INTERNATIONAL MONETARY FUND

# Access Policy in Capital Account Crises—
# Modifications to the Supplemental Reserve Facility (SRF)
# and Follow-up Issues Related to Exceptional Access Policy

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## I. Introduction

1. **The Executive Board considered strengthened Fund policies on access in capital account crises on September 6, 2002.**[1] On that occasion, substantive criteria were agreed that would need to be met for exceptional access in capital account crises. New procedures for decision making in cases involving exceptional access were also supported by the Board. As envisaged at the time of the September discussion, the present paper considers whether the maturity of purchases under the Supplemental Reserve Facility (SRF) should be lengthened and follows up on several issues related to operationalizing the new framework for access policy.[2]

2. **The structure of the paper is as follows.** Chapter II summarizes the core features of the framework proposed to the Board in September. It then elaborates on a number of operational aspects of the new framework for exceptional access, including the procedures for consultations with the Board, consideration of the scope for involving the private sector in program financing and the reporting framework for alternative metrics in considering exceptional access. Chapter III considers the possibility of extending the maturity of the SRF purchases by one year to add a degree of flexibility and reduce market concerns about future lumpy payments. Chapter IV briefly considers access policies in cases of lending into arrears or debt restructuring. The paper concludes with issues for discussion.

## II. Operational Aspects of the Framework for Exceptional Access

3. **The new framework for access policy in capital account crises is based on a more clearly defined set of criteria guiding the appropriate use of exceptional access**. These criteria, which build upon those governing all access decisions, should help shape the expectations of members and markets, provide a benchmark for difficult decisions regarding program design and access, safeguard Fund resources, and help ensure uniformity of treatment of members. Under the policy, the following criteria would (at a minimum) need to be met to justify exceptional access for members facing a capital account crisis:

- *Exceptional balance of payments pressures*. The member is experiencing exceptional balance of payments pressures on the capital account resulting in a need for Fund financing that cannot be met within the normal limits;

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[1] See *Access Policy in Capital Account Crises* (SM/02/246, 7/30/02) and the summing up (BUFF/02/159, 9/20/02).

[2] A companion paper reviews access policy in the credit tranches and under the Extended Fund Facility.

- *Debt sustainability analysis*. A rigorous and systematic analysis indicates that there is a high probability that debt will remain sustainable;
- *Expectation of re-entry to capital market*. The member has good prospects of regaining access to private capital markets within the time Fund resources would be outstanding, so that the Fund's financing would provide a bridge; and
- *Strong program design and implementation*. The policy program of the member country provides a reasonably strong prospect of success, based in part on an assessment of the government's institutional and political capacity to implement that program.

4. **These criteria are designed to apply an appropriately stringent threshold to the availability of large amounts of Fund resources.** The objective is to reduce the risk that Fund members or market participants would expect exceptional access to be available in situations where a member's debt burden was clearly unsustainable, i.e. where temporary access to finance from the Fund in support of a credibly achievable policy program could not under reasonable assumptions produce a return to financial viability with a sustainable debt burden. The proposed framework also recognizes that exceptional access may be appropriate in some circumstances, and that it has been a necessary element in program success in a number of cases. The substantive criteria require careful judgments to be made within the framework: these judgments will not usually be simple or straightforward.

5. **In addition to these substantive requirements, the new framework is predicated on stronger procedures for decision making on exceptional access proposals**. Three elements in particular received broad-based support at the September Board meeting:

- *Elevated burden of proof*. Existing operational guidance to Fund staff already requires that all reports requesting use of Fund resources include a paragraph justifying the proposed level of access, as well as a separate section dealing with the member's capacity to repay the Fund. The new framework for exceptional access would raise the burden of proof by requiring a more extensive justification of the scale of access and the associated path of reserves, a rigorous debt sustainability analysis and an assessment of the risks to the Fund arising from the exposure and its effect on liquidity, and a forward-looking assessment of financing assurances.[3]
- *Early Board consultations*. Directors supported formalizing procedures for early Board consultation on the status of negotiations in exceptional access cases. The

[3] The assessment of the risks to the Fund arising from the exposure and the Fund's liquidity position would be prepared by the Policy Development and Review Department and the Treasurer's Department.

modalities of such involvement, which build on the existing practice of confidential Board briefings, are discussed further below.

- *Ex post evaluation*. Directors have agreed to establish a requirement of ex post evaluation of programs with exceptional access within a year after the end of the arrangement.

6. **The term "exceptional access" is used here to apply to any lending in which access is above 100 percent of quota on an annual basis or above 300 percent of quota cumulative (i.e. the limits that apply to the credit tranches and the EFF) irrespective of the facility used.** Nearly all uses of exceptional access during 1995-2002 were in support of the programs of members that had experienced capital account crises—characterized by a sharp loss of investor confidence and large and disorderly outflows of capital—and the substantive criteria and procedural requirements proposed here are designed to apply to access policy in those cases.[4] The staff expects that the large majority of cases where exceptional access could be considered would be in capital account crises, though the possibility cannot be precluded that other circumstances could arise that might require exceptional access. In those other cases, the substantive criteria described above (paragraph 3) would not be relevant although the procedural requirements (set out in paragraph 5 and in the remaining parts of this chapter) would be followed. This paper provides some general guidance on the considerations that should inform access policy in circumstances where a member is undertaking a restructuring of private claims on the sovereign and the Fund is considering "lending into arrears" (see Chapter IV).

7. **The remainder of this section considers three issues related to operationalizing the strengthened framework for exceptional access in capital account crises:** (i) procedures for involving the Board; (ii) issues related to the consideration of private sector financing in exceptional access cases; and (iii) the use of alternative metrics in gauging the magnitude of proposed access levels.[5]

### A. Board Involvement in Exceptional Access Cases

8. **In the discussion on access policy in capital account crises, it was recognized that a more formal process for Executive Board consultation at the early stages of program discussions could help reinforce careful and systematic decision-making on exceptional**

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[4] The only exceptions were the stand-by arrangements for Russia (1996) and Turkey (1999), where the annual (but not the cumulative) access limit was exceeded because of purchases drawn under previous arrangements.

