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The International Monetary Fund has approved the Systemic Transformation Facility (STF), a temporary facility to provide financial assistance to member countries facing balance of payments difficulties arising from severe disruptions of their traditional trade and payments arrangements due to a shift from significant reliance on trading at nonmarket prices--such as prevailed among members of the Council on Mutual Economic Assistance (CMEA) and among the states of the former Soviet Union--to multilateral, market-based trade.

The systemic transformation from state trading toward multilateral, market-based trade and integration into the international financial and trading systems has confronted the affected countries with severe adjustment problems. Many of these countries have suffered sharp falls in exports as well as permanent increases in import costs, particularly for energy products, because of the shift to market prices. The disruption of pre-existing payments arrangements and associated credit relationships has compounded these trade shocks, as has a lack of access to alternative sources of external financial assistance. Moreover, many of these members face the task of developing basic institutional capabilities of economic management to replace central planning, and are thus ill-prepared to adjust in an orderly manner.

The new Systemic Transformation Facility will better enable the IMF to help facilitate this historic transition for many of its members. The success of this effort is critical to the well-being of the entire international community. The main features of the STF are described below.

<u>Purpose</u>

The new facility is designed to provide assistance to members severely affected by these systemic changes that are willing to cooperate in an effort to find appropriate solutions to their balance of payments problems--including countries at an early stage of the transition process and as yet unable to formulate a program that could be supported by the IMF under its existing facilities and policies. Substantial additional financial support from other sources over a sustained period will also be needed by members that make use of the new facility.

Eligibility

Use of the facility will be open to members experiencing balance of payments difficulties arising from severe disruptions in their traditional trade and payments arrangements as manifested by: (i) a sharp fall in export receipts due to a shift from significant reliance on trading at nonmarket prices to multilateral, market-based trade; (ii) a substantial and permanent increase in net import costs owing to a shift from significant reliance on trading at nonmarket prices toward world market pricing, particularly for energy products; or (iii) a combination of the two. Eligible members include most former CMEA members and countries of the former Soviet Union, as well as a number of other countries that are not so immediately involved in the transformation process but are being affected significantly by it as a result of their earlier substantial nonmarket trading ties to the CMEA.

For members that have or already have had IMF arrangements, it would normally be expected that the use of the new facility will be in the context of their existing or future arrangements and could, when appropriate, result in an increase in their overall access to IMF resources.

Qualifications

For a country requesting financing under the new facility, outside of an upper credit tranche or an ESAF arrangement, the IMF will need to be satisfied that the member will cooperate in solving its balance of payments problems and, specifically, that it will move as soon as possible towards policies that could be supported under an upper credit tranche stand-by, extended, or ESAF arrangement. Significant policy actions designed as first steps in this process will be expected, including prior actions. Progress toward stabilizing the economy, stemming capital flight, and implementing structural and institutional reforms needed to create a market economy and to conduct economic policy in a market framework will be emphasized. In particular, convincing actions to stabilize monetary conditions will be a precondition for those member countries where inflation has been unacceptably high or is accelerating.

The request for financing will be accompanied by a written policy statement describing the objectives of economic policy; macroeconomic projections; structural, fiscal, monetary and exchange rate measures to be implemented over the period covered by the STF; and, if applicable, a technical assistance program. The member will be required to put in place a quantified quarterly financial program as soon as feasible, and in any event before its second purchase under the facility. The member will be expected to agree not to tighten exchange or trade restrictions or introduce new restrictions or multiple currency practices, and will also agree to cooperate with its trading partners in seeking constructive solutions to common problems.

For countries making use of the new facility in the context of existing or future upper credit tranche stand-by, extended, or ESAF arrangements, the approval of such an arrangement, or the completion of a review, would satisfy the conditionality requirements of the STF.

Access and Terms

Access will be limited to not more than 50 percent of quota. Access to the new facility will depend on a balance of payments need stemming from the disruptions of a member's traditional trade and payments arrangements, and could be in addition to any financing obtained under other IMF facilities. Disbursements under the facility will be made from the IMF's general resources account; the rate of charge will be the same as for other uses of the IMF's general resources (currently just below 6 percent per annum); repayment terms of 4 1/2-10 years will be the same as IMF financing under the extended Fund facility.

Phasing

Financing will be provided in two disbursements: half of the total financing will be disbursed at the outset. The remainder would normally be disbursed in about 6 months, but no later than 12 months after the first purchase, depending on continued cooperation and policy implementation, satisfactory progress toward agreement on an upper credit tranche stand-by, extended, or ESAF arrangement, articulation of a quantified financial program--where this was not already in place--and progress in mobilizing financing from other sources. In some cases the second disbursement could take place in less than 6 months, depending on policy implementation; and it could take place after two months in cases where the member reached agreement on a new upper credit tranche stand-by, extended, or ESAF arrangement or a review was completed under an existing arrangement.

Temporary Nature

The facility will be temporary in nature, and will be in effect through 1994. However, the second drawing may be completed by the end of 1995, provided that the first disbursement is made by the end of 1994.

There are precedents for the creation of temporary financing facilities in the IMF. In December 1990 the Compensatory and Contingency Financing Facility (CCFF) was modified to include a temporary petroleum import financing component in the context of the Middle East crisis. Earlier, in 1974 and 1975, the IMF had created two oil facilities to deal with temporary financing problems related to sharp oil price increases among oil-importing developing countries.