



BLACKOUT PERIODS IN GRA ARRANGEMENTS AND THE EXTENDED RIGHTS TO PURCHASE POLICY—A REVIEW

January 23, 2013

EXECUTIVE SUMMARY

Review. This paper reviews the Fund's extended rights to purchase (ERP) policy. Established in 2009, the policy was designed to strengthen the continuity of purchase rights to previously accumulated, but undrawn, balances which may occur during periods where data on relevant periodic performance criteria are unavailable. The policy applies to both Stand-By arrangements (SBA) and arrangements under the Extended Fund Facility (EFF), and seeks to balance enhanced continuity of access with safeguards.

Focus. The review focuses on the experience with precautionary arrangements in place when the policy was established or approved since. Although the ERP policy applies to all SBAs and extended arrangements, it is of most relevance to precautionary arrangements where undrawn purchase rights accumulate systematically. To assess the policy's effectiveness, the review examines relevant country documents and surveys the past and present country teams who worked on these arrangements.

Findings and proposed modifications. The review does not find any need for substantial change to the ERP policy. Although no purchases have been made from the surveyed arrangements during the extension period under the ERP policy, the review finds that the policy has enhanced the continuity of purchase rights of members to previously accumulated but undrawn balances, while maintaining adequate safeguards for the Fund's resources. However, there is a need to improve the operational understanding of the policy, and thus the issuance and publication of an operational guidance note is recommended. Finally, the review recommends amending the ERP policy decision to, inter alia, extend its application to all General Resources Account (GRA) arrangements with periodic PCs, including arrangements under the Precautionary and Liquidity Line (PLL) of more than six-months in duration.

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I. INTRODUCTION

1. **This paper reviews the IMF’s extended rights to purchase (ERP) policy.**¹ Established in 2009, the ERP policy extends the continuity of purchase rights during temporary interruptions of access to previously accumulated, but undrawn, balances which occur during periods where data on relevant periodic performance criteria (PCs) is not yet available. This policy specifically provides for access to accumulated but undrawn purchase rights under SBAs and arrangements under the EFF (“extended arrangements”). While enhancing the continuity of a member’s purchase rights, the ERP policy also provides several safeguards aimed at reducing the risk that a member might draw on Fund resources when its Fund-supported program goes off track.
2. **This review focused on assessing the experience with past precautionary arrangements.** All arrangements assessed in the review were precautionary SBAs, and were operative either at the time the policy was established or subsequently.^{2,3} In addition to reviewing the country papers for these Fund-supported programs, we also surveyed the current and past teams for these countries (Appendix 1). The survey responses, as well as subsequent discussions, form a key input to the review as they highlight what was understood about the policy, and how the policy was incorporated into program design by both country teams and the authorities.
3. **The review does not find any need to substantially change the ERP policy.** Since its establishment, the ERP policy successfully enhanced the continuity of purchase rights for a substantial number of Fund arrangements. Although no purchase was made during the period of extended purchase rights (the “extension period”) in any of these arrangements, the review demonstrates that the policy’s intended purpose—enhanced continuity of purchase rights to accumulated but undrawn amounts while maintaining adequate safeguards for the Fund’s resources—has been achieved. In particular, the concerns about possible moral hazard (i.e., drawing from an arrangement where a program is going off-track) expressed by a number of Directors at the establishment of the ERP policy were not realized. However, the review reveals that an incomplete understanding concerning the operational aspects of the policy has limited its effectiveness. Thus, the review finds the need for additional effort to further publicize this policy to ensure that it is fully understood by both staff members and members’ authorities. Issuing an

¹ According to the ERP policy decision, the policy is expected to be reviewed no later than three years after the date of its adoption (Decision No. 14407-(09/105), October 26, 2009).

² Since the ERP policy was established, there has not been any precautionary arrangement under the EFF. Moreover, blackout periods are less problematic in arrangements under the EFF since the Executive Board has discouraged their use on a precautionary basis.

³ In non-precautionary SBAs and extended arrangements this policy would be relevant in circumstances where, after meeting all relevant conditions (e.g., PC, review), a member requests to make a purchase of the accumulated by undrawn resources only after a new PC test date is reached. In such circumstances, a member may be able to resort to the ERP policy.

operational guidance note on the ERP policy may help achieve this. Further, the review also proposes amending the ERP policy decision to, inter alia, extend its application to all Fund GRA arrangements featuring periodic PCs, including arrangements under the PLL of more than six-month duration.

4. **This review paper is structured as follows.** The next section describes the existing ERP policy, and the temporary interruptions to purchase rights it was created to address in SBAs and extended arrangements. Section III reviews the Fund’s experience with precautionary arrangements since the ERP policy was established in 2009. Finally, Section IV outlines the key lessons from this review and proposes modest modifications.

II. WHAT IS THE EXTENDED RIGHTS TO PURCHASE POLICY?

5. **The ERP policy aims to provide a remedy to the issues arising from “blackout periods” in SBAs and extended arrangements.**⁴ These “blackout periods” refer to the temporary interruption of access to accumulated but undrawn purchase rights once a new test date for relevant periodic PCs is reached and the data on such PCs are unavailable. This blackout period resulted from the need to safeguard Fund resources, by interrupting purchase rights when data are stale, thereby reducing the risk that a member might draw when their program is off-track. Prior to the establishment of the ERP policy, when access to accumulated but undrawn purchase rights was interrupted, such access was reinstated only when all data on the relevant PCs for that test date were available showing that said PCs were met, or when waivers of applicability were granted by the Executive Board for data not yet reported.⁵ As noted at the time the ERP policy was established, experience with waivers of applicability outside of program reviews was very limited—this remains the case—and in this context the need to obtain such a waiver would delay the availability of funds when requested and raise uncertainty about whether the waivers would be granted. It was felt that while relying on the granting of waivers of applicability provided safeguards against the inappropriate use of the Fund’s resources, this uncertainty and delay in the member’s ability to make purchases could undermine the assurances of continuity of drawing rights under SBAs and extended arrangements. The ERP

⁴ This policy applies to the type of blackout period problem that only arises in GRA, and not in Poverty Reduction and Growth Trust (PRGT), arrangements. This occurs because the right to draw under PRGT arrangements is linked to a specific review and specific PCs. Consequently, the blackout period resulting from reaching a new PC test date and the data not being available cannot occur in PRGT arrangements. However, in a blend of Standby Credit Facility (SCF) and SBA, there is the potential for the accumulated resources under SBA to be blocked by a blackout period resulting from PC data being unavailable, but not for resources under the SCF arrangement. Nonetheless, as in the GRA, access rights in the PRGT to the previously accumulated balances as well as the incremental amount of access associated with the latest test date will be interrupted if a continuous PC is missed or a review is delayed beyond its scheduled date.

⁵ If the data are available and show that one or more of the relevant PCs was not met (or if there was clear evidence that one or more PCs would not be met), the constraint on making purchases is no longer the blackout period. The member would not be eligible for a waiver of applicability and a waiver for the nonobservance of the PC(s) would be required to restore access.

policy therefore sought to balance these safeguards against the benefits of more continuous and certain access to previously accumulated purchase rights.