[5] See *Summing Up by the Acting Chair, Access Policy in Capital Account Crises*, (EBM/02/94, 9/20/02).

**access cases.** Directors requested further consideration of how this could be implemented, and proposals to this effect are set out below.

9. **Periodic informal consultations with Executive Directors are already conducted when arrangements with exceptional access are in place or under consideration.** Management and the staff have regularly informed Executive Directors about the policy issues being confronted and the financing strategy in large access cases. For example:

- *Turkey*. In calendar year 2001, a total of 30 meetings were conducted on Turkey, 23 of which were informal.[6] This included 13 informal meetings between the time the exchange rate was devalued in February and the Board formally approved an augmentation to the revised program on May 15 (including a videoconference with the First Deputy Managing Director when he was in Ankara).

- *Argentina*. A total of 21 meetings were held in 2001 to discuss Argentina, 18 of which were informal (including 10 in the two months leading up to the September 2001 augmentation of the program). Frequent informal meetings on Argentina have continued during 2002.

- *Uruguay*. Thirteen meetings took place on Uruguay during 2002, nine of which were informal (nearly all concentrated prior to the approval of the program's two augmentations).

- *Brazil*. Six meetings took place in 2002, two of which were informal (prior to the approval of the new arrangement). The relatively limited number of informal meetings on Brazil reflects the fact that the situation did not materially deteriorate until after the completion of the third review in June. Indeed, until then the existing arrangement had been on track and Brazil had been making early repurchases.

10. **The extent to which a policy on early consultation can be formalized is constrained by the special circumstances under which exceptional access programs are negotiated**. In particular, it would be difficult to adopt a strict rule for the timing of Board consultations. Discussions on such programs are conducted in the context of rapidly evolving and highly uncertain circumstances. The data, the assessment of the balance of payments need, and the mix of financing and adjustment are always preliminary at this stage and

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[6] This number includes four informal country matters sessions. It excludes additional meetings that were held, for instance, with G10 Directors on Turkey's monitoring exercise of foreign bank lines, as well as other meetings that were held with (groups of) Directors outside the context of the Board meeting as a whole.

subject to large changes over the course of the discussions.[7] Moreover, while in some cases the access proposal is clear at the start of a negotiating mission, in other cases the proposal develops following an initial exploratory mission or during a series of negotiating missions. For this reason, and to avoid constraining negotiations, it would be important to retain sufficient discretion in the negotiations to reach a speedy and appropriate understanding.

11. **Taking this into account, staff proposes the following procedures for early consultation with the Executive Board.** These procedures would be applied in all cases involving the SRF and exceptional access:[8]

- *Timing*. Once management decides that new or augmented exceptional access to Fund resources is likely to be appropriate, management will inform the Board promptly in an informal session.

- *Documentation.* Directors will be provided at the time of the Board meeting with a short confidential speaking note. This would set out: (i) a tentative diagnosis of the problem; (ii) a preliminary analysis of external and sovereign debt sustainability; (iii) the outlines of the needed policy measures; (iv) the basis for a judgment that exceptional access may be necessary and appropriate; and (v) the likely timetable for discussions.

- *Ongoing consultation with the Board*. Periodic Board consultations would occur between the initial informal meeting and the Board's consideration of the staff report. The briefings would aim to keep the Board abreast of financing considerations, economic developments, progress in negotiations, any substantial changes in understandings and any changes to the initially envisaged timetable for Board consultation. Management would notify the Board before concluding negotiations on a program or before announcing an agreement on the proposed size of access.

- *Confidentiality.* Strict confidentiality would be maintained, consistent with existing standards for Board documents and discussions, and public statements by staff or

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[7] For example, at the emergence of difficulties in Indonesia in 1997, the first mission was briefed to discuss a precautionary arrangement, but circumstances in the field demanded moving to an arrangement with both more access and adjustment.

[8] These procedures derive partly from procedures under the Emergency Financing Mechanism. See *Summing Up By the Chairman—Emergency Financing Mechanism* (EBM/95/85, 9/12/95). The EFM is a set of procedures for close communication with the Board when management intends to bring a proposed arrangement to the agenda more quickly than under the usual procedures. These procedures have been invoked 5 times, the last time being for Turkey's program in May 2001 (the other four cases were the programs for the Philippines, Thailand, Indonesia and Korea in 1997).

management would take special care not to prejudge the Board's exercise of its responsibility to take the final decision.

### B. Private Sector Financing in Exceptional Access Cases

12. **Crises involving exceptional access are often characterized by unusual uncertainty and risk, particularly as regards the projections of private capital flows.** In such cases, it is especially important to be explicit and cautious about the assumptions underlying the projections of financing and their sensitivity to shocks. It is also important that at the program design stage a broad range of financing options is considered, involving both official and private sources, including instruments to overcome possible collective action problems among creditors and otherwise improve the prospects for program success. As the Board has considered on a number of occasions, there are circumstances even where a member has a sustainable debt burden where voluntary and market-based approaches can help improve program outcomes and reduce program risks. These approaches may include actions to help overcome creditor coordination problems, monitoring arrangements for particular types of credit exposures, liability management operations, new financing arrangements, and other efforts to improve the prospects for sustained financing by private domestic and foreign sources. [9]

13. **Fund financing in exceptional access cases has in practice covered only a portion of the country's gross financing need, with financing from the private sector and from other official creditors filling the balance.** While Fund financing tends to be an important source of official financing, the success of the program will depend crucially on the continued willingness of investors to hold a range of local assets and to roll over maturing debts. In a number of capital account crises, assumptions regarding the private creditors' and investors' actions proved too optimistic; and the adjustment in the member country was correspondingly larger.

14. **Key financing parameters in exceptional access cases would be expected to be discussed in the context of the early Board consultations as set out above.** A discussion of assumed private and public sector rollover rates and the sensitivity of the financing gap to lower/higher rollover rates, including the scope for domestic capital flight, would help gauge the realism of the program's financing assumptions and the degree, and pace, of economic adjustment. It is expected that this discussion would be anchored in a quantitative assessment of the country's external financing requirement and its sources. In addition, this discussion should be accompanied where relevant by an assessment of alternative approaches for sustaining private sector financial flows and their potential contribution to program success.

