators of financial strength, including access to capital markets and the need to hold reserves. That said, the Board has concluded in the past that this is ultimately a matter of judgment. For this particular round, we undertook a far more extensive exercise than previously, looking at the full range of countries that potentially could be eligible for inclusion. We did this in close collaboration with the relevant area department teams. The results of that exercise were reported in the paper, and we identified eight potential new participants that appear to have strong enough balance of payments positions to be included.

The staff representative from the Strategy, Policy, and Review Department (Ms. Shannon), in response to questions and comments by Executive Directors, made the following statement:

> On the issue of potential demand, we had a request for an update on arrangements under discussion. The SDR 22 billion cited in paragraph 13 of the paper includes arrangements for which discussions were underway at the time the paper was issued on January 12. At this stage, we do not have additional cases that we would include, although this could change rather quickly. Three of the arrangements included in that total—El Salvador, Serbia, and Belarus—have now been approved. In terms of the potential scale of the remaining cases, again, we would not make any changes to what was reported in the paper at this time.
>
> In terms of the effects of these developments on the figures in Table 3, the overall numbers would not change. There would be an approximately SDR 2.5 billion in actual commitments and a parallel decrease in the column for arrangements under discussion.
>
> There were several requests for estimates of potential needs that might arise if additional advanced economies were to come to the Fund for resources, or if requests were made under the Short-Term Liquidity Facility or other crisis prevention vehicles. There were also related questions on the degree to which these and other factors are taken into account in the proposal to double resources. I would just note again that the proposed doubling is based on a combination of factors that we sought to lay out in paragraph 17 of the paper. The overarching consideration was the need to inspire confidence that the Fund continues to have the capacity to fulfill its mandate against a range of contingencies. A number of Directors emphasized, and we agree, that the scenario analysis presented in the paper cannot provide a precise gauge of potential demand or the likelihood of particular outcomes. This partly reflects the substantial uncertainty regarding key assumptions that various Directors have highlighted; for example, the scale of financing provided by the Fund versus other sources in individual cases can vary substantially, as has been evident in recent cases, as well as the fact that in some cases members have access to various alternative liquidity facilities. The scenario analysis thus does not attempt to provide precise estimates. What it does demonstrate is that under a range of plausible—yet increasingly severe—assumptions, there is substantial upside risk to demand for new drawing

arrangements. The proposed doubling recognizes the potential demand that may arise from the SLF, crisis prevention vehicles, as well as potential borrowing by additional advanced countries members. That said, it is extremely difficult to estimate the potential scale of needs associated with these contingencies, including given that discussions are still ongoing on the crisis prevention instrument and the potential refinements to the SLF. As such, we have not attempted to make such estimates. What we have done instead in paragraph 16 of the paper is try to provide some metrics that help to provide a rough gauge based on very simplified assumptions of 500 percent of quota for potentially affected members.

There was a request to indicate how the size of the liquidity shock in recent cases compares with those implied by the scenario analysis. There were two key starting points for the assumptions that we used in this analysis: first, the experience in recent cases as well the historic group of crisis cases; and, second, we made reference to market analysis of potential shocks and potential needs. We also considered the deterioration in the outlook since the recent program cases were first approved. In these recent cases, we observed substantial variation in both the scale and the precise transmission channels of the shocks with important implications for the scale of the financing needs.

Overall, the needs covered by official financing in these cases have ranged from 10 percent of GDP to as high as 35 percent of GDP in the emerging market cases, and substantially higher in the case of Iceland. The median for the cases under scenario 3 is about 9 percent of GDP, with a very wide range from just above zero to almost 40 percent.

In terms of the implications for Fund financing, the median access in the recent exceptional access cases was about 9 percent of GDP (or about thousand percent of quota) and ranged from between 5-12 percent of GDP. The median access in scenario 3 is about 5.5 percent of GDP, with ranges here from zero to 10 percent, and about 570 percent of quota as a median.

The staff representative from the Legal Department (Ms. Weeks-Brown), in response to questions and comments by Executive Directors, made the following statement:

> There were a few questions of a legal nature that I will try to address. Mr. Tweedie has already substantially described the mechanics of the NAB and the issues that arise in that context. I will limit my response to the questions that related to the mechanics of an enlargement and expansion of the NAB, and the related implications under members' domestic laws.
>
> There are generally two ways that total credit under the NAB could be increased. First, you could have a situation where a new participant comes in and the total credit line under the NAB is increased by the amount of that new participant's credit arrangement. Alternatively, you could have a case where, as provided for in the NAB, the individual credit arrangements of one or more current participants are changed in light of developing circumstances. In either case, you need an 85 percent vote of the total credit arrangements (i.e., both to increase credit arrangements of existing participants or to increase total credit lines by the amount of a new participant's credit arrangement). Furthermore, no participant's credit arrangement can be increased without that participant's consent. However, there is nothing in the NAB that precludes increases in some participant's arrangements while other arrangements remain unchanged, once the various requirements summarized above are met.
>
> As to what an individual participant needs to do before it can be part of the 85 percent that approves an increase in credit lines, that is a matter for the domestic laws of each individual participant. There were specific questions about U.S. law that staff cannot address beyond what is already stated in the paper, i.e. certain kinds of changes to the NAB could trigger a need for legislative approval under applicable U.S. law. Whether any specific NAB changes that could be proposed would trigger that clause is a matter for the U.S. authorities to ascertain. I should also add this is not only a question of U.S. law; there are a number of other participants that may well also require legislative approval. As Mr. Tweedie has noted, when the NAB was initially agreed, a number of participants had to obtain parliamentary approval in order to adhere to it. In that light, it is quite possible that they may need similar approval for the sort of changes that could be considered to the NAB.

