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September 21, 1999

To: Members of the Executive Board

From: The Secretary

Subject: IMF Financial Assistance for Y2K-Related Balance of Payments
Difficulties

Attached for consideration by
for Y2K-related balance of pa
discussion on Thursday, Septe

Mr. Bennett (ext. 38784), Mr.
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INTERNATIONAL MONETARY FUND

IMF Financial Assistance for Y2K-Related Balance of Payments Difficulties

Prepared by the Policy Development and Review Department,
the Legal Department and the Treasurer's Department

Approved by Jack Boorman, François Gianviti and Eduard Brau

September 21, 1999

I. INTRODUCTION

1. On September 16, 1999 the Executive Board gave preliminary consideration to, and expressed broad support for, the proposal outlined in the Managing Director's statement that the Fund adopt a new temporary and short-term facility which would provide financial support to members experiencing Y2K-related balance of payments difficulties.¹ This paper clarifies and comments on several issues raised in the discussion and provides a draft decision reflecting the September 16, 1999 discussion.

2. First, it is intended that access under the facility "float" with respect to other facilities and the credit tranches. That is, access under the Y2K facility would not count toward applicable access limits under other facilities or the credit tranches. A member could draw under the Y2K facility, for example, without reducing its scope for access under either the annual or cumulative limits as they apply under any other policies.²

3. Second, members would retain the right to use the credit tranches for any balance of payments need, including needs arising from Y2K problems, subject to the policies that apply to use of the credit tranches. Members using either the Y2K facility or the credit tranches (or other facilities) would not, however, be entitled to use both types of resources for the same balance of payments need. In other words, the same need would not be financed twice.

¹ Statement by the Managing Director on a New IMF Facility for Y2K-Related Balance of Payments Difficulties, EBD/99/107, September 13, 1999, and the Chairman's Concluding Remarks (preliminary).

² The "floating" of access under the Y2K facility would thus parallel the floating of access under the CCFF in relation to other facilities and policies.

4. Third, a question was raised about the use of such a facility by low-income (ESAF-eligible) members, particularly if it was subject to a relatively high surcharge. Those members would be potentially eligible, and this is a consideration that had led to the suggestion in the Managing Director's statement for a somewhat lower surcharge than appears to be favored by most Directors. At the same time, low-income countries, and heavily indebted poor countries in particular, would be expected to be among those least likely to be vulnerable to sudden capital market disruptions of the sort the facility would mainly be concerned with; those that do have substantial market access could reasonably be expected to handle relatively high Fund charges (presumably, though, not so high in relation to market interest rates) for a short period of time. In addition, access to the credit tranches on normal credit tranche terms would remain available, as noted above; and, for countries with ESAF arrangements, there may be scope for rephasing and, if appropriate, augmentation of ESAF access to help deal with any Y2K-related problems.

5. Fourth, it was recognized that it was important that the Fund safeguard its resources by, inter alia, requiring that members using the facility should be pursuing generally sound economic and financial policies and have had a good record of cooperation with the Fund. A sound economic and financial policy stance would normally be consistent with the absence of significant balance of payments problems other than those that might arise from Y2K. If the member were to be experiencing significant balance of payments problems unrelated to Y2K, it would be expected to be addressing them in the context of an underlying adjustment program and associated arrangement from the Fund. As regards cooperation with the Fund, members should, inter alia, be expected to have completed their Article IV consultations broadly according to schedule, be reporting data accurately and in a timely manner, and be generally in dialogue with and responsive to Fund advice. It does not mean that the member must have an arrangement from the Fund. If a member does have an arrangement from the Fund, however, the member's underlying program would be expected to be on track.

6. Fifth, there was some discussion about whether or not a Y2K facility, which most Directors agreed should be subject to an access limit, should include an "exceptional circumstances" clause allowing for access above the limit. At this point, it is not possible to know what problems may arise nor exactly what an appropriate limit should be. Since the proposed Y2K facility is designed for an exceptional possibility in the first place, and is structured in a way that it will be difficult to apply formal conditionality beyond prior actions and the assessments of cooperation noted above, it would seem prudent not to include a provision for exceptional access, at least at this stage. As some Directors noted, the Board could revisit access policy under the facility (or other aspects of the facility), if this were to prove necessary at any time as events unfold.

7. Sixth, there was a suggestion that it might be wise to delay the effectiveness of the new facility until, say, mid-October, in order to discourage overly early and possibly inappropriate requests for use of the facility. The draft decision (see below) contains alternative provisions on this point.

8. Finally, it will be important that members take the opportunity of the forthcoming meetings to discuss with the staff what precautionary actions they have taken and contingency plans they have in place or are preparing in the event Y2K problems arise. In the event Y2K-related balance of payments problems do arise, members seeking assistance under the Y2K facility would be expected to support this request with a letter detailing actions taken to date to correct Y2K problems as well as their plans for further measures to be implemented.