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[9] See *Involving the Private Sector in the Resolution of Financial Crises – Complementing the Catalytic Approach* (EBS/02/2, 1/8/02) for a fuller discussion of these options, including their caveats. In particular, there are limitations on the use of private contingent credit lines, credit enhancements and moral suasion.

## C. Use of Alternative Metrics

15. **The Fund's access criteria and limits are based on quotas.** Quotas serve multiple purposes in the Fund's financial structure and operations: they determine members' maximum contribution to the Fund's resources, they serve as a basis for voting rights in the Fund, and they are the metric against which access limits are established.

16. **As the Board has acknowledged on a number of occasions, there are several reasons that quotas may not be correlated with the size of members' economies, their potential balance of payments need or their capacity to service debt to the Fund.** While the quota formulas aim to reflect the member's ability to contribute to the Fund's resources and to proxy more generally members' size in the world economy, (including GDP, reserves, current payments, current receipts and variability of current receipts), actual quotas diverge to varying degrees from the results generated by the formulas.[10] The data used for the calculation of the quotas tend to be dated (to ensure data availability for all members), further worsening the fit with countries' potential balance of payments needs. In part because of the lags in adjusting the Fund's quota distribution, quotas for some emerging markets, in particular, do not provide a comparable measure of economic size, financial capacity or potential financing needs. And in countries with relatively open capital markets, potential financing needs in crisis may be extraordinarily large in relation to actual or even calculated quotas.

17. **To complement the use of quotas as a metric for evaluating appropriate access, staff papers could usefully incorporate a number of other indicators of financial needs and capacity to repay the Fund.** These indicators would supplement the standard table with indicators of a country's capacity to repay, which already measures repurchases as a percent of quota, exports, GDP and reserves. To provide additional perspective, ratios could be provided to gauge the size of proposed access, with alternative metrics serving not as substitutes to quotas but as complements. Staff would propose a minimum set of such indicators including at least access as a percent of (i) GDP; (ii) gross foreign exchange reserves; (iii) imports; (iv) exports; (v) total debt; and (vi) calculated quota (scaled to the size of the Fund). This set of alternative metrics may be augmented by additional relevant indicators as deemed appropriate. It would not be useful for Fund access to be constrained to, or evaluated against, a defined share or multiple of any of these indicators or combination of these indicators. They should, however, help provide a more comprehensive picture for evaluating access levels and assessing uniformity of treatment across cases.

18. **It is envisaged that all cases in which exceptional access is requested would include a table gauging access against the minimum set of indicators**. In addition, this

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[10] The External Review of Quota Formulas (EBAP/00/52) estimated that the proportion of all quota increases allocated to the equiproportional and selective (i.e. based on the formulas) elements has been, on average, 70 and 30 percent respectively.

table would include averages for all other cases in the General Resources Account, as well as the subset of other exceptional access cases (Box 1 includes a suggested template).

## III. MATURITY OF FUND LENDING IN CAPITAL ACCOUNT CRISES

19. **This section considers possible changes to the maturity of purchases under the Supplemental Reserve Facility (SRF) in light of recent experience, as well as the appropriate mix of SRF and other Fund resources in capital account crises**. While the SRF has been the facility of choice in responding to capital account crises since its inception, several recent crises have highlighted the constraints posed by its short maturity schedule. This has, in some cases, prompted a refinancing of SRF resources by longer-maturity resources (on credit tranche terms). In some other cases, arrangements intended to deal with capital account crises have contained, from the outset, a higher share of resources on credit tranche terms.

### A. Purpose and Terms of the SRF

20. **The SRF was established in the midst of the Asian crisis to provide large-scale financial assistance to members suffering from a balance of payments need arising from a sudden and disruptive loss of market confidence reflected in exceptional pressure on the capital account and reserves.**[11] Consistent with the expectation that the SRF would be used when the member was experiencing an exceptional balance of payments need, access under the SRF is not subject to specific limits (Box 2). Drawings under the SRF are expected to be repurchased in two installments after 1 and 1½ years, though these can be extended by up to one year upon request by the member and approval by the Executive Board. In addition, the SRF carries a surcharge on the normal rate of charge. These terms were regarded as consistent with the expected duration of the balance of payments need and provided incentives for limited use and early repurchases, and to safeguard Fund resources. The first use of Fund resources under the SRF was agreed for Korea on December 18, 1997 at the time of the first (bi-weekly) review under the stand-by arrangement.[12] Since then, the SRF has been used a total of eight more times by five countries (Argentina, Brazil, Russia, Turkey, and Uruguay).

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[11] Decision No. 11627-(97/123) SRF, adopted on December 17, 1997.

[12] The request for a Stand-By arrangement by Korea on December 4, 1997 was approved using the exceptional circumstances clause with the understanding that remaining drawings under the arrangement would be converted to SRF terms once the new facility was approved.