There was a question about the extent to which bilateral loan agreements to date have involved commitments that give lenders additional comfort, such as pledges of collateral or similar arrangements. The bilateral agreements the Fund has signed have generally not included such provisions. Indeed, a small number of these agreements have had the opposite type of provisions, e.g., a negative pledge clause, pari passu clause, or non-subordination clause. These are clauses that do not give special treatment to the lender, but rather commit the Fund not to accord special treatment to other lenders under other agreements.

There was a question about the legal implications of the two different mechanisms for handling maturity mismatches. Holding borrowed resources either in the GRA or in Borrowed Resources Suspense Accounts are both legally permissible and both have been used in the past. The Fund borrows currencies to replenish resources in the GRA, so keeping mismatched borrowed resources in the GRA can be viewed as being just an extension of that power. The Fund has also established Borrowed Resource Suspense Accounts to hold these resources outside of the GRA, but within the General Department.

Mr. Rouai made the following statement:

I would like to thank staff for their comprehensive work. I understand this is an operational paper that crosses several areas of activity. As such, the paper was prepared by the Finance Department, the Strategy, Policy, and Review Department, and the Legal Department. However, I think that one dimension is missing that could be useful for our discussion; namely, the global liquidity need. I do not know if this issue will be reviewed in the context of the Global Financial Stability Report, but, given that we are seeing pressure on both mature and developing countries, and given the fact that the Fund itself is considering increasing its resources, might this be an indication of a global liquidity need? As such, and without prejudging the issue of the need for quota increase or an SDR allocation, I think evaluating global liquidity would be a useful complement to this exercise.

I have one clarification to seek from staff. Among the proposals is this issue of parallel financing: might some form of parallel financing arrangement with the European Union have been useful with respect to our Fund-supported programs with some European countries? I do not know if staff considered this issue or not.

Finally, on the Financial Transactions Plan (FTP), I appreciate the recent effort by staff to expand the list of FTP countries, including to some in our own constituency. I encourage staff to continue this effort, not only because of the financial aspect of increasing the participation in the FTP, which I note is now reaching something like 83 percent of total Fund quota. One aspect we need to take into consideration is the fact that many countries are not yet familiar with the responsibilities of being a creditor. It is important for them to start thinking about moving from a debtor to a creditor role, which involves significant internal consideration and preparation. I encourage staff to continue to work with those countries and to be flexible in terms of inclusion. The aim would not be to expand the current list of potential candidates, rather it would be to prepare countries to participate in the future.

Mr. Gibbs made the following statement:

As I said earlier, I am persuaded that we need to be looking at a substantial increase in resources, at least of the scale contemplated here. I would like to thank Mr. Kotegawa and his authorities for showing quite extraordinary leadership in helping us begin to approach the envelope that is required. At the same time, it is clear from both the paper and staff's answers that there are a lot of issues related to the different possible approaches and that more work is needed on many of them. I would strongly encourage staff to press ahead and crack the various issues as swiftly as possible, because the needs of the membership are very pressing. We heard yesterday from the Western Hemisphere Department about the implications of deleveraging for a significant segment of the membership, and similar problems arise in other regions as well.

This brings me to question I raised in my statement, which I realize is perhaps slightly off topic and should belong in a discussion about facilities rather than one on resources. That said, I raised it in light of the fact that even with the contribution from Japan and others we could still find ourselves under pressure. What I asked was whether there might be other possible types of facilities, for instance on a guarantee model, that would make more efficient use our resources? I have seen proposals in the outside world of analysts and commentators concerning options for the Fund to guarantee sovereign debt rollovers, and I do not know whether this is feasible or not. What might the implications be? What can we do under the Articles of Agreement? Such a model could make our capital go further. It would have the added attraction of directly addressing one of the biggest issues faced by emerging markets—a lack of private finance. It would do so not by substituting private finance with our own, rather it would support the restoration of private flows. In my view, this is an issue that deserves our attention. I recognize that this may be something that this Board would need to come back in to a slightly different discussion, but in the context of the constraints on resources, it is relevant, so I would appreciate any initial comments.