6. **The ERP policy enhances the continuity of purchase rights to *accumulated but undrawn balances* under a SBA or extended arrangement.**⁶ The extension is for up to 45 days after the most recent test date without necessarily having to demonstrate observance of periodic PCs specified for that test date (the “extension period”).⁷ If the PCs for the most recent test date are all met then purchase rights to previously accumulated balances under the arrangement would remain available subject to observance of all other conditions under the arrangement. If the PCs for the most recent test date are not met, then access to the previously accumulated purchase rights will require Executive Board approval of waivers for the nonobservance of these PCs. Since the ERP policy only addresses the member’s access to accumulated but undrawn purchase rights, the policy does not extend to the purchase of incremental amounts associated with the next test date, which would become available when the member meets the conditions prescribed in the arrangement for that purchase. Box 1 provides stylized examples to further clarify the application of the mechanism, and Appendix 2 describes previously discussed alternatives to the policy.

7. **To balance this enhancement to the continuity of access the ERP policy also provides for appropriate safeguards for Fund resources.** During the discussion when the policy was established, a number of Directors expressed concerns about whether there were sufficient safeguards in the proposed reform. Specifically, they were concerned that the proposal could result in a member drawing in bad faith as a program was going off-track, and would diminish the role of the Board since the proposed policies eliminated the need for members to request a waiver of applicability to draw during the blackout period. On the other side, several Directors strongly defended the proposal, referring to the experience of members in their constituencies to suggest that the risks identified, including that a member would draw in bad faith, were unlikely to materialize. In the end, the policy established safeguards in the form of limits on the period of the possible extension of drawing rights, the timely reporting of PC-related data, and assurances that PCs for which data are available are met (or have been waived by the Board) at the time of the purchase.

8. **Reflecting these safeguards, purchase rights can be extended under the ERP policy only when all of the following conditions are met:**

- The purchase is requested within 45 days of the most recent test date.

⁶ For purposes of the ERP policy “*accumulated but unpurchased balances*” refer to resources that a member was entitled to purchase until access to those resources became subject to the observance of conditions (including PCs and reviews) associated with a new test date.

⁷ Under the ERP policy, the extension period is up to 45 days, but could be shorter when the data reporting deadlines specified in the TMU expire prior to the 45 day extension period coming to an end. In Fund-supported programs TMUs normally provide for data to be reported in a period shorter than 45 days.

- The member meets all other conditions applicable under the program. These include that the member is meeting all continuous PCs, that the Board has concluded the previous scheduled program reviews and (where relevant) a financing assurances review, and that any other related conditions have been met.⁸
- The member has either met or been granted a waiver of nonobservance for each periodic PC for the relevant test date immediately preceding the most recent one.⁹
- The member has met all data reporting deadlines applicable to each periodic PC for the most recent relevant test date.¹⁰
- Where data is available, for any periodic PC for the most recent relevant test date, the member has either met or been granted a waiver for nonobservance of that PC.¹¹
- In cases where the data for a particular PC is unavailable and the data reporting deadline set forth in the TMU has not passed, the member must represent to the Fund that any unreported periodic PC-related data for the most recent test date is, in fact, unavailable.¹²

9. **The existing policy also does not apply to all GRA arrangements, but only SBAs and extended arrangements.** When the ERP policy was introduced, the SBAs and the extended arrangements were the only GRA arrangements that could be affected by the blackout period problem and consequently were the only ones covered by the ERP policy.¹³ Since then, the PLL, originally the Precautionary Credit Line (PCL) was established, which allows approval of PLL arrangements that support programs subject to periodic PCs. Hence, such PLL arrangements could potentially suffer from temporarily interrupted access between the periodic PC test dates

⁸ There may be other related conditions. For example, if all periodic and continuous PCs are met but a consultation clause is triggered, then the member loses its purchase right until the conditions in the consultation clause are met. Meeting the conditions other than periodic PCs is particularly important in cases with quarterly PCs but semi-annual reviews.

⁹ The ERP policy states that in cases where a purchase is subject to periodic PCs specified for more than one test date, this requirement will not apply to PCs specified for the earlier of such test dates where the data is unavailable and the 45-day period referred to above for that earlier test date has not elapsed.

¹⁰ In this context the most recent relevant test date refers to the one just past and for the currently controlling PCs.

¹¹ If the data reporting deadline set forth in the TMU has passed without the data being reported, purchase rights are no longer extended by the ERP policy. In this case, the member has to be granted a waiver of applicability to be able to purchase previously accumulated amounts. To streamline clause 2(v) in the decision we propose deleting "or for which the reporting deadline set out in the TMU has passed," from this clause since they are potentially confusing.

¹² The Fund's existing policies on misreporting and noncomplying purchases in the GRA would apply in the event that a member makes a purchase during the period of extended purchase rights, and later, when reported, the PC data show that a PC was missed.

¹³ At that point, the only other GRA instrument that could be used for precautionary purposes was the FCL. However, since FCL arrangements do not involve periodic PCs, they would not be subject to the loss of access that the ERP policy was designed to address.

and the date when the test data become available. To date this has not been a problem since neither of the PCL/PLL arrangements (FYR Macedonia or Morocco) have had ex post conditionality involving periodic PCs and thus they did not suffer from the type of “blackout” problem remedied by the ERP policy. However, should a future PLL arrangement include periodic quantitative PCs, the potential for a period of interrupted access would materialize.

10. **The policy did not address other forms of temporarily interrupted access to a member’s purchase rights.** For instance, the ERP policy does not address issues arising when access to accumulated but undrawn purchases become interrupted because the deadline for a new review date has been reached and there is a delay in completing the review. The delay in completing a review beyond its scheduled date blocks access to such accumulated purchases rights. In this scenario, access to such accumulated but undrawn amounts can be restored only when the required review is completed. Since this other type of possible “blackout period” is not addressed by the ERP policy, staff would need to avoid this problem by carefully choosing the review dates when designing the program, and by the member making its best efforts to meet all relevant conditions and complete the review by the scheduled date. If interrupted access due to delayed completion of reviews can be avoided, and all other conditions of the program (including timely PC data reporting within 45 days of the relevant test date) are met, then the stronger assurances of access continuity provided by the ERP policy make it possible for a member with an on-track program to maintain access to undrawn accumulated resources throughout.

III. WHAT HAS BEEN THE EXPERIENCE WITH PRECAUTIONARY ARRANGEMENTS?

11. **The review utilizes a survey of country teams working on precautionary SBAs to which the ERP policy applied.** These precautionary arrangements are listed in Table 1, and generally entail larger amounts of access than those in the past (Figure 1). The selection criteria for these arrangements are specified in Appendix 3.

12. **While the SBAs surveyed have benefited from the extension of the purchase rights granted by the policy, no country made a purchase during the extension period.** Indeed, of the arrangements which were being treated by the member as precautionary on approval, there were only drawings under the Serbia 2009 SBA, and all drawings occurred outside the extension period (see Table 2). In the surveyed SBAs with drawings from the outset, no further drawings were made once the arrangement started being treated as precautionary by the member. Consequently, there has, as yet, been no use of the extension period to make a purchase under the ERP policy. However, this does not suggest that the strengthened assurance of purchase rights provided by the ERP policy has not provided assurances to country authorities. Indeed, almost all of the country teams surveyed found the policy helpful in this regard—it was seen by them as boosting the credibility of the precautionary nature of the arrangement, and thereby strengthening confidence in the member.