# Box 1. Template for Alternative Metrics in Considering Access

**Table -. Brazil: Proposed Access - Date**

| | Country | High Access Cases 1/ | | | | Normal Access Cases 1994-2002 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Proposed Arrangement (percentile) | 20th Percentile | 80th Percentile | Average | Proposed Arrangement (percentile) | 20th Percentile | 80th Percentile | Average |
| | | | (ratio) | | | | (ratio) | | |
| Access | | | | | | | | | |
| In millions of SDRs | 22,821 | | | | | | | | |
| Average Annual Access | 564 | | | | | | | | |
| Total Access in percent of: 2/ | | | | | | | | | |
| Actual Quota | 752 | 77 | 359 | 1,560 | 749 | 100 | 35 | 80 | 63 |
| Calculated 11th Review Quota | 305 | 73 | 156 | 516 | 280 | 100 | 13 | 41 | 30 |
| BOP Need 3/ | 57 | 100 | 46 | 100 | 69 | ... | ... | ... | ... |
| Gross Financing Need 4/ | 35 | 85 | 8 | 32 | 19 | 97 | 4 | 15 | 10 |
| Gross Domestic Product | 6 | 88 | 2 | 5 | 4 | 99 | 1 | 3 | 2 |
| Gross International Reserves | 81 | 77 | 17 | 135 | 60 | 90 | 6 | 50 | 51 |
| Exports of Goods and NFS | 46 | 100 | 5 | 27 | 16 | 100 | 2 | 7 | 6 |
| Imports of Goods and NFS | 61 | 100 | 5 | 26 | 15 | 100 | 2 | 6 | 5 |
| [Total Debt Stock] | | | | | | | | | |
| [Of Which: Public] | 29 | | | | | | | | |
| [Of Which: External] | 14 | | | | | 95 | 2 | 9 | 5 |
| [Of Which: Short-term] | | | | | | | | | |
| [Scheduled Debt Service During Program] | | | | | | | | | |
| [Of Which: Public] | | | | | | | | | |
| [Of Which: External] | 119 | | | | | 91 | 13 | 64 | 69 |
| [Of Which: Short-term] | | | | | | | | | |
| [M2] | | | | | | | | | |
| [Total Package Financing] | | | | | | | | | |
| Proposed Phasing (In percent of quota) 5/ | | Year 1 | Year 2 | Year 3 | | | | | |
| SBA/EFF | | 316 | 185 | ... | | | | | |
| SRF | | 251 | ... | ... | | | | | |

Sources: IMF Staff estimates.

1/ High Access Cases include data at approval and on augmentation, which involve the use of the exceptional circumstances clause or SRF resources. Exceptional access augmentations are counted as separate observations. For the purpose of measuring access as a ratio of different metrics, access includes augmentations and previously approved and drawn amounts.

2/ The data used to calculate all ratios is the projection, at the time of program approval, for the year in which the program is approved.

3/ BOP need defined as the sum of all exceptional financing (reschedulings, arrears, Fund purchases, other BOP support, and any unfilled financing gap) during the years of the arrangement.

4/ Fund financing includes all use of Fund resources during the period under arrangement and anticipated at the time of approval. Gross financing need is defined as the sum of the current account deficit (exclduing grants), amortization of maturities in excess of one year including Fund repurchases, the targeted reduction in arrears (in cash as well as through rescheduling), and the targeted buildup in gross reserves. Figures may be estimated based on information available for the period most closely corresponding to the program period.

5/ Phasing is based on program years.

## Box 2. Supplemental Reserve Facility (SRF)[1]

**Purpose**. Provide financial assistance to members experiencing exceptional balance of payments difficulties due to a large short-term financing need resulting from a sudden and disruptive loss of market confidence reflected in pressure on the capital account and the member's reserves, if there is a reasonable expectation that the implementation of strong adjustment policies and adequate financing will result, within a short period of time, in an early correction of such difficulties.

**Conditionality**. The financing provided under this facility is available in the context of a stand-by (SBA) or extended arrangement (EFF) and is subject to the same conditionality as the SBA or EFF.

**Access**. No access limits apply to the SRF. As set out in the instrument, the amount of financing under this facility will be determined taking into account: (i) the financing needs of the member; (ii) its capacity to repay, including the strength of its program, its outstanding use of Fund credit, and its record in using Fund resources in the past and in cooperating with the Fund in surveillance, as well as (iii) the Fund's liquidity.

**Maturity**. Each SRF purchase is amortized in two equal repurchases. The first repurchase is expected to take place one year and the second repurchase one and a half years from the date of purchase. The member may request an extension of the repurchase expectation by up to one year. If a member fails to make a repurchase as expected, the Fund may require the member to make the repurchase in question with a specified period not to exceed the original repurchase schedule.

**Charges**. During the first year from the date of the first purchase, all SRF credit will be subject to a surcharge of 300 basis points above the GRA rate of charge. The surcharge will be increased by 50 basis points at the end of that period and every six months thereafter, until the surcharge reaches 500 basis points.

**Blend**. All resources provided under the SRFs are provided in the context of an upper credit tranche arrangement and are therefore "mixed" or "blended" with resources available under either the SBA or the extended arrangement. Unless the member's medium-term financing needs require access in the credit tranches or under the EFF beyond the annual or cumulative limit, financing in the credit tranches or under the EFF will not be provided beyond the annual or cumulative limit, and financing beyond either limit will be provided only with SRF resources.

**Burden sharing**. In determining the appropriate level of SRF financing, the Fund will take into account financing from other creditors. Members are encouraged to seek to maintain participation of creditors, both official and private, until the pressure on the balance of payments ceases. All options should be considered to ensure appropriate burden sharing.

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1/ See *Supplemental Reserve Facility* (EBS/97/225, 12/5/97).

21. **Financing under the SRF is made available in the context of a stand-by or extended arrangement.** The SRF is intended to augment resources provided in the credit tranches or under the EFF, as members are entitled to request resources under the Fund's credit tranches for any balance of payments problem. Hence, the SRF was designed to provide resources in specific circumstances in excess of what was available to members in the credit tranches, and there is always some blending of resources with different pricing and maturity. In nearly all cases, resources under the SRF have been made available under stand-by arrangements. Only in Russia (1998) were SRF resources provided under an extended arrangement.

22. **The SRF was expected to be the main vehicle for financing a member's near-term needs in capital account crises.** At the same time, the SRF decision left open the possibility that medium-term financing needs might require access in the credit tranches or under the EFF above the access limits.[13]

## B. The Mix of Resources Under Recent Arrangements

23. **In the first arrangements that included an SRF, all resources in excess of the access limits applying for the credit tranches and the EFF were provided under the SRF.** Korea (1997), Russia (1998) and Brazil (1998) used resources in the credit tranches within the access limits and all exceptional access was provided under the SRF (Table 1). This obviated invoking the exceptional circumstances clause. All three members experienced a rapid improvement in their balance of payments and repurchased outstanding SRF resources ahead of the repurchase expectation date.[14]

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[13] In particular, the SRF decision states that SRF financing will be available to members where "the projected access in the credit tranches or under the extended Fund facility, taking into account outstanding purchases, would otherwise exceed either the annual or cumulative limit. In those cases, unless the member's medium-term financing needs require access in the credit tranches or under the extended Fund facility beyond the annual or cumulative limit, financing in the credit tranches or under the extended Fund facility will not be provided beyond the annual or cumulative limit, and financing beyond either limit will be provided only [with SRF resources]". Decision No. 11627-(97/123) SRF, December 17, 1997.