Mr. Bakker made the following statement:

It is clear this discussion mainly focuses on how the Fund can increase its resources in the short run. I think it is prudent to be proactive and to expand our resources. Like others, I am very grateful for the leadership Japan and Mr. Kotegawa are showing here.

I saw that a lot of my colleagues have a preference for using the New Arrangements to Borrow to augment the Fund's resources. At the same time, it is not an easy instrument to use, as its procedures are quite cumbersome. I wonder if there is a difference in the procedures as far as allowing new members to enter versus those on increasing the credit lines of existing members. If I understood staff correctly, then the threshold is 85 percent of the members in either case, but I wonder if the national parliamentary procedures are the same in both instances. I would guess that if a country needs to increase its level of participation, it would have to go to parliament, but it seems less clear that a parliament would need to approve another country joining the NAB. It might be interesting to check that, because I think that is relevant on whether we can move quickly in that regard. As a practical matter, if we were to pursue the New Arrangements to Borrow route, then we should have a meeting of the participants by the spring meetings. I would advise staff and management to look into the necessary activation procedures in that regard.

Mr. Pereira made the following statement:

I would like also to start by thanking the staff for their clarifications. For us, it is clear that the best way to temporarily increase the Fund's resources would be through bilateral borrowing. It seems that NAB activation would imply legislative approval from the members, which seems not to be a very swift mechanism for an increase. It thus appears that the options we have are limited and perhaps the better way to go is bilateral borrowing, as in the case of the Japan. We welcome again the Japanese authorities' efforts and in particular the notion that they envisage this process as a bridge toward a permanent increase in quota resources.

I would like management's clarification regarding the overall process. Clearly, it is important to provide confidence that the Fund has sufficient resources. This is a necessary, although not sufficient, condition to ensure that the Fund will be an effective crisis responder, particularly in the context of this critical juncture for emerging market economies and developing countries. However, what might still be missing is a sense of how management intends to approach the different discussions that confront the Board. In this instance, we do not have a decision before us, but if we take a decision on access and surcharges, it will need to be consistent with our approach on conditionality. In our view, we need to strengthen our efforts to try to provide a comprehensive package on the demand side. Sequencing is very important. I do agree with the Directors who point out that if we accept bilateral borrowing, at the end we have to revisit our discussion on precautionary balances. If there are more commitments, we may need to revisit our liquidity buffer. So, the sequence is very important.

As Mr. Gibbs said, day by day we are receiving more information that the crisis will have a huge impact on developing countries. This is a typical capital account crisis involving sudden stops, so we need up-front resources, and we will need to ensure that the cost of borrowing will be low. If a typical case will involve high access and up-front resources, and then we change the surcharge system, perhaps increasing the cost for those kind of arrangements would seem to be heading in the wrong direction. That decision might also require revisiting the Short-Term Liquidity Facility or a new crisis prevention instrument. So, what I would like from management is some sense of the road map of how we intend to proceed until April 2009.

I support the idea of a permanent increase of the Fund's resources, where borrowing is only a temporary bridge. If we really want to bolster confidence, the increase must be permanent. This is a much more fundamental and systemic issue considering the nature of the crisis. So, perhaps the important thing is also to consider that we need to increase the voice of the borrowers in this institution. If we want to address members' needs, we also need to listen to members' needs. I think that it is not only a governance issue, it relates to how we will fulfill our mandate in the future.

Mr. Moser made the following statement:

First, let me say something about the Financial Transaction Plan (FTP), since it came up this morning. I had originally suggested a meeting on the FTP together with this meeting today, but I have to say that the paper on the FTP has fulfilled my expectations. Like Mr. Rouai, I was also very happy to read the efforts of the staff to increase the number of participants. I cannot say it any better than what Mr. Rouai said; it is important that countries feel as if they are creditors of this institution. I would thus disagree with Mr. Pereira. I would certainly hope that whatever the outcome of the voice and quota discussion, the majority of the creditors would be preserved in this institution. I very much welcome these efforts, and I also very much look forward to the next FTP when these eight countries are actually included. One country, Peru, has already been included, and the seven other countries are expected to be included from May 2009. I look forward to the circulation of that paper.

We had very specific questions regarding the simulations. We can generally support the temporary increase in resources. Bilateral agreements are fine with us, and we are considering our own contribution. The exact number proposed—a doubling—is a nice, round number for the press, but the justification is not that well founded. An element we stressed is that we would like to see an assessment of the demand for these resources. At this stage, we see that we still have sufficient resources, and now with the new agreement with Japan, these are substantial. We had asked about the extent to which this proposal to double takes into consideration the new crisis prevention instruments. The answer we got from Ms. Shannon that it takes into account the Short-Term Liquidity Facility, but we would want to go a step further. Like Mr. Kiekens this morning, we read with great interest the report about the staff retreat and especially the part about the 'Road to Istanbul.' What struck us a bit is that this report mentions a new crisis prevention Rapid Access Line-type instrument backed by a substantial increase in Fund resources. Our fear is that if we undertake this increase now, basically we will end up with a supply-driven approach, because we still have this issue that we lack good metrics for determining the extent of the potential need. In other words, we increase available resources, without, to be very frank, a real plan, to be followed by a substantial increase in either exceptional access precautionary arrangements or RALs. We might go this way, or not, but we need a policy discussion. In any case, we would have liked to have it the other way around: a policy discussion in order to know where we are going, followed by a discussion on the amount of resources we need in order to implement the envisaged policy. If you have any comments in that regard, then they would be appreciated.

