

SU/20/63

April 17, 2020

The Chair's Summing Up
IMF COVID-19 Response—A New Short-Term Liquidity Line to Enhance the
Adequacy of the Global Financial Safety Net
Executive Board Meeting 20/43
April 15, 2020

Executive Directors considered and approved the establishment of the Short-term Liquidity Line (SLL), as part of the Fund's COVID-19 response. They noted that the SLL would fill a gap in the Fund's toolkit and complement other layers of the global financial safety net. Directors agreed that the SLL can provide important liquidity support to members with very strong policy frameworks and fundamentals facing potential short-term moderate balance of payments (BOP) difficulties, as specified in the proposed decision. They noted that this could help prevent liquidity pressures developing into solvency crises and avoid spillovers to the broader membership. Despite some differences in views and preferences, Directors were willing to support the proposal in a spirit of compromise.

Directors broadly supported the core design features of the SLL, built on the work done in 2017. They considered that the revolving access of up to 145 percent of quota should provide cover against most repeated moderate shocks that the SLL is designed to address, and that the availability of successor arrangements, subject to continued qualification and the presence of the special BOP need, would ensure that the SLL is a reliable backstop. Directors also noted that having the same high qualification bar as the Flexible Credit Line (FCL) would facilitate transition from the FCL to the relatively lower access of the SLL, allowing more efficient allocation of Fund resources. A few Directors would have preferred a lower qualification bar and/or higher access.

Directors generally supported the innovative features of the SLL designed to minimize perceived stigma associated with Fund financing, including the Board's approval of an arrangement, conditional on the member availing itself of the arrangement. They recognized the possibility of a Central Bank sole signatory, provided that certain requirements are met, consistent with the Fund's standards for the signatory of letters of intent or written communications. A few Directors noted that signatures from both the Ministry of Finance and the Central Bank would increase the credibility of the policy commitment. Directors emphasized the need for careful communication in cases where a member ceases to qualify for an SLL arrangement.

Directors took note of staff's assessment that SLL usage is likely to have a limited impact on the Fund's liquidity position. At the same time, some Directors pointed to second-round effects should countries draw on the SLL and no longer participate in the Financial Transactions Plan and/or the New Arrangements to Borrow (NAB). A few Directors also noted the possibility that the SLL could tie up Fund resources for an extended period. Directors recognized that the potential demand for the SLL combined with other Covid-19 related demand for Fund resources could quickly reduce Fund liquidity to levels that would warrant an activation of the NAB. Given these considerations amid the uncertain global outlook, Directors called for closely monitoring the Fund's liquidity position.

Directors supported the creation of the SLL for a period of 7 years, with an expectation that, by end-2025, the Executive Board will decide whether to extend the facility beyond the 7-year period. They agreed that this compromise approach would balance concerns about the innovative nature of the SLL and the potential impact on Fund resources. Directors looked forward to reviewing the initial experience with the SLL, as part of the next review of the Fund's FCL and Precautionary and Liquidity Line in 2022.