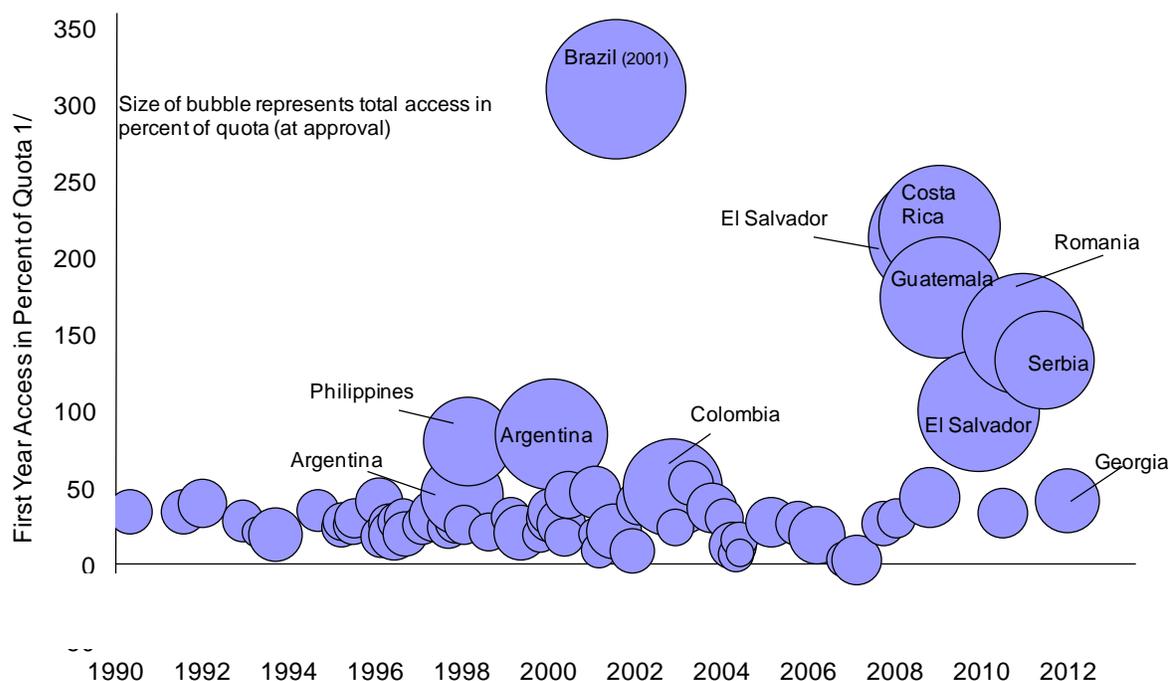
Table 1. Arrangements Considered in the Blackout Policy Review

| Country | Commencement | Expiration | Access (percent of quota) |
|--|--------------|------------|------------------------------|
| Precautionary Upon Approval | | | |
| Gabon | 5/7/2007 | 5/6/2010 | 50 |
| El Salvador | 1/16/2009 | 3/16/2010 | 300 |
| Serbia | 1/16/2009 | 4/15/2011 | 560 |
| Costa Rica | 4/11/2009 | 7/10/2010 | 300 |
| Guatemala | 4/22/2009 | 10/21/2010 | 300 |
| El Salvador | 3/17/2010 | 3/16/2013 | 300 |
| Honduras | 10/1/2010 | 3/31/2012 | 50 |
| Romania | 3/31/2011 | 3/30/2013 | 300 |
| Serbia | 9/29/2011 | 3/28/2013 | 200 |
| Georgia | 4/11/2012 | 4/10/2014 | 166 |
| Initially Drawing but Became Precautionary 1/ | | | |
| Georgia | 9/15/2008 | 6/14/2011 | 497 |
| Hungary | 11/6/2008 | 10/5/2010 | 1015 |
| Latvia | 12/23/2008 | 12/22/2011 | 1071 |
| Mongolia | 4/1/2009 | 10/1/2010 | 300 |

Source: MONA database, IMFs' Finance department

1/ The Romania 2009 program is excluded because it was cancelled four days after becoming precautionary.

13. **However, the survey revealed gaps in the operational understanding of this policy.** Some teams reported limited awareness and operational understanding of the policy (for both the team and/or the authorities), which in some cases led to misperceptions regarding the option to make use of accumulated purchases rights during the extension period. Specifically, one team noted that “the policy (and related rules) were considered confusing by the authorities,” while another noted “[t]here was some uncertainty at the time the precautionary program was designed[, with] ... the issue of optimization of availability dates receiv[ing] relatively less attention, both from the staff and the authorities. A few weeks into the program, staff proposed new availability dates that aimed to maximize the insurance value of the program. This initiative received a favorable response from the authorities.” This suggests that while the ERP policy aimed at enhancing the continuity of access to accumulated, but undrawn, balances in a streamlined way, the requirements under the policy to maximize the continuity of access were not fully understood by some users.

Figure 1. Precautionary Arrangements since 1990: Total (and first year) Access on Approval

Source: MONA database, IMF's Finance department.

1/ Average annual access at approval up to 2000; first year access from 2001.

Table 2. Serbia 2009 Program Schedule

| Country | Commencement | Expiration | Availability date | Test date | Review completion date | Actual Disbursement date |
|-------------------|-------------------------|------------|----------------------|------------|------------------------|--------------------------|
| Serbia | 1/16/2009 | 4/15/2011 | | | | |
| By review: | | | | | | |
| | <i>Board Approval</i> | | 1/16/2009 | | | |
| | <i>Observance of PC</i> | | 3/15/2009 12/31/2008 | | | |
| | <i>1st Review</i> | | 5/15/2009 | 3/31/2009 | 5/15/2009 | 5/19/2009 |
| | <i>2nd Review</i> | | 12/21/2009 | 9/30/2009 | 12/23/2009 | 12/29/2009 |
| | <i>3rd Review 1/</i> | | 3/31/2010 | 12/31/2009 | 3/31/2010 | 4/6/2010 |
| | <i>4th Review</i> | | 6/28/2010 | 3/31/2010 | 6/28/2010 | 6/30/2010 |
| | <i>5th Review</i> | | 9/27/2010 | 6/30/2010 | 9/27/2010 | 9/29/2010 |
| | <i>6th Review</i> | | 12/22/2010 | 9/30/2010 | 12/22/2010 | 12/27/2010 |
| | <i>7th Review</i> | | 4/1/2011 | 12/31/2010 | 4/8/2011 | 4/12/2011 |