Finally, on the issue of precautionary balances, we have said clearly during the discussion on charges that if we move to substantially increase lending, then that would clearly imply a higher level of precautionary balances.

Mr. Nogueira Batista made the following statement:

I would like to congratulate the staff on this very comprehensive paper. I note again, as I did in the discussion on access and charges, that there is a certain disconnect between scope of the paper we are discussing today and the disappointing approach taken in the paper on access and surcharges. I think we are very satisfied with the approach that the staff has taken. I would only make a few observations for the staff's reaction.

First, during the recent discussion on the World Economic Outlook, the staff defended, in relatively convincing terms, that it would be better for major advanced economies to go for too much rather than too little stimulus. I would ask the staff if an even larger increase in the Fund's resources was ever considered given the severity and unpredictability of the unfolding crisis. I note that Mr. Gibbs in his oral intervention referred to the amount that the staff included in the paper as 'at least' what is required.

Second, I am not so happy with paragraph 19 in the report, which is a very crucial paragraph. The staff reminds us there that the Fund is a quota-based institution, and then elaborates the various reasons why the quota increase is a slow process. The staff notes that further work is needed in several areas relating to the quota formula before it is used again. In this regard, I would make a complaint, not to the staff but to management, because we have been saying this repeatedly here in the Board and elsewhere that we do not understand why work on these pending issues, i.e. the forward-looking elements of the April 2008 quota reform, has not started yet given the crucial importance of this issue. This was recognized, for instance, by the G-20, and by several other sources and persons. I would like to ask the Legal Department whether management, the staff, and the Board can ignore the calls of the IMFC. What is the role of the IMFC in this regard? It makes recommendations based on a consensus view, but this seems small compensation for the unbalanced voting structure in the Board. In this case, the IMFC called for work on this issue in its April 2008 communiqué: "The committee also looks forward to further work by the Executive Board on elements of the new quota formula that can be improved before the formula is used again." However, nothing was done. Then, in October 2008, the IMFC, under the leadership of Mr. Boutros Ghali, stated that: "the committee also looks forward to further work by the Executive Board on elements of the new quota formula can be improved before the formula is used again." Now, the staff comes to us in January 2009, and says: "Further work is needed in several areas related to the quota formula before it is used again." So, let us not drag our feet here and start as soon as possible on this work that we have agreed previously in the Board and has been twice called for by the IMFC. My question to the Legal Department is this: What is the exact status of the calls of the IMFC? Can we simply make believe that they are nonexistent?

Finally, my last point concerns the SDR. As we said in our statement, all the options that the staff has outlined merit consideration. I would welcome in particular the fact that the staff has made reference to an SDR allocation in paragraph 21, because this would be not only important for the reasons at hand, but also from a more medium- and long-term perspective as a step toward a fundamental change in the international monetary system.

Mr. von Stenglin made the following statement:

I also thank the staff for this excellent paper. I share all the thoughts and fears expressed by Mr. Moser on the future lending policy and with respect to the size of the Fund's precautionary balances.

I have one remark. If the Board agrees that there is at least temporarily a need for expanding financial resources, then we should act in a relatively quick and credible manner. The Fund has gone this way in the past and has a certain track record. Our favored option is an increase in the amount available under the NAB by inviting—and even I would say urging—new members to join, in particular countries that have accumulated sizable foreign reserves over the last years, as well as G-20 members that do not yet participate. I have heard from colleagues that the NAB activation procedure is a cumbersome process. I am not sure whether it is cumbersome. If it is, there may be some good reasons for that, because these additional resources must be safeguarded. I also note the argument that reforming the NAB might prolong the process for increasing the resources available to the Fund. As we have stated earlier, we remain to be convinced that there is an immediate and urgent need to increase the Fund's resources, so I feel we have sufficient time to go through the process of at least expanding the NAB membership, and we should start that process now.

Ms. Lundsager made the following statement:

I very much appreciate the staff's responses to the many questions we have raised. There are a few points on which I want to pick up regarding what the staff has said and also in response to my colleagues.

First, to Mr. Rouai, I very much welcome the indication in the Financial Transactions Plan paper that the staff is talking with additional members to join the FTP. I hope that we can see some of those countries participating in the FTP in the near future. At the same time, when I looked at that paper, I noted that there are many countries in the FTP that are not in the NAB; as such, I think there is room to expand the membership of the NAB and I would support that objective.