[14] In the case of Russia the improvement in the external position was partly due to the lower financing needs related to a default on ruble-denominated debt (largely held by non-residents) and a default on a large portion of the debt denominated in foreign currency (originally contracted by the Soviet Union). Following a series of restructuring agreements, Russia has largely regularized its relations with its external creditors. As of end-2002 Russia has not resumed borrowing from international capital markets, although the rapidly declining spreads suggest that there may be appetite for new Russian bond issues.

24. **In more recent capital account crises, the Fund ultimately, if not initially, provided exceptional access partly with resources in the credit tranches.** The exceptional circumstances clause was invoked to provide a higher share of resources on credit tranche terms to satisfy exceptional financing needs, albeit in most cases still in conjunction with resources under the SRF. In each case, the use of resources in the credit tranches was justified by the expected longer-term nature of the balance of payments need.

The cases comprise:

- *Turkey (2000)*. As in previous SRF cases, a large augmentation, entirely on SRF terms, was agreed for Turkey in December 2000. However, two months later the Turkish lira collapsed, precipitating a banking crisis. A second augmentation was approved in May 2001, this time using only resources in the credit tranches in recognition of the medium-term nature of the balance of payments need. Finally, in February 2002, a new front-loaded stand-by arrangement with exceptional access was approved, effectively re-financing all SRF obligations on credit tranche terms.

- *Argentina (2001)*. A mixture of resources in the credit tranches in excess of the access limits and under the SRF was provided in January 2001, in recognition of the very high debt service in the following two years and concerns that resources exclusively on SRF terms would exacerbate the already high debt-service profile. A similar second augmentation was approved in September 2001.

- *Brazil (2001, 2002)*. Under Brazil's 2001 arrangement, the financing in excess of the access limits was entirely on SRF terms. However, a follow-up arrangement was approved a year later (September 2002) to meet the increasing financing needs. Exceptional access was provided as a mix of resources, with two-thirds under the credit tranches and one-third under the SRF.

- *Uruguay (2002)*. The March 2002 stand-by arrangement provided for access within the limits. The arrangement was augmented in June as it became evident that Uruguay was facing a more acute crisis. Exceptional resources were provided in a two-thirds/one-third ratio in the credit tranches and the SRF. In August 2002, as pressure on reserves intensified and the medium-term nature of the problem became more evident, remaining SRF access was cancelled and replaced by resources in the credit tranches, along with a further augmentation in the credit tranches.

## C. Variation in the Duration of the Balance of Payments Need

25. **The experience with capital account crises shows a greater variance in the duration of countries' balance of payments need than originally expected, indicating a possible need for greater flexibility in the repayment terms for the SRF**. The experience gained since the establishment of the SRF five years ago should allow for a better calibration of the maturity of purchases under the facility to the duration of the countries' balance of payments need in capital account crises. An important lesson has been learned about the diversity of capital account crises, and there is particular uncertainty in predicting the timing

**Table 1. Use of Exceptional Access, 1995-2002**

| | Date | Context 1/ | Exceptional Access (% quota) 2/: Under the credit tranches and EFF | Exceptional Access (% quota) 2/: Under the SRF | Access under the Credit Tranches at approval (Percent of quota at approval): Annual 3/ | Access under the Credit Tranches at approval (Percent of quota at approval): Outstanding | Exceptional Circumstance | Exceptional Mix SRF/SBA 4/ (percent) | SRF Already Repaid |
|---|---|---|---|---|---|---|---|---|---|
| **SRF Cases** | | | | | | | | | |
| 1. Korea II | 12/18/97 | C | ... | 1244 | 0 | 513 5/ 6/ | No | 100/0 | Yes |
| 2. Russia | 7/20/98 | A | 104 | 93 | 100 | 198 | No | 100/0 | Yes |
| 3. Brazil I | 12/2/98 | N | 180 | 420 | 100 | 0 | No | 100/0 | Yes |
| 4. Turkey I | 12/21/00 | A | ... | 600 | 138 5/ | 107 | No | 100/0 | Yes |
| 5. Argentina I | 1/12/01 | A | 145 | 100 | 144 5/ | 180 6/ | Yes | 40/60 | No |
| 6. Argentina II | 9/7/01 | A | 113 | 188 | 219 5/ | 227 6/ | Yes | 63/37 | No |
| 7. Brazil II | 9/14/01 | N | 72 | 328 | 60 | 97 | No | 100/0 | No |
| 8. Uruguay I | 6/25/02 | A | 252 | 126 | 202 5/ | 117 6/ | Yes | 33/67 | No |
| 9. Brazil III | 9/6/02 | N | 501 | 251 | 316 5/ | 140 6/ | Yes | 33/67 | No |
| **Non-SRF Cases 7/** | | | | | | | | | |
| *Prior to SRF* | | | | | | | | | |
| 1. Mexico | 2/1/95 | N | 688 | ... | 502 5/ | 149 6/ | Yes | 0/100 | ... |
| 2. Thailand | 8/20/97 | N | 505 | ... | 364 5/ | 0 6/ | Yes | 0/100 | ... |
| 3. Indonesia I | 11/5/97 | N | 490 | ... | 372 5/ | 0 6/ | Yes | 0/100 | ... |
| 4. Korea I | 12/4/97 | N | 1938 | ... | 1757 5/ | 0 6/ | Yes | 0/100 | ... |
| *After SRF Established* | | | | | | | | | |
| 1. Indonesia II | 8/25/98 | N | 312 | ... | 256 5/ | 245 6/ | Yes | 0/100 | ... |
| 2. Indonesia III | 3/25/99 | A | 34 | ... | 89 | 310 5/ | Yes | 0/100 | ... |
| 3. Indonesia IV | 2/4/00 | N | 175 | ... | 75 | 359 5/ | Yes | 0/100 | ... |
| 4. Turkey II | 5/15/01 | A | 660 | ... | 773 5/ | 175 6/ | Yes | 0/100 8/ | ... |
| 5. Turkey III | 2/4/02 | N | 1330 | ... | 1157 5/ | 655 5/ | Yes | 0/100 | ... |
| 6. Uruguay II | 8/8/02 | A | 207 | -84 | 386 5/ | 201 6/ | Yes | 0/100 | ... |