Source: Review documents for the Serbia 2009 program

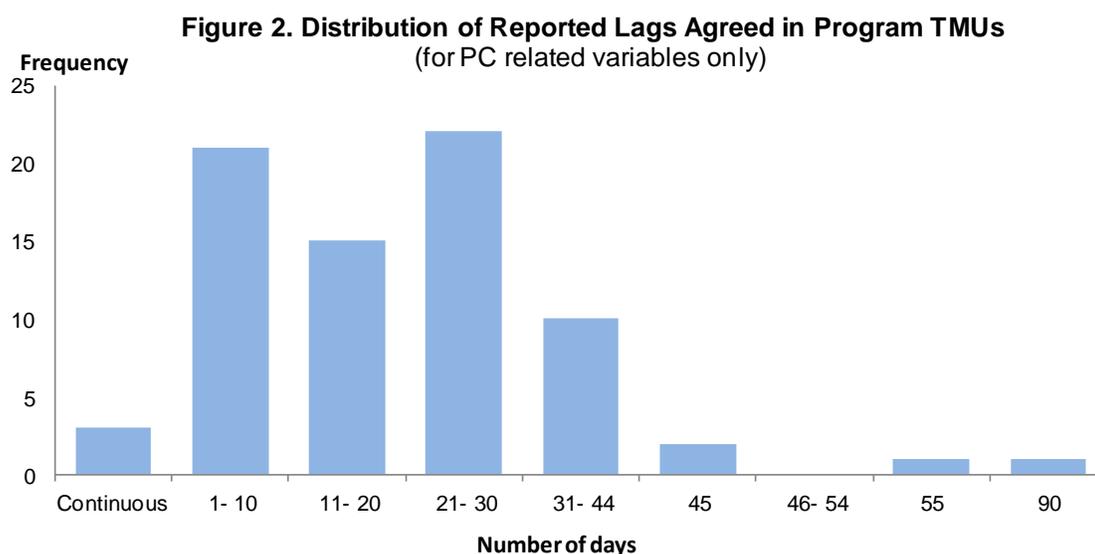
1/ Although the disbursement date following the completion of the 3rd review (April 6, 2010) was later than the next test date (March 31, 2010), the request for purchase was submitted on March 31, 2010, before the ERP policy kicked in.

14. **The maximum data reporting lags, as specified in the TMUs for the various arrangements, are almost all shorter than the maximum 45 days established under the policy** (Figure 2 and Appendix 4). The reporting lags set forth under the programs reviewed in this paper seem very much in line with the lags depicted for Costa Rica, El Salvador, and Guatemala in the 2009 paper, suggesting no “creep” since the introduction of the ERP policy. Reserve-related PC reporting lags typically remain very short, with data sometimes becoming

available within days from the test date, and while data on almost all PCs are available with the 45 days, two PC-related data on the fiscal indicators for one country surveyed have reporting deadlines longer than 45 days.¹⁴ Consequently, even under the existing policy some countries may continue to face a blackout period resulting from long lags in data reporting. Nonetheless, the fact that so few countries and variables have reporting lags of exactly 45 days, and that there has been no “creep” in reporting lags, suggests that the ERP policy has not resulted in countries setting longer reporting lags to maximize the extension period, as feared by some Directors in 2009.

| Sector | Reporting lags (in days, median) | |
|----------|-------------------------------------|---------------|
| | 2013 paper | 2009 paper |
| Fiscal | 28 | 42 |
| Monetary | 5 | 1 |
| Reserves | 7 | 1.5 |

15. **All but three of the teams surveyed confirmed actual reporting times in line with deadlines set forth in the TMU.** The teams reporting delays noted that the authorities did their best to comply, but providing particular data items—fiscal data in one case, and balance of payments data in another—by specific deadlines in the TMU was at times problematic. Nonetheless, the fact that some actual data were reported after the agreed time limits, despite the members’ best efforts, suggests the possibility that some reporting lags agreed in TMUs were initially set unrealistically.



Source: Technical Memoranda of Understanding (TMUs) for programs listed in Table 1.

16. **The concern that the ERP policy might allow purchases under a program going off-track, expressed by a number of Directors in 2009, were not realized.** Of the arrangements relevant for the review, a number of Fund-supported programs—El Salvador, Gabon, Honduras, and Hungary—ultimately went off-track. No purchase was made under these arrangements immediately before they went off track, suggesting moral hazard issues may be less significant

¹⁴ The most extreme of the data reporting lag was the three month lag for Romania’s budget deficit target in its 2011 SBA.

than anticipated at the time the ERP policy was established. The Hungary case is particularly interesting since “the program lapsed upon disagreement with the newly elected government about additional fiscal measures”,¹⁵ leaving a small window when a government had the right to draw under a program which they were not going to complete. While this case clearly demonstrates the possibility of moral hazard, no purchase of the previously accumulated balances was made.

17. **Despite the establishment of the ERP policy, temporary interruptions of purchase rights have occurred for other reasons, such as those resulting from delays in completing reviews.** Purchase rights were suspended in several Fund-supported programs, including those which went off track as well as Romania, and Georgia. Purchase rights are lost once the scheduled new review date is reached if the review is not completed. While the loss was relatively short in some cases (e.g., Romania), it was longer in others given the timing of elections (e.g., Georgia’s 2012 arrangement), and the ERP policy does not address these types of blackouts because of safeguards considerations. These safeguards remain very important—as shown in Figure 3, which depicts all Fund-supported programs between September 2008 to May 2012—program delays often become protracted, and in several cases are not brought back on track within the life of the arrangement, suggesting that interruptions in purchase rights due to delayed review remains an appropriate safeguard.

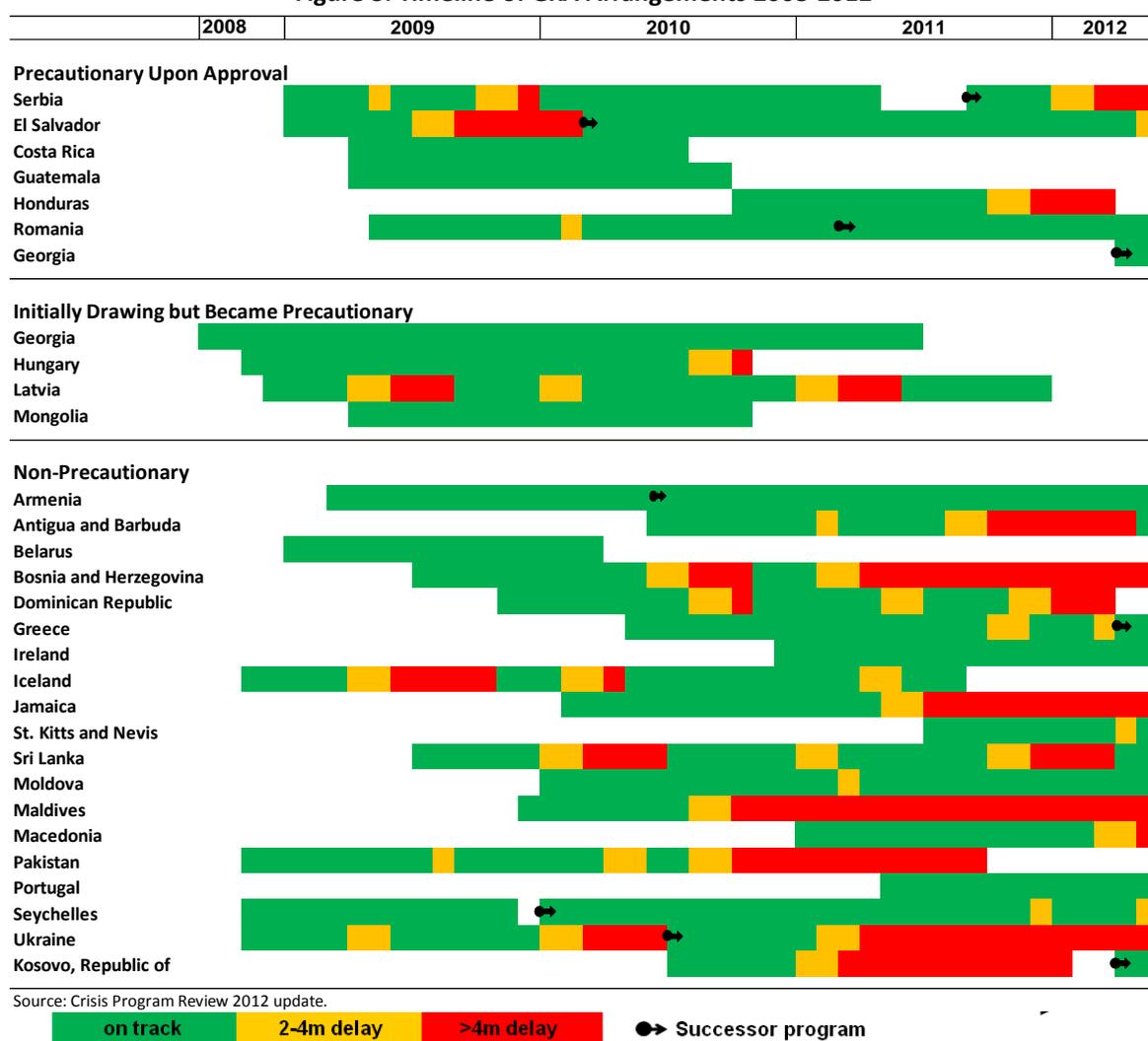
IV. CONCLUSIONS AND PROPOSED MODIFICATIONS