In terms of some of the staff's comments, Mr. Tweedie talked a little bit about notes or securities versus lines of credit. While I do not have a final view on this point, it still strikes me that we have worked extensively with lines of credit, and the membership is familiar with that approach. As I understand it, that is the approach being taken in the agreement with the Japanese authorities. Thus, I tend to think that we should stick with something that has worked and not invent a new animal, which we would then have to explain. Nevertheless, I am open to discussing this issue further, and this is something to which we can return.

With regard to some of the points that Mr. Moser was making, we very much agree that we should continue to focus on increasing precautionary balances. We have had that discussion several times.

The staff commented that timing issues with respect to the draw down of lines of credit still need to be clarified. Part of the concern in that regard is to make sure there is enough in the quota lines to be able to meet needs of members that might want to withdraw. Am I to assume that these credit lines are being set up in such a way that countries can continue to count them as foreign exchanges reserves, which is the case with their reserve tranche position in the IMF? I gather that, but I am not totally sure, so I would appreciate clarification.

On the scenarios, I thank Ms. Shannon for giving us a broader idea of some of the parameters that were involved. I think it might be very useful, especially after listening to Mr. Moser, if we have an executive session to get a sense of how these different scenarios were constructed. It would help Mr. Moser and his authorities as they consider providing resources if they have some sense of potential demand. I raise that in part because of the concerns over how some of these Fund-supported programs have been designed recently. The financing under these programs has been very large as percent of quota, and the staff mentioned some of the ranges. There has also been an element of very, very large financing packages for countries, so we have seen huge increases in official debt burdens in countries; indeed, rising from next to nothing to very high levels. What are the implications in that regard? I think it might be useful to have that discussion just to give us a better sense of what is included under these scenarios.

Mr. Ge made the following statement:

I am pleased to have this opportunity to discuss the Fund's resources. Also, I am happy that the Fund now acknowledges that its resources are inadequate. For a long time, we have thought that the Fund's resources are sufficient and that no increase is needed. However, when the situation becomes difficult, these resources are needed. We discussed how to mobilize these resources. I appreciate the staff's work to outline several of the possible methods. Looking back at the history of the Fund, I note that some of these options have already been used. In some cases, a commitment has been undertaken, but they have not been used. In this regard, I would underline two points.

First, I think the Fund should set up a long-term financing mechanism by introducing an automatic adjustment mechanism for quota increases. Quotas are not just a means to increase the Fund's resources, they also determine how much a member can borrow. The quota threshold has become very low compared to capital flows, trade, and GDP. Through the adjustment of quotas, it would also be possible to improve Fund governance, another very important objective. This issue of resources is now on the agenda. We now have the G-20 summit mechanism. Thus, I think there is an opportunity to consider how to increase quotas automatically in the future. This would be a long term, stable, and reliable source of financing.

Second, I suggested establishing a long-term supplementary financing mechanism. We have discussed the New Arrangements to Borrow, bilateral agreements, a trust, and all of this is necessary. However, I think all Directors will agree that these mechanisms have their drawbacks. For example, the creditor of the trust may not really want to give money to the Fund given concerns about the security of their loans. With regard to NAB, agreement from 85 percent of the participants is needed to initiate the mechanism. The agreement may only come many years later, by which time the participants may not have money to contribute.

While we consider a possible longer-term supplementary financing mechanism, I suggest that the Fund also consider the staff's proposal to place SDR-denominated Fund paper. On the one hand, this mechanism could broaden the role of the SDR. The SDR is a tool of the Fund, and I do not think that many people know about the SDR. The SDR was created many years ago, and now the total amount of SDRs is only 20 billion, which is insufficient. The placement of notes could be a very flexible mechanism: member countries could consider buying this asset at any time depending on their balance of payments situation. As such, I think it is more flexible than the other temporary supplementary measures. I urge the staff to study the potential of such a mechanism and provide a more detailed proposal for the Board to discuss.

Mr. Fayolle made the following statement:

I just have a few points.

First, I would like to thank staff for what I found to be a very good and convincing paper. It is clear that these are not simple issues. I must say that the case for supplementing the Fund's resources has been presented very convincingly.

Looking ahead, as I said in my earlier statement, we think that the New Arrangements to Borrow is an interesting and probably the simplest way to proceed quickly, because we need to proceed quickly in order to supplement the bilateral agreements. Again, I would like to thank Mr. Kotegawa and the Japanese authorities for what they have done. We think this would be also a way forward for those countries that are taking an increasing role in international governance. As said by Mr. Bakker, we need to look at the activation procedure to put in place a quicker trigger than is currently the case with the NAB. Otherwise, I am afraid we will end up only being able to call upon bilateral resources, because that process is clear and simple.

