

BUFF/97/125

December 19, 1997

**Concluding Remarks by the Chairman
Supplemental Reserve Facility
Executive Board Meeting 97/123
December 17, 1997**

The Executive Board has adopted a new facility designed to deal with the circumstances of members experiencing exceptional balance of payments problems due to a large short-term financing need resulting from a sudden and disruptive loss of market confidence reflected in pressure on the capital account and the member's reserves. While resources under Fund facilities are available to all members, the facility is likely to be utilized in cases where the magnitude of the outflows may create a risk of contagion that could pose a potential threat to the international monetary system.

There was very broad support for establishing repurchase periods that were shorter than those for resources in the credit tranches. Directors agreed that it would be appropriate to reserve some flexibility and agreed, accordingly, that repurchases should be subject to expectations, which the Board could extend, and thereafter to obligations.

The repurchase expectation established under the proposed decision is distinct from, and in addition to, the repurchase expectation of Article V, Section 7(b) of the Fund's Articles. Under that provision, a member is expected normally, as its balance of payments and reserve position improves, to repurchase the Fund's holdings of its currency that result from the purchase and are subject to charges. This repurchase expectation, which is reflected in the provisions of all Fund arrangements for the use of the Fund's general resources, applies to all outstanding purchases subject to charges irrespective of the policy under which they are made and would thus apply to purchases under the facility. When calculations show that a member is subject to a repurchase expectation under Article V, Section 7(b), representations are made to the member for a prompt fulfillment of that expectation. The Board will return to the issue of the Fund's early repurchase policies at an early occasion.

The decision establishing the new facility states that, in order to minimize moral hazard, a member using resources under the decision will be encouraged to seek to maintain participation of creditors, both official and private, until the pressure on the balance of payments ceases. It also states that all options should be considered to ensure appropriate burden sharing. The Board will return to issues relating to moral hazard in the near future.

As for the income to the Fund that might be expected to result from members' use of this facility, Directors preferred to delay taking a decision on the different options until early 1998. Pending the decision by the Board on the use of such income, the Board decided that for financial year 1998 such income would not be taken into account when determining the amount of net income in excess of the net income target for purposes of paragraph 3 of Decision No. 11482-(97/42), April 21, 1997.