BUFF/04/81

April 23, 2004

Summing Up by the Acting Chair
Review of Exceptional Access Policy
Executive Board Meeting 04/36
April 14, 2004

Directors welcomed the opportunity to take stock of the experience with the new framework for exceptional access to Fund resources. This framework was put in place about one year ago, and has informed the Board's decisions to provide exceptional access for Argentina and Brazil. Today's discussion has covered issues relating to the application of the four substantive criteria for exceptional access. In addition, the Board has reviewed the new procedures for early Executive Board involvement in the run-up to formal Board discussions on exceptional access requests and the additional information and documentation that are now required. Directors also discussed the staff's analysis of the strategies and circumstances that lead to a reduction in high levels of outstanding Fund credit in the countries that have recently benefited from exceptional access. The Board will further discuss issues related to exceptional access in a precautionary setting, including as part of an exit strategy, in the context of the upcoming discussion on precautionary arrangements scheduled for July 2004.

Directors noted that the exceptional access framework has helped to improve the clarity and predictability of the Fund's response to capital account crises for both members and markets. They underlined that the strengthened decision-making procedures agreed to in February 2003 should continue to apply to all requests for exceptional access. Most Directors felt that the exceptional access criteria remain appropriate and, given the limited experience with the framework, considered that it would be premature to change the exceptional access criteria at this point in time. Stressing that cases of exceptional access should be kept few in number in order to safeguard Fund resources, these Directors were in favor of maintaining the requirement that every request for exceptional access be justified in light of the four substantive criteria. Some Directors highlighted the need to define exceptional access based on a more economically relevant set of metrics rather than in terms of a member's quota, with a few noting that a size and distribution of quotas that reflect more accurately the relative position of member countries in the world economy might have resulted in fewer exceptional access cases.

Directors noted that the exceptional access criteria were designed for members facing capital account crises. They acknowledged that in rare circumstances a need for exceptional access could arise in situations other than a capital account crisis, and that in those cases a member could not be expected to meet all four criteria. Directors took note of the flexibility to grant access under the exceptional circumstances clause.

Most Directors were not in favor of the staff proposal set out in paragraph 13 of the staff report for dealing with exceptional access arising in situations where the member has a

pre-existing high exposure to the Fund and does not face a capital account crisis. They believed that the proposed principles could be seen as a weakening of the policy on exceptional access that could lead to an inappropriate increase in the number of exceptional access cases, with risks to the Fund's financial position. A number of other Directors, however, thought that the current criteria have not provided sufficient guidance in recent requests for exceptional access, and are unlikely to do so for future requests.

Most Directors expressed preliminary views on the merits of exceptional access in the context of a precautionary arrangement. While many of these Directors were willing to consider the possibility of exceptional access in precautionary arrangements, a few of them felt that precautionary exceptional access would be warranted only in a situation where a member has pre-existing exceptional access exposure, as part of an exit strategy to phase out the use of Fund resources. A number of other Directors, however, did not support use of the concept of "potential need" for exceptional access. They expressed concerns about the provision of Fund financing as "insurance" against potential problems, as this could create problems of moral hazard, diminish the role of conditionality, and lead to market expectation of augmentation of exceptional access.

Most Directors noted the importance of incentives for members to repay the Fund as their balance of payments improves, and reiterated the strong presumption that exceptional access should be provided on SRF terms. A number of these Directors stressed that, as a principle, exceptional access should always be subject to SRF-type charges. However, many Directors noted that the maximum maturity of the SRF obligations may sometimes be too short relative to the duration of the balance of payments need, including, in some cases, where the member has high preexisting use of Fund resources and where portfolio shifts may be longer-lasting. Further, the restrictive circumstance test for the SRF would, unless amended, preclude use of that facility outside of capital account crises and in precautionary settings. Directors agreed to continue discussion of the applicability of the SRF to precautionary settings in July 2004. The Board will have the opportunity to review issues related to charges and maturity of the SRF and other facilities at a date to be determined.

In connection with exit strategies, and based on the experience in earlier cases where the Fund was repaid, Directors observed that a member's capacity to make repurchases and reduce its large Fund exposure will depend on improvements to both the current account and the capital account of the balance of payments. In this context, Directors recognized that some of the features of the current exceptional access cases, particularly the high debt levels, will require the relevant members to sustain high primary fiscal surpluses into the medium term. Given that the balance of payments difficulties of the countries currently with exceptional access appear to be of a medium-term nature, Directors could not rule out the possibility of continued Fund financing for some of these countries for a period of time.

Directors agreed that the procedures for early Board involvement and for the provision of additional information have worked well in supporting an effective decision-making process. Early informal Board meetings on Argentina and Brazil were helpful in providing the Board with information on the progress of negotiations and alerting staff to

Directors' concerns on key aspects of the program. Directors also welcomed the additional information provided in the context of requests for exceptional access—in particular, the documents evaluating exceptional access based on the four substantive criteria, and the rigorous assessment of the financial risks to the Fund arising from the proposed access, its effect on liquidity, and the member's capacity to repay the Fund. They considered that the framework would be strengthened by the inclusion, in documents presenting future requests for exceptional access, of more in-depth scenario analyses of the financial impact on the Fund and explicit recognition of costs to borrowers and creditors of members incurring arrears to the Fund. In this context, some Directors called for clarification of the Fund's lending into arrears policy, particularly with regard to the good-faith criterion. In addition, a few Directors requested that the normal circulation period for staff reports prior to the Board not be shortened unless a rapid decision is essential.

Directors noted that the Fund has provided a very high share of total official financing in recent exceptional access arrangements. While financing from other official sources will continue to be decided on a case-by-case basis, some Directors considered that, as members proceed toward graduating from use of Fund resources, it would be appropriate for financing from other official bilateral and multilateral sources to increase. A view was expressed, however, that the Fund should remain the primary source of official financing.

Directors took note of the circumstances in which Fund resources have addressed an underlying balance of payments need that was related to fiscal imbalances. While Fund resources can only be used to meet a balance of payments need, on occasion purchases have in effect been used as a source of budget financing, particularly where the resources have been made available directly to the government rather than retained by the central bank. Several Directors noted that such use increases financial risks to the Fund, including the risk that the associated repurchases become subject to a budget appropriation process, and some Directors recommended that such arrangements be avoided in the future. Several Directors requested a more detailed assessment in the period ahead of the rationale for, and the risks associated with, the use of Fund financing as a source of budget finance.

Directors agreed that future reviews of the exceptional access policy should be undertaken at the same time as regular reviews of access policy in the credit tranches and under the EFF. The next review is scheduled to take place in late 2004.