Finally, I have a question on the quota increase approved in April, 2008. Given that we are now in February, 2009, I wanted to know which of the 50 or 60 countries that had their quotas levels increased have actually ratified the agreement in order to put the increase into effect.

Mr. St-Amant made the following statement:

I have three questions.

First, on the size of the requested increase for Fund resources, we are still not sure whether the initial results justify the proposed size of that increase. Any more information that could be provided on this would be useful. Also, it seems that part of the requested increase reflects the need to inspire confidence that the IMF has sufficient resources. I would be curious to know how the staff arrives at an estimate of how much is needed to inspire confidence. Perhaps, there is no metadata that is applicable.

Second, on the note placement program, we would appreciate any more detail the staff could provide on the feasibility of that option. We think this approach could be advantageous, since it would help maximize the diversification of creditor resources. How long might it take before such a program could be put in place?

Third, I have a technical question that may reflect my lack of knowledge about the NAB; would it be possible for countries to commit to a temporary increase in their participation in NAB, or does that commitment necessarily need to be permanent? Is there some flexibility there?

Mr. Majoro made the following statement:

We would like to start by thanking the staff for its paper. We read it with interest and it generated some discussion in our office, particularly on whether the confidence-building effect of mobilizing resources would spillover to our low-income countries, especially those in sub-Saharan Africa. Our views on the paper are reflected in our preliminary statement, but I would like to address the issue of the Fund's resources in relation to its facilities for low income countries. In that regard, I have several observations and one question.

My first observation relates to the financing needs of low-income countries. As in past cases of crisis, it is likely that financing is going to have to play a much larger role than adjustment. If that is the case, then the discussion on mobilizing additional resources is quite appropriate. Our earlier discussions on exceptional access as well as today's discussions are all intended to ensure that adequate resources are available to give assurance to members that when they borrow or when they run into problems they will be able to mobilize resources from the Fund. However, for most LICs, there is a bit of difficulty here in the sense that the facilities that they have are quota based.

There is a general acceptance that quota levels have fallen short of members' needs today, particularly in the case of LICs. Furthermore, the access limits with respect to those facilities are not aligned to need. In fact, we have seen cases where we have had to go back and revisit access limits or introduce exceptional access. Facilities that are quota-based today necessarily imply that access will be short of need. As such, we would like to suggest that, in any process of mobilizing resources, attention also be given also to mobilizing resources for low income country facilities. In particular, the size of the trust has a bearing on whether low-income countries can have access aligned to their needs. I think the access limits that are on those facilities need to be revisited.

The question I have relates to the size of the supplementary amount we wish to raise. I think this was also mentioned by Mr. Nogueira Batista. The proposal is to double the Fund's resources, and we heard yesterday that other members of the G-20 do not necessarily agree that the doubling will be adequate. If the purpose of the exercise is to give confidence that the Fund has enough resources when needed, and there are some members who already have some doubts, I think we may be running into a problem. In fact, we may complete this exercise only to find that we have not raised sufficient funds, and then we have to come back again. In that light, we could communicate to the public using some flexible language that does not necessarily limit us to doubling.

Mr. Krishnan made the following statement:

First, we would like to thank the staff for a very good paper and for the manner in which all the questions and clarifications were handled. Our authorities are in favor of an increase in borrowing by the Fund as a temporary measure. In that context, we would like to join our colleagues around the table in thanking the Japanese authorities for their offer of additional resources. Furthermore, we thank the staff, again, for clarifying the terms on which those resources would be made available.

I would also like to point out that while we do support the expansion and enlargement of the New Arrangements to Borrow, our only concern is that the procedural issues involved could lengthen the timeframe compared to other options. Therefore, our suggestion was that the expansion of the NAB and the general quota increase could be approached together as components of a long-term financing package.

My last point, and perhaps most significant point from our point of view, is that we fully support what Mr. Nogueira Batista and Mr. Ge had to say on the quota increases. We feel that a permanent and sizable increase in the resources available to the Fund is important to give confidence. This is going to be a long run process; so, the

> sooner we start, the better off we are. There should not be any further delay in starting the process of looking at quota increases in the Fund.

Mr. Chua noted that a few Directors had stated that the quota review could not be relied upon as a means for quickly raising the Fund's resources in response to the crisis. While they were probably right, some of those same Directors also argued that there was no rush to increase the Fund's resources, implying a puzzling inconsistency in logic. In any case, the needed increase in Fund resources was large and urgent. Like most other Directors, his chair had called on the Fund to use a combination of approaches, including bilateral borrowing and enlarging NAB in the short term. The crisis was also an opportunity to bring forward the quota review. One of the very reasons why critics had questioned the Fund's capacity to provide the necessary financial assistance in a time of crisis was the insufficient outcome of the last quota review. Thus, he joined Messrs. Ge, Nogueira Batista, Krishnan, Pereira and others in calling for the 14^{th} quota review to be brought forward. While those discussions were likely to be difficult and long, they were also necessary to strengthen the Fund's legitimacy in precisely the regions of the world where it needed to be strengthened.