18. **The review shows that there is no need for substantive changes in the ERP policy as it applies to SBAs and extended arrangements.** Although no country has drawn during the extension period in the cases reviewed by staff, the policy would seem to have fulfilled its main purpose. Purchase rights were extended under the precautionary arrangements since the adoption of the ERP policy against apparently suitable safeguards. The majority of country teams involved in these cases felt that the policy did strengthen the credibility of precautionary arrangements and enhance the confidence in the members.

19. **Moral hazard concerns—prominent when policy was established—have not been realized.** Although a number of the surveyed precautionary arrangements went off track, no member improperly represented that PC data were unknown and drew when the program was going off track. Therefore, there is little to suggest the need to further strengthen safeguards—for example in the form of previously considered proposals, such as repurchase expectations or an ad hoc review if a drawing is requested during the extension period—at this time (see Appendix 2). Indeed, the potential for an ad hoc review is likely to create considerable uncertainty for the member about its purchase rights under the arrangement.

¹⁵ “Hungary: Ex Post Evaluation of Exceptional Access under the 2008 Stand-By Arrangement,” IMF Country Report No. 11/145, p. 3 (IMF; Washington, DC).

Figure 3. Timeline of GRA Arrangements 2008-2012



20. **However, further work is needed to achieve full operational understanding of the ERP policy among staff and the membership.** To achieve this, the ERP policy should be further explained and publicized, including its specific requirements, internally and through the issuance and external publication of an operational guidance note (building on the existing staff implementation memorandum). Staff also plans to develop a web based calculator, placed on the Fund's intranet, which may help teams in carefully setting reporting and review dates to maximize the days of access availability. These initiatives should, hopefully, allow teams and country authorities to strengthen the assurances provided by precautionary arrangements by facilitating understanding of particular features pertaining to them. The strengthening of the continuity of purchase rights envisaged here would take place within existing policy, and result from a more careful setting of realistic review dates and, in some cases, data reporting lags in the relevant TMU.

21. **The only substantive change warranted at this stage is to extend the application of the ERP policy to all GRA arrangements with periodic PCs, including PLL arrangements.**

Staff proposes that the ERP policy apply generally to all GRA arrangements with periodic PCs, thus eliminating the current listing of the arrangements to which the policy would apply. While this change effectively only extends the ERP policy to PLL arrangements at the moment, this would automatically apply the ERP policy to any future new GRA arrangements with periodic PCs. This modification will ensure general coherence across GRA arrangements with periodic PCs. If this proposal is approved, and in the future the Executive Board decides that the ERP policy is not to apply to any particular future GRA arrangements with periodic PCs, the Executive Board can always decide to specifically exclude such new arrangements from the application of the ERP policy at the time of their establishment. This proposal has immediate implications for PLL arrangements with periodic PCs, which will allow such arrangements continuous access between the six-monthly reviews.¹⁶ Similar to the case of SBAs and extended arrangements, application of the ERP policy to PLL arrangements will require that the member observe “all other conditions applicable to purchases under the arrangement,” and hence the continuity of purchase rights will require that the member is observing the applicable ex-ante qualification requirements.

22. Finally, the review proposes amending the ERP policy decision to streamline it.

Specifically, it proposes deleting the reference to TMU reporting dates in paragraph 2(v) of the ERP policy decision. Paragraph 2(v) is one of the conditions to be satisfied for a member to make a purchase under the ERP policy. It reads: “with respect to any periodic performance criterion for the most recent relevant test date for which data are available or for which the reporting deadline set out in the TMU has passed, the member has either met or been granted a waiver for nonobservance of that performance criteria.” It is proposed to delete “or for which the reporting deadline set out in the TMU has passed.” Since paragraph 2(v) envisages situations where the PC data are available, the reference to the reporting deadline in the TMU is not necessary. The requirement concerning data reporting is addressed in paragraph 2(iv), which notes that “the member has met all data reporting deadlines applicable to each periodic performance criterion for the most recent relevant test date set forth in the Technical Memorandum of Understanding (“TMU”).” It is also proposed that the ERP policy will be reviewed on an as needed basis.

23. It is proposed to amend the ERP policy decision to: (i) apply the ERP policy to all Fund GRA arrangements with periodic PCs; (ii) amend paragraph 2(v) as discussed above; and (iii) review the ERP on an as needed basis.

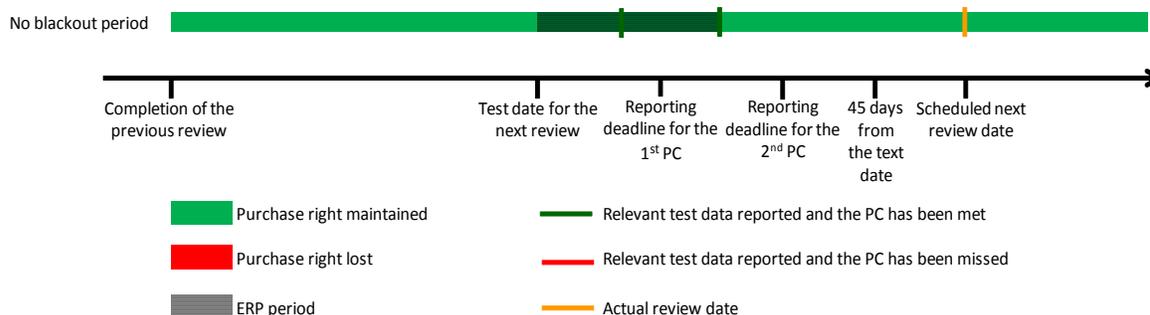
¹⁶ For PLL arrangements with periodic PCs, the text of the arrangement would incorporate by reference the Decision on the ERP policy as is the case of SBAs and extended arrangements.