Source: Staff reports.
1/ C = conversion (from SBA to SRF); A = augmentation only; and N = new arrangement.
2/ Total access approved in the case of new approvals. Total size of the augmentation or conversion for others.
3/ Annual access is access in the first 12 months after approval of the augmentation/approval/conversion.
4/ Refers to the blend of SRF-SBA resources in exceptional access cases when SBA resources have been used outside the access limits. It does not correspond to the ratio of access under SRF (third column) to the annual access under the credit tranches (fourth column) as the SBA is usually longer than one year
5/ Over the access limits of the credit tranches and EFF at the time of approval.
6/ Expected to exceed the cumulative access limit of the credit tranches and EFF at some point during the arrangement.
7/ Excludes the approval of arrangements for Russia in March 1996 and Turkey in December 1999, which required a technical waiver of the annual access limits when the phasing of previous drawings was factored in.
8/ SRF drawings remained which were approved in the December 2000 augmentation, but no new access was approved under the SRF.

of the member's regaining access to capital markets. While programs have been designed to meet the diversity of situations, the short maturity of the SRF limited the degree of flexibility associated with a dimension of Fund involvement.

26. **Recent experience provides different patterns on the timing of regaining access to capital markets on terms compatible with sustainability.**[15] While the precise timing may be affected by the different degree of policy implementation and/or appetite for risk in emerging markets, the evidence points toward a greater variation in the duration of balance

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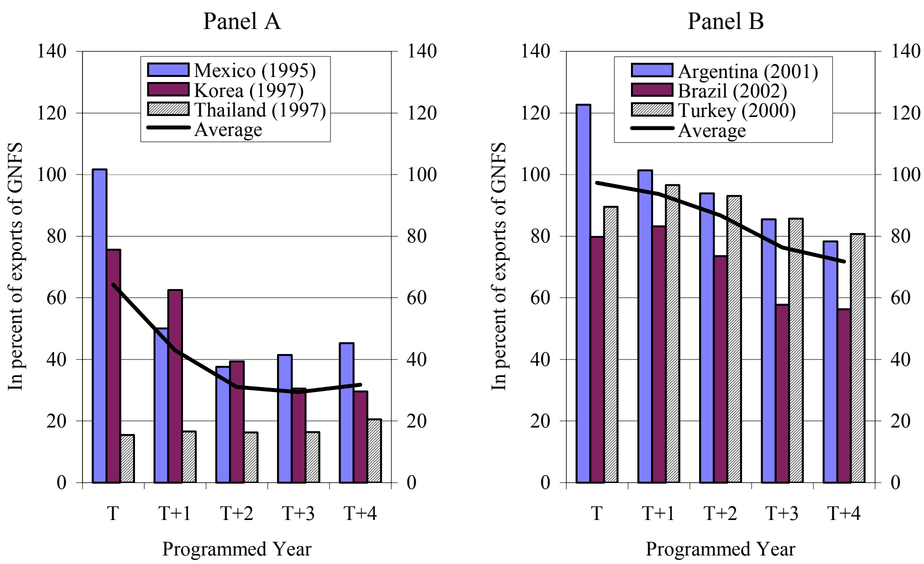
[15] See *Assessing the Determinants and Prospects for the Pace of Market Access by Countries Emerging from Crises* (EBS/01/157, 9/6/01) as well as its background paper for a discussion of market re-entry for a number of countries emerging from capital account crises.

of payments need in capital account crises than was envisaged in the SRF. While Mexico and Korea regained access relatively quickly (i.e., in less than one year after the approval of access under their Fund arrangements), other members with successful programs have taken longer and have faced more limited access and access at relatively high spreads even some time after they regained the capacity to borrow externally.

27. **One important difference among capital account crises is the debt-service profile and refinancing schedule faced by the member over the medium term.** Some cases confronted high debt-service ratios at the time of the crisis, but with levels projected to fall quickly to more reasonable levels (Figure 1, Panel A). The exceptional financing was partly used to overcome the hump in the schedule of payments. In other cases, the debt-service ratios were expected to remain at relatively high levels over the ensuing years, leading to use of blends of resources under the SRF with resources in the credit tranches (usually by invoking the "exceptional circumstances" clause (Figure 1, Panel B). [16] Such considerations about the debt-service profile are likely to be most important where the countries are more heavily indebted, and where the sustainability judgments are more difficult.

**Figure 1. Programmed Debt Service in Some Members with Capital Account Crises**
(As a percent of exports of goods and non-factor services)




Source: Fund staff estimates.

28. **The demanding repurchase schedule of the SRF may itself exacerbate the balance of payments problem by adding uncertainty to the recovery of the external**

[16] A larger share of resources in the credit tranches also reduces the costs to the member.

**position**. The lumpy repurchases at 1 and 1½ years create a financing need for the member that may strain liquidity management. Particularly in cases where debt service is already high, the uncertainty created by these payments, or the associated reduction in gross reserves, may itself be a factor delaying the return of confidence and reducing the chances that the program will succeed. This could ultimately put pressure on the Fund to refinance these obligations.

### D. A Possible Lengthening of SRF Purchase Maturities

29. **Lengthening the SRF repurchase schedule would help to better align the facility to the diversity in duration of balance of payments need experienced in capital account crises**. Any lengthening of the existing maturity schedule should bear in mind several objectives. The purpose of the SRF should remain as it is—to finance exceptional needs arising from capital account crises. Consistent with the notion that the SRF is intended to deal with a short-term loss of confidence, the maturity schedule should remain more ambitious than that applying to resources provided under SBA (or extended) arrangements. The distinction between the maturity of SRF and credit tranche resources reflects the special type of need being addressed under the SRF. At the same time, a modest lengthening of the maturity of the SRF could help to match the facility better to the diverse length of the balance of payments needs now evident in these crises.