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

> First, on Ms. Lundsager's question on whether future agreements will allow the countries to include the loans to the Fund as part of their reserve assets, so far we are working on one such case, but as this process continues, we will need to address others. We need to look at what the potential lenders need. We also need to look at what the Fund can do. I would make a distinction there in terms of the issue of encashment. It is true that traditionally agreements have included an encashment provision in the case of a balance of payments need. As I mentioned, the proposed Japan agreement does include such a provision. However, the encashment provision alone is not necessarily sufficient for inclusion as a reserve asset, according to the ruling we have from the Statistics Department. I believe the distinction has tightened over time, particularly since the Asian crisis. By the current definition, reserve assets have to be readily available in liquid form, which would mean a matter of a few days. The issue may be manageable, depending on the size of the loan agreement. However, in the case of a very large loan agreement, it may not be manageable for the Fund. We may have to stipulate limits in some cases, and that was done in the past with the loan from the Saudi Arabian Monetary Agency. Or, alternatively, we could stipulate that encashability is not

> immediate, but rather would take place over a period of time. This approach would affect whether loans to the Fund could still be included as part of a members' foreign assets.

Mr. Nogueira Batista, in light of the staff's response, asked for confirmation that Japan would not be able to include resources lent to the Fund as part of its foreign reserves.

The Director of the Finance Department (Mr. Tweedie) responded that the current understanding was that Japan could not include money lent to the Fund as foreign reserves.

With regard to questions on quotas, the intention of the report was to note that previous quota reviews had been quite time consuming, the Director of the Finance Department continued. For example, the recently concluded reform took two years. Moreover, it was a limited reform that did not substantially address the size of the Fund's resources. A quota reform could not be counted upon to fulfill immediate resource needs, although the Managing Director had indicated that work would begin on the quota formula as soon as feasible.

On the matter of the recent ad hoc quota increase, no country had yet paid for its increase given that the quota increase would only become effective once a critical mass of all the reforms was in place, the Director of the Finance Department noted. That said, 11 of the 54 countries had consented to their quota increases as of late January 2009.

Mr. Nogueira Batista noted that paragraph 19 stated that the needed size of the permanent increase in the Fund's resources was not yet fully clear. In that light, it might be necessary to more explicitly state in the paper that borrowing was a temporary bridge toward a permanent increase in resources, which would come through a general quota increase, given that the Fund is a quota based institution. He wondered if the fact that there was a currently a lack of clarity on the size of the needed permanent increase in the Fund's resources would preclude committing to a start date and a timeline for the 14th general quota review. The needed permanent increase could be determined at the time of the review.

The Director of the Finance Department (Mr. Tweedie) replied that the period of the 14th review had already commenced and that it would end in approximately four years' time. Over that period, the Board would review the adequacy of the Fund's permanent resources and come to a judgment on the need for an increase. Clearly, work would need to start well in advance of the deadline; the only issue was whether the Board would want to bring that day forward, which was an issue for the Board to decide.

Mr. Nogueira Batista asked for the staff's opinion on whether an earlier date for conclusion of the general review of quotas—e.g. January 2011, a date mentioned in the discussions of this topic in the G-20—might be advisable to encourage progress.

The Acting Chair (Mr. Lipsky) responded that the Board could, at any time, decide to bring forward the discussion on the general review. The last review had witnessed a great deal of detailed discussion on alternative formulas, so there might be some additional work that could be undertaken in that regard. At the end of the day, however, the nature of the discussion would be political, rather than technical.

Mr. Nogueira Batista urged the staff to consider the possibility of an early date for the next general quota review, which would be undertaken with a view to increasing the Fund's resources.

The Director of the Finance Department (Mr. Tweedie) recalled that clarification had also been requested on a possible note placement program. While the Fund would be breaking new ground in implementing such a scheme, the Board had come very close in the past, and there was an existing model to work with. As such, a scheme based on note placements with the official sector should not raise the complex, technical issues related to placing notes with private capital markets. Putting a scheme in place would be a matter of assessing potential demand and designing a program consistent with the needs of those members and the Fund.

The staff representative from the Strategy, Policy, and Review Department (Ms. Shannon), in response to further questions and comments by Executive Directors, made the following additional statement:

> On the question on parallel financing, many recent cases were handled quickly under emergency procedures. Nonetheless, there was substantial financing provided bilaterally, particularly from the European Union. There was close informal coordination of the package, and in terms of a more formal parallel structure along the lines of the trust mentioned in paragraph 22. As the paper suggests, this approach could be contemplated if that were of interest to creditors. Of course, the creditors themselves would maintain a greater portion of the risk.

