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March 5, 2003

The Acting Chair's Summing Up
Review of Access Policy Under the Credit Tranches and the Extended Fund Facility, and Access Policy in Capital Account Crises—Modifications to the Supplemental Reserve Facility and Follow-Up Issues Related to Exceptional Access Policy
Executive Board Meeting 03/16—February 26, 2003

Directors welcomed the opportunity to review the recent application of the Fund's access policy, as well as proposals to make operational the Fund's new strengthened framework for exceptional access in capital account crises. Together with the summing up of our discussion on September 6, 2002, this summing up will provide a new framework that will help ensure that exceptional access remains exceptional, while retaining the Fund's flexibility to provide adequate assistance to members facing a capital account crisis. The Board also decided to maintain the current access limits in the credit tranches.

Access Policy in Capital Account Crises—Modifications to the Supplemental Reserve Facility and Issues Related to Exceptional Access Policy.

Regarding the policy on access in capital account crises, Directors discussed a number of operational aspects of the new framework whose building blocks were endorsed at their discussion on September 6, 2002. As noted at that time, the new framework establishes four substantive criteria guiding decisions on when exceptional access may be appropriate in capital account crises—events characterized by a sharp loss of investor confidence and large and disorderly outflows of capital. Directors stressed that the effectiveness of the exceptional access policy will critically depend on the consistent and rigorous application of these criteria. Directors took note of the further staff papers planned on the capacity of countries to access financial markets after debt restructuring, and on initial experience with the debt sustainability analysis.

The new framework also sets out stronger procedures for decision-making on exceptional access proposals. These procedures include increasing the burden of proof in program documentation, early and more formal Board consultations on program negotiations in exceptional access cases, and, as a rule, ex post evaluation of programs with exceptional access within one year of the end of the arrangement. Directors agreed that these procedures would apply to any exceptional access (i.e. access under any facility that exceeds the limits applying in the credit tranches and the Extended Fund Facility), even when the member is not experiencing a capital account crisis.

Directors saw a more formal process for Executive Board consultation at the early stages of program discussions as helpful for reinforcing careful and systematic decision-making on exceptional access cases. At the same time, however, they recognized the constraints imposed by the special circumstances under which exceptional access programs

are negotiated. In particular, these programs are frequently negotiated over a very short time with a backdrop of a worsening crisis, where new information and developments may require substantial changes in the program at very short notice. Directors also agreed that management and staff should have sufficient flexibility and discretion in coming to an agreement in crisis situations without undue delay. The need to move very quickly in some situations was emphasized by several Directors. Recognizing that these constraints will affect different cases differently, Directors agreed on the following policy regarding procedures for early consultation to be followed in all cases involving access above the limits.

Once management decides that new or augmented exceptional access to Fund resources may be appropriate, it will consult with the Board promptly in an informal meeting. Directors will be provided with a concise note that sets out the following as fully as possible: (i) a tentative diagnosis of the problem; (ii) the outlines of the needed policy measures; (iii) the basis for a judgment that exceptional access may be necessary and appropriate, with a preliminary evaluation of the four substantive criteria[1] applying in capital account crises, and including a preliminary analysis of external and sovereign debt sustainability; and (iv) the likely timetable for discussions. Staff will circulate this note to Executive Directors at least two hours prior to the informal session, to give Directors some time to absorb the material before meeting. This meeting will provide the basis for consultation with capitals and the issues that emerge would be addressed in a further informal session.

Additional consultations with Executive Directors will normally be expected to occur between the initial informal meeting and the Board's consideration of the staff report. The briefings will aim to keep the Board abreast of program-financing parameters, including assumed rollover rates, economic developments, progress in negotiations, any substantial changes in understandings, and any changes to the initially envisaged timetable for Board consultation. The staff will provide the Board with a separate report evaluating the case for exceptional access based on further consideration of the four substantive criteria, including debt sustainability. To the extent that program parameters are not yet agreed, this report will clearly be tentative. Where time permits, this report will be provided to the Board in advance of the circulation of program documents. In all cases, this report will be included in the program documents.