Box 1. Stylized Applications of the Extended Rights to Purchase Mechanism

This Box illustrates how the ERP policy works. Five key dates underpin the ERP policy and access to accumulated but undrawn resources: (i) the test date; (ii) the data reporting deadlines (which typically vary by PC); (iii) the actual reporting dates; (iv) the scheduled review date; and (v) the actual review date. The examples describe how purchase rights change under the ERP mechanism depending on whether the test data are reported on time; whether the PCs are met; and whether the review is completed on schedule. The examples consider a precautionary arrangement with two PCs and quarterly reviews; a TMU which specifies a maximum reporting lag of four weeks for the first PC, and of six weeks for the second; and the member has just completed a review in mid-March and has accumulated SDR 100 million of undrawn Fund resources under the arrangement. The next test date is end-March and the next review date is scheduled for June 15, with an additional SDR 25 million available upon completion of the review.

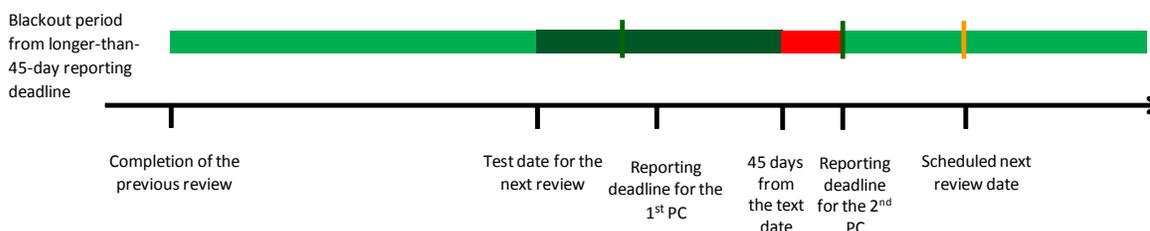
1. A Baseline scenario with no black-out period

The member has access to SDR 100 million until the next test date, end-March. Starting from April 1, the ERP mechanism becomes operative ensuring that the member maintains the right to purchase the SDR 100 million up to the date when the test data for the first PC are reported before or by end-April, the reporting deadline for the first PC. The member shall report data when it becomes available even if the reporting deadline specified in the TMU has not reached. If, before the reporting deadline, the member already knows that the PC is missed but still purchases under the ERP policy, it is subject to misreporting. If the data for the first PC is reported on time and the PC is met, then the member keeps the purchase right until the test data for the second PC is reported before or by mid-May, the reporting deadline for the second PC. If the data are again reported on time and the PC is met, then the member continues to keep its purchase right until the scheduled review date, mid-June. If the review is completed by the scheduled date, then the member has the right to purchase not only the SDR 100 million, but also the additional SDR 25 million made available by completing the June review.



2 Black-out period arising from a longer-than-45 days reporting period

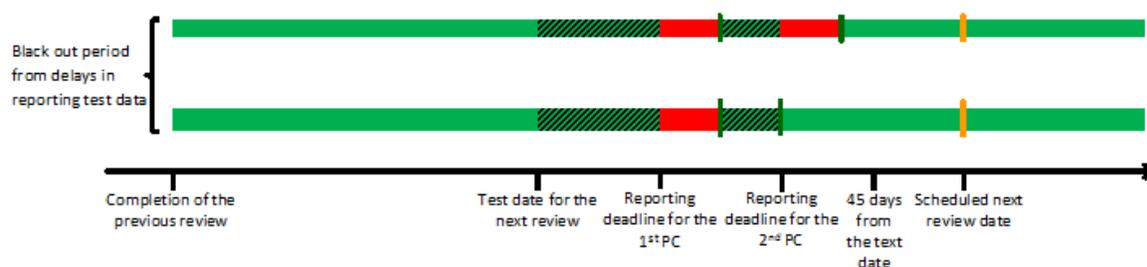
Suppose, instead, the second PC allows a reporting lag of eight weeks. The member would maintain its purchase right of the SDR 100 million up to 45 days after the test date under the ERP policy, provided that the test data for the first PC is reported by the deadline and the PC is met. It then loses its purchase right until the data for the second PC is reported showing that the PC is met. The member's purchase right is then restored until the scheduled review date. Purchase during the resulting blackout period would require a waiver of applicability.



Box 1. Stylized Applications of the Extended Rights to Purchase Mechanism (Concl.)

3. Black-out period from excessive reporting delays

Suppose the data for the first PC reported are delayed beyond the four-week deadline. In this case the member loses the purchase right of the SDR 100 million by end-April reporting deadline. The resulting black-out period provides safeguards to Fund resources when there is uncertainty as to whether the program is on track. Purchase right is restored when the data for the first PC are reported and the first PC is met. The purchase right can again be interrupted if the data for the second PC are not reported on time. Assuming the second PC is reported on time and met, and the review is held on time, there would be no other interruption of purchase rights.

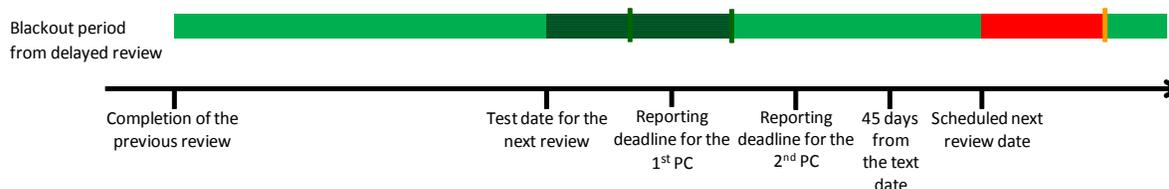


4. Black-out period from one or more missed PCs

If either PC is missed, purchase rights are lost once data are reported which shows it is missed. Purchase rights can only be restored by the Board granting a waiver of nonobservance.

5. Interrupted access from a delayed review

Suppose the test data for both PCs are reported on time and both PCs are met, but the June review is delayed, for example, to September and is combined with the September review (e.g., due to political uncertainties in June). The member does not have the purchase right of that SDR 100 million until the September review is completed, and hence a black-out period of over three months would arise. This would also happen if reviews are combined. The resulting blackout period acts as a safeguard against the risk that the program may go off-track.



PROPOSED DECISION

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

The decision on Reduction of Blackout Periods in GRA Arrangements, Decision No. 14407-(09/105), adopted October 26, 2009, shall be amended as follows:

1. Paragraph 1 shall be amended to read as follows:

“1. This Decision shall apply to all Fund GRA arrangements that have periodic performance criteria.”

2. Paragraph 2(v) shall be amended to delete the clause “or for which the reporting deadline set out in the TMU has passed”.

3. Paragraph 6 shall be amended to read as follows:

“6. This Decision is expected to be reviewed by the Fund on an as needed basis.”

APPENDIX 1: BLACKOUT-PERIOD POLICY REVIEW BOARD PAPER—COUNTRY TEAM SURVEY

1. Please confirm the maximum data reporting lags agreed (and specified in the TMU) for the program for your country. Did actual reporting times differ from these, and do you have data on actual reporting times?
2. Is the maximum 45 day extension of purchase rights (post test date) a reasonable outer limit?
3. Were purchase rights lost, even after the 2009 policy, in the program you worked on because of (i) delays in receiving data from the authorities; or (ii) delays in taking a review to the Board?
 - a. If so, how long were the delays? Please explain the circumstances surrounding any such delays.
 - b. Was the potential to lose access to the insurance provided by the precautionary nature of the arrangement in either of these way understood by the authorities?
4. Did the team or the authorities ever face any uncertainty in the application of the policy? What was the greatest source of this uncertainty?
5. In your view, has the 2009 reform been helpful, or is it redundant (e.g., waivers of applicability could be used to limit the blackout period)?