30. **Staff proposes a moderate lengthening in the repayment structure of the SRF.** The staff proposal is summarized in Table 2. These proposals would delay the first repurchase expectation date by six months, lengthen the period over which repurchases are made to one year, provide for three smaller repurchases instead of two, and lengthen the overall maturity of the facility by one year.[17] These elements would help provide a degree of additional flexibility in repayment of SRF resources while preserving the distinction with credit tranche resources (Figure 2). By spreading out and decreasing the size of individual repurchases, liquidity management should be facilitated. Further increasing the number of repurchases (eight are used for each credit

**Table 2. Proposed Changes in Terms of the SRF**

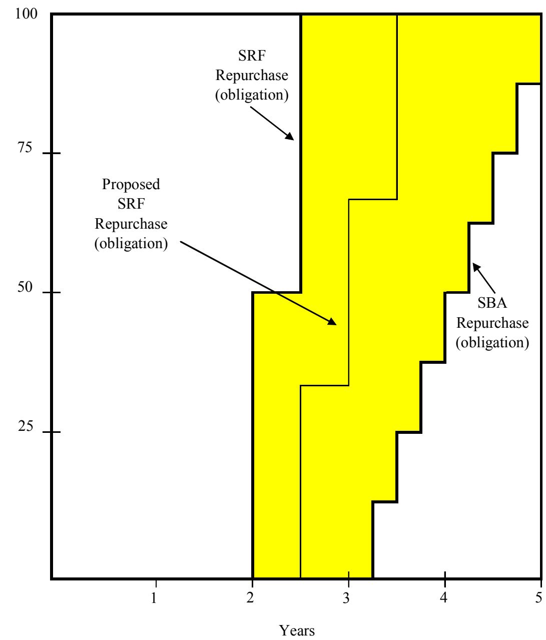
| | Current SRF | Proposal |
|---|---|---|
| Repurchase maturity: | | |
| Expectation | 1 - 1½ years | 1½ - 2½ years |
| Obligation | 2 - 2½ years | 2½ - 3½ years |
| Number of equal repurchase installments | 2 | 3 |

[17] The early repurchase expectation policy will continue to apply, and would serve in particular to cover those cases where a country's balance of payments has improved significantly prior to amounts outstanding before the date of the SRF repurchase expectation. See *The Fund's Early Repurchase Policy* (EBS/01/11, 2/2/01).

tranche purchase) would be at odds with the idea that the SRF is used where a re-entry to capital markets is expected, and would complicate the process of extending expectations when this was needed.[18]

**Figure 2. SRF vs. SBA Cumulative Repurchase Obligations**

(In percent of purchase)




31. **A lengthening of the maturity schedule under the SRF would help reinforce the presumption that exceptional access in capital account crises will be provided through the SRF.** By lengthening the SRF maturity somewhat, most capital account crises could be covered under the SRF without creating undue strain on members' balance of payments. This would reinforce the distinction between capital account crises for which exceptional access would be provided on SRF terms, and more conventional crises based on the current account, which could be treated under the credit tranches. However, the Executive Board will continue to have the right to invoke the "exceptional circumstances" clause when it deems it necessary, for those cases where the nature of the balance of payments need differs from that described in the SRF decision.

32. **Some minor changes could also be made in the mechanisms for extending repurchase expectations, in cases where this is warranted.**

- *Extensions for a full year only*. As in the existing SRF, the proposed structure of the facility would permit an extension of each repurchase expectation by up to one year. The current SRF allows extensions of less than one year, but experience gained in the extensions for Argentina suggests that this additional discretion may be of little use.

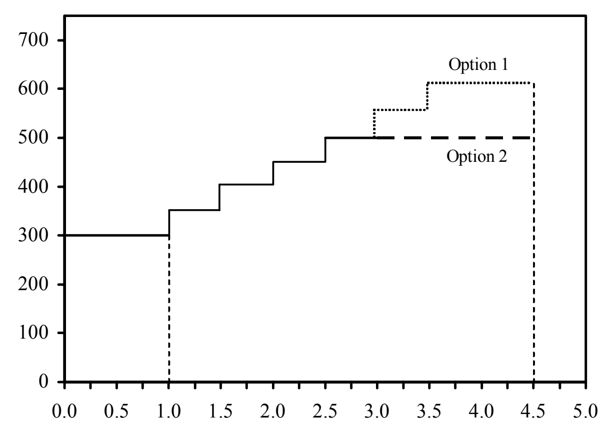
[18] The staff proposes to retain the existing maturity structure for the CCL for the immediate future, pending the forthcoming the review of the CCL planned for February 2003. Because the maturity structure of repurchase expectations and obligations under the CCL was established with reference to and aligned with the SRF, several changes to the text of CCL decision would be needed to retain the existing terms of repurchase expectations and obligations of the CCL. In the context of the CCL review, the Board will have the opportunity to consider the appropriate maturity of the CCL in relation to the maturity of the SRF and other borrowing from the Fund.

- *Grouping repurchases for extension*. With smaller and more frequent repurchases under the proposed structure, there is an increase in the potential number of repurchase expectations that might need to be extended. It might therefore be desirable to extend several repurchase expectations simultaneously.

33. **Both of these proposed changes would align the structure of the SRF repurchase expectations more closely with the policy on credit tranche and EFF resources.** Expected repurchases using credit tranche and EFF resources can only be extended to the date of the corresponding obligation. In addition, the presumption was established that credit tranche and EFF repurchase expectations falling due over a one-year period would be extended simultaneously.[19]

34. **It is proposed that the new terms for SRF purchases would apply to all purchases made after the decision is approved**, in the event that the proposal for extending the maturity of SRF repurchases is approved by the Board. It is not proposed to apply retroactively the extension of SRF expectation and obligation dates to outstanding SRF repurchases which will be subject to the original terms of the facility.[20]

**Figure 3. SRF Spreads** 1/
(Basis points over the basic rate of charge)




35. **If an increase in SRF maturity were agreed, it would also be necessary to determine how the system of surcharges would apply to the longer period of repurchase.**[21] One option would be to

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[19] See *Summing Up on the Review of Fund Facilities—Proposed Decisions and Implementation Guidelines,* Executive Board Meeting 00/113, (BUFF/00/175, 11/17/00).