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[1] The four criteria are: exceptional balance of payments pressures in the capital account; debt sustainability analysis; expectation of reentry to capital markets; and strong program design and implementation prospects. The full language of the criteria is given in *Summing Up by the Acting Chair—Access Policy in Capital Account Crises* (Buff/02/159, 9/20/02).

Management will consult with the Board specifically before concluding discussions on a program and before any public statement on a proposed level of access.

Strict confidentiality will need to be maintained, and public statements by members, staff and management should take special care not to prejudge the Board's exercise of its responsibility to take the final decision.

As the Board agreed in September, the staff report for an arrangement proposing exceptional access will include: a consideration of each of the four substantive criteria for exceptional access in capital account crises (including a rigorous analysis of debt sustainability); a thorough discussion of need and the proposed level of access; an assessment of the risks to the Fund arising from the exposure and its effect on liquidity; and systematic and comprehensive information on the member's capacity to repay the Fund.

Directors highlighted the unusual uncertainty and risk that is often associated with the projections of private capital flows and the difficulty this poses for program design. In such cases, it is especially important to be explicit and cautious about the assumptions underlying the projections for financing and their sensitivity to shocks. A number of Directors requested that further information be provided to the Board discussing private sector involvement in program financing. There will normally be a range of potentially applicable approaches for sustaining private sector financial flows, including voluntary efforts to overcome collective action problems among creditors, that could help meet the objectives of the program. Directors agreed that discussions of these issues would be expected to be part of the Board consultations for exceptional access cases set out above.

Directors also agreed to include in the program documentation a standard table that would gauge proposed access levels against a broader set of metrics, and complement quota based metrics. While Fund access would not be constrained to, or evaluated against, any of the indicators proposed in the paper, these indicators would provide useful additional perspective and help ensure uniformity of treatment among members. Directors agreed that a table along the lines proposed in the staff paper should be included in all requests for exceptional access with the possible inclusion of additional indicators as might be needed.

Directors considered possible changes to the maturity of repurchases under the Supplemental Reserve Facility (SRF), as well as the appropriate mix of Fund resources in capital account crises. They observed that the experience with capital account crises has shown a greater variance in the duration of countries' balance of payments need than originally expected. Most Directors expressed concern about the increased use of so-called "blends" of credit tranche and SRF resources. The Board has decided to lengthen the maturity of SRF expectations by one year and obligations by six months, and to strengthen the presumption that exceptional access in capital account crises should be provided under the SRF. A number of Directors stressed that there should be a strong presumption to use only SRF resources in all cases where exceptional access is used in capital account crises.

Directors also had an initial exchange of views about the implementation of the Fund's access policy in situations where a debt restructuring is needed. They stressed that difficult and well-informed assessments will be required to deal with financial challenges and needs that are fundamentally different from those of countries with a sustainable debt burden. In particular, the substantive criteria for exceptional access in capital account crises will generally not be met and the conditions for the use of the SRF will not apply. Directors generally agreed that access in such cases would normally be expected to be within the access limits, although there could be rare circumstances warranting exceptional access. A few Directors were hesitant to allow for any possibility of exceptional access in debt restructuring cases.

Directors agreed that the consistent implementation of the new framework for access policy will be an important contribution to the Fund's ongoing efforts to heighten the degree of clarity and predictability for both members and markets about the Fund's response in crisis resolution. They welcomed the proposal for a stock taking on the operation of this framework after one year.

Review of Access Policy in the Credit Tranches and under the Extended Fund Facility

Directors decided to retain the current access limits applying in the credit tranches and Extended Fund Facility—100 percent of quota annually, and 300 percent of quota cumulatively. They also agreed to shift to a two-yearly cycle for the reviews of access policy, and to broaden the review to include access under the Poverty Reduction and Growth Facility, with the next review to take place by end-December 2004. A number of Directors cautioned, however, that, in view of the downside risks in the world economic outlook, the Fund's access policy would need to be monitored closely in the period ahead. Directors welcomed, in this regard, the assurance that an earlier review of access policy can take place, should this prove necessary. In addition, staff will provide a factual report on access developments by end-December 2003.