II. DRAFT DECISION

9. The following draft decision, prepared in light of the Board discussion on September 6, 1999, is proposed for consideration by the Executive Board. It may be adopted by an eighty-five percent majority of the total voting power. The draft decision includes *language in square brackets regarding options on: (i) the starting date; (ii) an exceptional circumstances clause; and (iii) charges.*

[Y2K] Facility--Establishment

1. From [October 15, 1999 or the date of approval] through March 31, 2000, the Fund will be prepared to extend financing, in accordance with the provisions of this Decision, to a member that encounters balance of payments difficulties arising from loss of confidence or other problems related to potential or actual failures of computer systems, within or outside the member's territory, to recognize the year "00" as the year 2000 (hereinafter referred to as "Y2K-related problems").

I. Eligibility and qualification

2. Requests for financing under this Decision will be met where the Fund is satisfied that:

- (a) the member has a balance of payments need arising from Y2K-related problems;
- (b) it has adequate assurance of the member's capacity to make repurchases in accordance with this Decision taking into account the relevant actions taken by the member, its plan of further measures to be implemented, and, if applicable, the measures taken and to be taken in other countries to resolve the member's Y2K-related problems;

(c) the member is pursuing sound general economic and financial policies, including policies to address other sources of balance of payments difficulties, if any; and

(d) the member is cooperating with the Fund in accordance with paragraph 5.

II. Access

3. Financing under this Decision shall not exceed 100 percent of the member's quota, [unless there are exceptional circumstances], and shall be in the form of one or more outright purchases. Each request for a purchase shall satisfy the requirements set forth in this Decision.

4. In providing financing under this Decision, the Fund, as under any other policies, shall pay due attention to the member's capacity to service its financial obligations to the Fund, and, having regard to the outstanding financial obligations of the member to the Fund, may determine the amount of financing to be provided accordingly.

III. Cooperation

5. A member shall be deemed to be cooperating with the Fund if :

(a) the last Article IV consultation with the member was completed broadly in accordance with its consultation cycle and thereafter the member's authorities have provided to the Fund timely information on economic developments and maintained a constructive dialogue with Fund staff on their economic and financial policies; or

(b) the member has a Fund arrangement, under which performance is broadly satisfactory, or

(c) the Fund approves an arrangement at the time of the request.

IV. Charges

[6. **Alternative A (with escalation clause)**. During the first six months from the date of each purchase under this Decision, the rate of charge under Article V, Section 8(b) on holdings acquired as a result of purchases under this Decision shall be [250-300] basis points per

annum above the rate of charge referred to in Rule I-6(4) as adjusted for purposes of burden sharing. Such surcharge shall be increased by [50] basis points at the end of that period subject to the provisions of paragraph 7.]

[6. **Alternative B (without escalation clause)** The rate of charge under Article V, Section 8(b) on holdings acquired as a result of purchases under this Decision shall be [250-300] basis points per annum above the rate of charge referred to in Rule I-6(4) as adjusted for purposes of burden sharing subject to the provisions of paragraph 7.]

Pending a decision on the use to be given to the income generated under this Decision, such income shall not be taken into account when determining the amount of net income in excess of the net income target for purposes of paragraph 2 of Decision No. 11944-(99/49), April 30, 1999.

7. The provisions of Decision No. 8165-(85/189) G/TR, December 30, 1985, except Section IV, shall apply to overdue financial obligations arising under this Decision, subject to the following provision:

The rate of charge on overdue repurchases shall be determined by the Fund but shall not be less than the maximum rate of charge determined under paragraph 6.

V. Repurchases

8. A member making purchases under this Decision shall repurchase the outstanding amounts of its currency resulting from such purchases within one year from the date of each purchase.

9. *The member will be expected to repurchase the outstanding amounts of its currency* resulting from purchases under this Decision after six months of each purchase, provided that the Fund may, upon the request of the member, decide to extend each such repurchase expectation until the repurchase becomes due under paragraph 8.

10. The Fund shall not approve, and the Managing Director shall not recommend for approval, a request for the use of the general resources of the Fund by a member that is failing to meet a repurchase expectation under paragraph 9. Provision shall be made in each stand-by and extended arrangement for the suspension of further purchases under the arrangement whenever a member fails to meet a repurchase expectation under paragraph 9.

VI. Other provisions

11. Purchases under this Decision and holdings resulting from such purchases shall be excluded for purposes of the definition of reserve tranche purchase pursuant to Article XXX(c).

12. Except for the purpose of determining the level of conditionality applied to purchases in the credit tranches, the Fund's holdings of a member's currency resulting from purchases under this Decision shall be considered separate from the Fund's holdings of the same currency resulting from purchases under any other policy on the use of the Fund's general resources. In cases of concurrent requests for purchases under this Decision and for purchases in the credit tranches, purchases under this Decision shall be deemed to be made first.

13. In order to carry out the purposes of this Decision, the Fund will be prepared to grant a waiver of the limitation of 200 percent of quota in Article V, Section 3(b)(iii), whenever necessary to permit purchases under this Decision or to permit other purchases that would raise the Fund's holdings of the purchasing member's currency above that limitation because *of purchases outstanding under this Decision*.

14. When requesting a purchase under this Decision, the member will represent that, as long as it has outstanding purchases under this Decision, it will consult with the Fund from time to time, at its own initiative or at the request of the Managing Director.