[20] Only Brazil has an SRF in place with undrawn amounts. Forthcoming purchases under Brazil's SRF would be subject to the new SRF terms. Repurchases on purchases already drawn for Argentina, Brazil, and Uruguay would be subject to the original terms of the facility.

[21] During the discussion on the review of the Fund's facilities in November 2000, Directors considered that the level-based surcharges adopted for the credit tranches and EFF in the context of that discussion should not be changed for a period of at least four years. Surcharges relating to the SRF were not affected at that time. See *"Summing Up on the Review of Fund Facilities—Proposed Decisions and Implementation Guidelines"*, Executive Board Meeting 00/113 (BUFF/00/175, 11/17/00).

continue the system of increasing charges in 50 basis point increments every six months up to a maximum of 600 basis points (Figure 3, Option 1). As noted during the September discussion, higher charges would be unlikely to discourage a member seeking access under the SRF, since the member would not have recourse to other sources of financing. Higher surcharges would, however, increase incentives for early repayment, and compensate for additional risks to the Fund. Alternatively, the surcharge could be capped at 500 basis points, the maximum surcharge under the current system (Figure 3, Option 2). The current structure of surcharges has so far proven an adequate incentive for early repurchase. Moreover, the lengthening of the maturity schedule itself has the effect of prolonging the period during which the member is subject to the maximum surcharge. On balance, staff would propose to leave the current structure unchanged.

## IV. Access When a Debt Restructuring is Needed

36. **The financial challenges and needs of member countries undergoing debt restructuring are different from those of countries with a sustainable debt burden that are nevertheless experiencing a capital account crises.** In a restructuring, the substantive criteria defined above for exceptional access in capital account crises would generally not be met and the conditions for the use of the SRF would generally not apply.

37. **There are, however, some general guidelines that can help form access policy in a restructuring context.** First, as in all Fund-supported programs, its design needs to ensure that Fund access does not substitute for adequate adjustment effort over the medium term. Second, Fund finance should not be made available to continue payments on a restructured stock of debt that would be unsustainable, or unaffordable without exceptional finance from the IMF. Finally, Fund financing should not unduly increase the rigidity of the member's debt stock (for example, by leaving international financial institutions with an excessively large share of the debt burden).

38. **Fund lending to a member undertaking a restructuring of the private claims on the sovereign would ordinarily be expected to be within normal access limits.** The Fund is essentially committing resources into an unsustainable debt situation until the process of restructuring is completed, and there is no expectation of regaining access to private market financing in the short term. In such a situation, the principle that access would be within the normal limits remains fully appropriate. However, there may be rare cases that warrant exceptional access. Such circumstances could arise in those cases where the country is not in a position to make significant net repurchases to the Fund and there are large scheduled repurchase obligations. There may also be rare cases where the need for additional financing to support the member's strategy for limiting economic disruption associated with debt reduction could constitute the exceptional circumstances justifying Fund support, despite the risks of adding to the debt burden of an already over-indebted sovereign. Careful implementation of strengthened policies on access in capital account crises should help to reduce the risk of situations where a member is ultimately forced to default after it has borrowed in large amounts from the Fund.

## V. Issues For Discussion and Budgetary Implications for the Fund

39. **Directors may wish to comment on the following proposals:**

- *Early consultation with the Board*. The paper lays out a strengthened framework for early consultation with the Executive Board on exceptional access cases. Under this framework, there would be a presumption that Executive Directors would be notified without delay of arrangements that may require exceptional access, and a staff speaking note with pre-specified content would be provided to the Board at the time of the discussion.

- *Explicit assumptions underlying private financing projections*. As an integral part of assessing financing assurances and program design, an assessment of the financing options available under the program would be discussed during the consultation with the Board prior to formal consideration of the program.

- *Alternative metrics*. To provide additional perspective on the scale of access being proposed, the paper proposes a set of alternative metrics that would be included in the staff reports for all arrangements that request exceptional access.

- *SRF maturity*. The paper proposes to increase the maturity of repurchase expectations under the SRF from the current 1-1½ years to 1½-2½ years; increase the maturity of repurchase obligations from 2-2½ years to 2½-3½ years; and to make repurchases payable in three equal semi-annual installments (instead of two).

- *Use of SRF for lending during capital account crises*. If a longer maturity for the SRF were agreed, it is proposed to reestablish the strong presumption that exceptional access during capital account crises would be provided under the SRF only.

- *SRF surcharges*. If the maturity of the SRF is extended, the staff proposes that the surcharges for the additional year remain capped at 500 basis points, the current maximum surcharge.

- *Other SRF terms*. Two technical changes to simplify the way repurchase expectations are extended are proposed: (i) to allow extensions of only one year (not allowing shorter periods, as currently); and (ii) to make explicit that groups of repurchase expectations could be extended at one time.

- *Access in restructuring cases.* The paper proposes to reinforce the presumption that the SRF would not be used during lending into arrears cases, and that access should be expected to remain within normal limits except in rare cases.

- *Review.* It is proposed in the companion paper that the review of access under the credit tranches and EFF be shifted to a biennial schedule, with factual reports to the Board on access in intervening years. Under this schedule, the next review would be conducted by end-2004. It is proposed that a review of experience with the new framework on exceptional access be conducted at the same time.

Proposed decisions reflecting the proposals made on this paper will be circulated as a supplement prior to the Executive Board meeting.

40. **The budgetary implications to the Fund arising from the recommendations in this paper are likely to be limited.** The proposal for consultations with the Board largely systematizes current practice, but preparation of confidential speaking notes for distribution will require additional staff time. The same is true for the preparation of alternative metrics and debt sustainability analyses. Overall, as these costs will apply to a limited number of countries, the overall budgetary implication is expected to be relatively small.