Please provide any additional observations on this policy which you may feel would be helpful for the review of the policy.

APPENDIX 2: PREVIOUSLY DISCUSSED ALTERNATIVES TO THE EXISTING ERP POLICY

A number of alternatives to the ERP policy to mitigate the impact of blackout periods have been debated in the past. The 2003 review of precautionary arrangements proposed three possible solutions to the blackout period problem that the ERP policy sought to address, namely:¹⁷ (i) a floating activation review; (ii) high frequency PCs; and (iii) a case-by-case extension of drawing rights. However, given the limited use of precautionary arrangements, the blackout period was not seen as a major obstacle at the time, and thus no “fix” for this problem was adopted. These solutions—more fully elaborated in Box A2-1—vary considerably in their tradeoff between safeguards for Fund resources and strengthening the assurances that resources will be available if needed (particularly in the case of precautionary arrangements). The option of requiring an additional Board review ahead of any purchase during the blackout period provides stronger safeguards for Fund resources than other options but less assurances of availability of access for the member, depending on the scope of the review: a narrowly focused and backward looking review would ensure that the balance of payments need had not arisen because the program was off-track; a broader review, however, could include reaching understandings on the appropriate policy response to the shock, giving the member less assurance ex ante of the continuity of drawing rights. The case-by-case extension of drawing rights may either reduce or enhance safeguards relative to the existing policy, depending upon how it is structured, and would only marginally improve the continuity of access (for programs with data reporting deadlines longer than 45 days) over the ERP policy, while the reliance on high frequency data is unlikely to be workable.

Variants of these, and other, options were discussed by the Board at the time of the 2009 Board approval of the ERP policy. An option discussed by many Directors was the possibility of making the 45 day extension period an expectation, with the possibility of a Board review in exceptional circumstances. Although the details of this option were not fully articulated, this could be similar to an ad hoc review (at the request of either Management or Directors). While this option may provide more certainty than the granting of waivers of applicability, the member could face much more uncertainty than under the ERP policy, undercutting the confidence building impact of the precautionary arrangement. Also, the possibility of such a review was seen as inconsistent with the assurance provided by (precautionary) Fund arrangements that members may purchase if the conditions prescribed under the arrangement are met. Another option discussed was to create repurchase expectations for drawings made during the ERP period if it turned out that a PC was not met. However, this was also seen as harming the strong assurances that resources will be available if needed, particularly those provided by precautionary arrangements.

¹⁷*Adapting Precautionary Arrangements to Crisis Prevention*, June 2003.

Box A2-1. What are Alternatives to the Existing Policy?

The ERP Policy is one, but not the only, way to address the loss of access that occurs during blackout periods. The options vary from those with greater safeguards for the Fund than the existing policy to those that may eliminate the blackout period altogether.

Waivers of applicability

The Fund could revert to the use of waivers of applicability to address the loss of access during the blackout period. This would require a standalone board paper to support approval of a waiver request. However, a member may face considerable uncertainty over access rights given the need to obtain waivers outside of reviews and the possibility such waivers may not be granted. Moreover, the mechanics of preparing the request for approval, even on a lapse of time basis, would delay the approval of any waiver by at least a week.

A floating ad hoc activation review¹

The purchase could be made conditional on the completion of an ad hoc activation review by the Board. The balance between safeguards and continuity of drawing rights would depend on the scope of review, which could either be narrowly focused (essentially backward looking), or broadly focused (and include reaching understandings on the need for additional policies after drawing). This approach would not, however, provide the assurance of the continuity of drawing rights of the ERP policy, and maintain many of the delays from relying on waivers of applicability. It could also discourage the early use of precautionary arrangements.

High-frequency performance criteria¹

In addition to extending access rights, a set of high frequency indicators of program performance that are available with a short lag, could be established as performance criteria. A purchase would be allowed only at times when all criteria are observed. Ultimately, however, this is unlikely to be workable. The modification may not provide appropriate safeguards if high frequency indicators are not crucial for program success and provide little information on whether low-frequency fundamentals will be in line with program objectives. In addition, the volatility of high-frequency indicators may make setting targets difficult, leading to interrupted access.

Extended drawing rights¹

Drawing rights could be extended to dates pre-established in the program TMU with each member. These dates should be in line with expected reporting times. This option may or may not reduce the level of safeguards for Fund resources relative to the current policy, depending on how it is structured, but it is less transparent than the current ERP policy and may reduce incentives to report data in a timely way.

Extending the maximum ERP

The maximum extension period of 45 days under the current policy could be lengthened to 2 months, the maximum data lag length.² The modification would ensure uninterrupted access throughout an engagement, and yet have effectively no marginal impact on the level of safeguard for Fund resources given the fact that test data for almost all PCs in precautionary arrangements to date have reporting lags no greater than 45 days.

1/ These proposals were raised in the 2003 Review of Fund Facilities.

2/ Decision No. 14281-(09/29), adopted March 2009, paragraph 5: "[l]ags between the reporting of data relating to performance criteria should be minimized in order to preserve the reliability of data. All members are expected to limit such reporting lags to two months. Where reporting lags exceed two months, the staff will explain the reasons for such lags as well as the steps being taken to reduce them.

APPENDIX 3: SELECTION CRITERIA OF PROGRAMS FOR THE SURVEY

Programs in which the ERP policy could have worked are selected for the survey if all the following criteria are met:

- All SBAs and EFFs active (i.e., not yet expired or cancelled) when the ERP policy was introduced in October 2009 and those approved afterwards;
- Programs that were either approved as precautionary arrangements or turned into precautionary arrangements later, in that the actual purchase amount was smaller than that available upon approval and after subsequent reviews.
- Programs that were on track (i.e., with reviews completed on time and the most recent PCs met or waived by the Board) when they became precautionary.

Program selection was based on information in the Fund's MONA database, and was reviewed by the relevant country teams, with the overriding criterion that the program was being treated as precautionary before the last review. If a program became precautionary only after the last review, there would not be any blackout period, as there are no more test dates.

APPENDIX 4: AGREED REPORTING LAGS IN PRECAUTIONARY ARRANGEMENTS (2007-2012)