On the degree to which new crisis prevention instruments are taken into account under the proposal to double the Fund's resources, and whether we had a precise figure in mind, the short answer is no. Where did the doubling come from? I think it is a matter of judgment. Should we do more than a doubling? In coming up with this recommendation, we sought to balance a range of considerations, including the need to bolster confidence, the need for buffers, and the downside risks in the macroeconomic scenarios that create upside risks for potential demand. Also, from a top down perspective, we looked at the size of the Fund versus economic metrics, and what we saw was that the Fund has shrunk substantially relative to trade and capital flows. At least a doubling of the Fund's resources would be necessary to restore those ratios. There was a different dynamic in terms of GDP, but those issues were also taken into account. We cannot provide a line by line breakdown of how we got to a doubling, but those are the range of factors that were taken into account.

A question was also raised in terms of the financing needs of low-income members. I would just note that the adequacy of the Fund's concessional resources and access limit issues will be taken up shortly in the review of Fund facilities and the financing framework for low-income countries.

The staff representative from the Legal Department (Ms. Weeks-Brown), in response to further questions and comments by Executive Directors, made the following additional statement:

On Mr. Gibbs's question about a guarantee scheme, I would make two quick points. First, conducting such a scheme in the GRA would generally require amendment of the Articles of Agreement. There are different proposals for guarantee schemes, but nearly all seem to share that characteristic. Perhaps more importantly, there will be a substantive discussion of these issues in the upcoming paper on the analytical framework for Fund lending and the review of Fund facilities.

On Mr. Nogueira Batista's question about the IMFC, we should thank him for that question, because it forces us actually to look at the Resolution governing the IMFC, which is not something we had contemplated examining for this Board meeting. The IMFC is an advisory body, set up to advise and report to the Board of Governors, as specified in the Resolution. Therefore, one infers from this that it is not a decision-making body. Communiqués of the IMFC therefore do not quite constitute decisions that require action by the Executive Board. But, this is a very technical answer to the very technical question. I think Mr. Tweedie has already given the more contextual considerations that one would expect in this regard. Clearly, since the IMFC is a committee of the Board of Governors, the communiqués that they issue do in fact provide substantial and important guidance for the work program of the Executive Board.

Finally, can there be a temporary increase in the NAB? I think the short answer is generally no. The NAB decision is fairly clear that any changes in the amounts of the individual credit arrangements will need to be in accordance to the decision, i.e. via the two options that I described earlier. Again, this framework could change if one were to change the overall structure of the current set of NAB arrangements, but that is the way they are for now.

On Mr. Bakker's question on whether parliamentary procedure requirements could be different depending upon how the country joined the NAB, again, one would wish that staff could give a definitive legal opinion on something like that, but it really is uniquely a matter of each member's domestic legal requirements. I would note that at least as far as the form of the NAB is concerned, there are two broad ways in which new participants could join—either at the time of a renewal of the NAB (every five years) under the current terms of the NAB, or after an amendment of the NAB that allows new participants to come in outside of a renewal period. Renewals generally can be brought forward, so there is no particular constraint in that respect. However, it could well be that for some members, legislative approval may or may not be required depending, e.g., on whether new participants join during a renewal or via an amendment. This gets into somewhat more complicated details related to members' laws. As alluded to by Mr. Tweedie, the participants could among themselves informally consult to see what kind of options would be more efficient if one were to want to reform the NAB.

The Acting Chair (Mr. Lipsky) made the following statement:

We are bringing before the Board in a very compressed period of time many issues, and we are trying to make progress across a broad front. Given the number of issues and their individual complexity, should we attempt to tie this process into one unified theory of the

Fund, it would be unduly complicated and lengthy. As such, we are trying to bring the major issues before this Board as quickly as possible. In fact, we are tying progress together in areas where it seems feasible and sensible. For example, we are packaging issues together—conditionality and facilities, and charges and access. However, given that we are at a time when we need to make progress, we deem that it would simply be too cumbersome, too complex, and too lengthy to try to bring all this together in one very large package.

Directors are all aware of the work program, and all know very well the issues that we are bringing forward in a short span of time. Our assumption is that, when we reach decisions on individual issues, in fact Directors are aware of the context and can make the judgment.

With regard to questions like quotas, one of the limitations on our bringing papers forward is simply the limitations on staff time. We face a fixed resource constraint. We have tried to bring forward the items that are susceptible to decision and which we think are the most urgent. Again, hopefully, my earlier remarks on quotas and staff constraints are acceptable in this regard.

We have no objections to the Board deciding whatever it wants to decide on the timing of a quota discussion. At this time, we have an urgent need to reach decisions on a set of issues, and our judgment is that the quota process is inevitably a lengthy one. Staff is happy to begin new work on that front as soon as the Board deems it is appropriate. Hopefully, the Board will agree that the present work program is an appropriate one. So, if there are no further questions or comments, we will proceed to the summing up.

The Acting Chair (Mr. Lipsky) made the following summing up:

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.

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