Table. Agreed Reporting Lags in Precautionary GRA Arrangements

| Program | Sector | PC-related | Frequency of Data | Reporting Lag |
|---|----------|------------|-------------------|-----------------|
| Programs approved between October 2007 and December 2009 | | | | |
| Gabon 2007 | | | | |
| Net financial position of the central government | Fiscal | Yes | Monthly | 6 weeks |
| Financing operation of the central government on a payment order basis | Fiscal | Yes | Monthly | 6 weeks |
| Debt service obligation and arrear accumulations | Fiscal | Yes | Monthly | 6 weeks |
| New external debt contracted or guaranteed by central govt | Fiscal | Yes | Monthly | 6 weeks |
| 15 other items | | No | | 6 weeks |
| Hungary 2008 | | | | |
| NIR | Reserves | Yes | Quarterly | 5 working days |
| CPI | Monetary | Yes | Quarterly | 15 working days |
| Fiscal table | Fiscal | Yes | Quarterly | 7 working days |
| External arrears by the central govt | Fiscal | Yes | Quarterly | 7 working days |
| 1 other item | | No | | 10 days |
| Georgia 2008 | | | | |
| Revenues of general government | Fiscal | Yes | Monthly | 2 weeks |
| Expenditures and arrears of the central govt | Fiscal | Yes | Monthly | 4 weeks |
| Cash balance of general govt | Fiscal | Yes | Daily | 1 working day |
| Govt bank and nonbank financing | Fiscal | Yes | Monthly | 2 weeks |
| External project financing and borrowing | Fiscal | Yes | Monthly | 2 weeks |
| General govt expenditure | Fiscal | Yes | Quarterly | 4 weeks |
| FX cash flow table | Monetary | Yes | Weekly | 3 working days |
| Balance sheet of CB | Monetary | Yes | Weekly | 3 working days |
| Arrear accumulation | Fiscal | Yes | Continuous | 1 week |
| 1 other item | | No | | 30 days |
| El Salvador 2009 | | | | |
| Revenues and expenditures of NFPS | Fiscal | Yes | Monthly | 6 weeks |
| Financing of NFPS | Fiscal | Yes | Monthly | 6 weeks |
| 7 other items | | No | | 3 to 91 days |
| Costa Rica 2009 | | | | |
| Cash balance of general government | Fiscal | Yes | Monthly | 6 weeks |
| Net international reserve | Reserves | Yes | Daily | 1 day |
| Net domestic asset | Fiscal | Yes | Daily | 1 day |
| Total debt of general government | Fiscal | Yes | Quarterly | 4 weeks |
| Accumulation of external arrears | Fiscal | Yes | Continuous | Continuous |
| 2 other items | | No | | 8 weeks |
| Guatemala 2009 | | | | |
| Gross and net international reserves | Reserves | Yes | Daily | 2 working days |
| Government revenue | Fiscal | Yes | Monthly | 3 weeks |
| Government expenditure and total social expenditure | Fiscal | Yes | Monthly | 4 weeks |
| External financing of central government and arrears | Fiscal | Yes | Monthly | 4 weeks |
| 17 other items | | No | | 2 to 28 days |
| Serbia 2009 | | | | |
| general govt fiscal data | Fiscal | Yes | Monthly | 25 days |
| NFA | Reserves | Yes | Monthly | 1 week |
| New short term external debt contracted or guaranteed by the public sector | Fiscal | Yes | Quarterly | 4 weeks |
| Nonconcessional external debt contracted or guaranteed by the public sector | Fiscal | Yes | Quarterly | 4 weeks |
| Govt external payment arrears | Fiscal | Yes | Monthly | 2 weeks |
| 6 other items | | No | | 3 to 45 days |
| Mongolia 2009 | | | | |
| Balance sheet of CB | Monetary | Yes | Weekly | 5 working days |
| NIR, FX intervention | Reserves | Yes | Daily | 1 day |
| Breakdown of net credit to govt from CB and banks | Monetary | Yes | Monthly | 20 days |
| Domestic payment arrears of general govt | Fiscal | Yes | Monthly | 20 days |
| Debt contracted or guaranteed by govt or CB | Fiscal | Yes | Monthly | 20 days |
| Arrears on the external debt contracted or guaranteed by general govt or CB | Fiscal | Yes | Monthly | 20 days |
| 16 other items | | No | | 1 to 20 days |

Table. Agreed Reporting Lags in Precautionary GRA Arrangements

| Program | Sector | PC-related | Frequency of Data | Reporting Lag |
|--|----------|------------|-------------------|---|
| Programs approved between January 2010 and November 2012 | | | | |
| El Salvador 2010 | | | | |
| Tax revenue | Fiscal | Yes | Monthly | 5 working days |
| Revenue and execution of expenditures of general government | Fiscal | Yes | Monthly | 4 weeks |
| Review of execution of expenditure of four NFPS | Fiscal | Yes | Quarterly | 6 weeks |
| Accumulation of external and domestic arrears | Fiscal | Yes | Continuous | Continuous |
| 6 other items | | No | | 3 to 90 days |
| Honduras 2010 | | | | |
| Deficit of central gov and combined public sector | Fiscal | Yes | Monthly | 45 days |
| Det domestic financing of central gov and NFPS | Fiscal | Yes | Monthly | 45 days |
| NIR and NDA by CB | Reserves | Yes | Monthly | 2 weeks |
| Accumulation of external arrears | Fiscal | Yes | Monthly | 4 weeks |
| Non-concessional external debt | Fiscal | Yes | Quarterly | 4 weeks |
| Status report of implementation of structural reform | Fiscal | | Monthly | 45 days |
| 5 other items | | No | | 21 to 45 days |
| Latvia 2010 | | | | |
| Consolidated fiscal table of central, local, and general government | Fiscal | Yes | Monthly | 4 weeks |
| Revenue from EU fund, and EU-related spending | Fiscal | Yes | Monthly | 3 weeks |
| Social safety net spending | Fiscal | Yes | Quarterly | 4 weeks |
| Public sector guarantees | Fiscal | Yes | Quarterly | 4 weeks |
| Consolidated central and general government bank restructuring op | Fiscal | Yes | Daily | 1 working day |
| General government arrears | Fiscal | Yes | Monthly | 4 weeks |
| Stock of the general government system external arrears | Fiscal | Yes | Daily | 7 days |
| Balance sheet of CB, including NIR, government balance (at program & actual ex-rat | Reserves | Yes | Weekly | 1 week |
| 23 other items | | No | | 7 to 42 days |
| Romania 2011 | | | | |
| General gov account cash (accrual) | Fiscal | Yes | Quarterly | 35 days (55 days) |
| Budget deficit | Fiscal | Yes | Quarterly | 3 months |
| Total account payable and arrears of general government | Fiscal | Yes | Quarterly | 55 days |
| Stock of central government arrears | Fiscal | Yes | Daily | 7 days |
| Public debt and guarantees | Fiscal | Yes | Monthly | 1 month |
| NFA | Reserves | Yes | Weekly | Monday or 3 working days in case of quarter end |
| 23 other items | | No | | 7 to 45 days |
| Serbia 2011 | | | | |
| Fiscal table | Fiscal | Yes | Monthly | 25 days |
| NIR | Reserves | Yes | Monthly | 1 week |
| New external debt contracted or guaranteed by public sector | Fiscal | Yes | quarterly | 4 weeks |
| Non concessional external debt contracted or guaranteed by public sector | Fiscal | Yes | quarterly | 4 weeks |
| Government external arrears | Fiscal | Yes | monthly | 2 weeks |
| 6 other items | | No | | 7 to 58 days |
| Georgia 2012 | | | | |
| Government domestic financing | Fiscal | Yes | monthly | 4 weeks |
| Government external financing | Fiscal | Yes | monthly | 2 weeks |
| Privatization proceeds | Fiscal | Yes | monthly | 2 weeks |
| Securitized debt sold by NBG | Monetary | Yes | monthly | 2 weeks |
| Partnership Fund's revenue, expenditure and financing operations | Fiscal | Yes | quarterly | 4 weeks |
| NIR, net foreign financing, cash grants, FX cash flow table | Reserves | Yes | weekly | 3 working days |
| NBG balance sheet | Monetary | Yes | weekly | 3 working days |
| Accumulation of arrears | Fiscal | Yes | continuous | continuous |
| 1 other item | | No | | 30 days |