

INTERNATIONAL MONETARY FUND

**Reduction of Blackout Periods in GRA Arrangements**

Prepared by the Strategy, Policy, and Review, and Legal Departments

In consultation with other departments

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## I. INTRODUCTION<sup>1</sup>

1. **In the context of the March 2009 reforms of the General Resources Account (GRA) lending toolkit, the Executive Board asked staff to prepare a paper addressing the problem of blackout periods under GRA arrangements,** which interrupt access to accumulated but undrawn purchases.<sup>2</sup> This request arose in the context of the decision to make high-access precautionary arrangements (HAPAs) available to members on a more regular basis (with greater flexibility regarding frontloading of access). Blackout periods have important implications given that the crisis-prevention and confidence-enhancing role of precautionary arrangements (particularly HAPAs) depend on strong assurances that resources will be available if needed.

2. **This paper is organized as follows:** Section II provides background on the issue of blackout periods and the expanded role of precautionary arrangements under the recent reforms. Section III proposes a solution to provide greater assurances to members regarding continuity of access to accumulated rights while maintaining appropriate safeguards. A proposed decision is set forth on page 11.

## II. BACKGROUND

### A. What are Blackout Periods?

3. **Blackout periods refer to the periodic blocking of access to accumulated purchase rights under GRA arrangements, particularly stand-by arrangements (SBA).**<sup>3,4</sup> Under current rules, accumulated rights are interrupted once a new test date is

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<sup>2</sup> *IMF Overhauls Nonconcessional Lending Facilities and Conditionality*, IMF Public Information Notice (PIN) No. 09/40, April 3, 2009.

<sup>3</sup> While blackout periods apply to both precautionary arrangements and arrangements under which purchases are made, the problems they raise are more salient in the context of the former where purchase rights are systematically accumulated. In this regard, blackout periods are less problematic in arrangements under the Extended Fund Facility since the Executive Board has discouraged the use of Extended Arrangements on a precautionary basis. See *IMF Board Agrees on Changes to Fund Financial Facilities*, IMF Public Information Notice (PIN) No. 00/79, September 18, 2000. Flexible Credit Line Arrangements are not affected by blackout periods as they are not subject to performance criteria.

<sup>4</sup> This paper discusses only access under the GRA. The issue of blackout periods under the new lending framework for LICs is most relevant in the case of the Standby Credit Facility (SCF), where precautionary use is contemplated. Under the SCF, there is no blackout period between the test date and scheduled review date (each loan disbursement is linked only to a specific set of performance criteria and to reviews, and thus is not affected by subsequent performance criteria). However, as for GRA access, undrawn disbursements under the SCF would be blocked once the scheduled date for the most recent review passes without completion of that review. See *A New Architecture of Facilities for Low-Income Countries* (6/26/09).

reached and are reinstated only when: (a) all data on performance criteria (PCs) for that test date are available showing that the PCs have been met;<sup>5</sup> or (b) waivers of applicability have been granted by the Board for data not yet reported (Box 1). The accumulated rights then remain in place until the scheduled review date set forth in the arrangement.<sup>6</sup> This results in a “saw-tooth” pattern of access with blackout periods typically covering four (or more) weeks after each test date depending upon lags in data availability (Figure 1 provides an example based on the case of the April 2009 SBA for Costa Rica). As such, even when a program is fully on-track,<sup>7</sup> blackout periods could result in over four months of blocked access in a given program year, depending on data lags and the frequency of test dates.

### **Box 1. Waivers of Applicability**

**During the blackout period, a member that has not yet purchased accumulated resources may still purchase those resources provided that the Executive Board grants a “waiver of applicability.”** The *Guidelines on Conditionality* provide that the Fund may grant a waiver of applicability only if it is satisfied that, notwithstanding the unavailability of the information necessary to assess observance of performance at the last test date, the program will be successfully implemented and there is no clear evidence that PCs will not be met (Decision 12864-(02/102), 9/25/02, as amended). Decisions on waiving the applicability of specified PCs are conditioned upon the accuracy of the member’s representation that the information necessary to assess observance of the relevant PC is unavailable (Decision No. 12251-(00/77) (7/27/00)). If there is clear evidence that one or more PCs has not been met or will not be met, a waiver of applicability cannot be granted. In such cases, the member would need to obtain a waiver of nonobservance before it could make a purchase.

4. **Blackout periods stem from the need for safeguards for the Fund’s resources, albeit with necessary tradeoffs in terms of the continuity of drawing rights for members.**<sup>8</sup> Blackout periods are intended to safeguard Fund resources by interrupting drawing rights when data are stale, thus reducing the risk that a member might draw on Fund resources when the member’s Fund supported program is off-track. At the same time, however, the member must have a certain amount of continuity in its ability to make purchases to support achievement of the program objectives underlying an arrangement.

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<sup>5</sup> If the data show that one or more PCs was not met, the constraint on making purchases is no longer the blackout period. Rather, the nonobservance of a PC(s) automatically interrupts access to any further purchases and a waiver(s) of nonobservance would be required to restore access.

<sup>6</sup> In the case of an arrangement with quarterly purchases and semi-annual reviews, drawing rights for quarterly purchases not associated with reviews remain in place until the next test date. This paper does not address the blackout period that may arise between the scheduled and actual review dates.

<sup>7</sup> “On-track” for purposes of this paper is defined as meeting all PCs with data reporting and reviews occurring on schedule.

<sup>8</sup> Under Article XXX(b) of the Articles of Agreement, an arrangement is defined as a decision of the Fund by which a member is assured that it will be able to make purchases from the GRA in accordance with the terms of the decision during a specified period and up to a specified amount.

## B. Blackout periods and precautionary arrangements: 2003 to present

5. **Revisions to policies on blackout periods were considered in 2003 as part of a review of precautionary arrangements, but no changes were agreed (Box 2).**<sup>9</sup> At that time, there was no consensus on the precautionary use of Fund resources for crisis prevention purposes. While HAPAs were permitted under Fund policies, their use was rare and, until the recent reform, not encouraged (Figure 2).<sup>10</sup> In the 2003 discussion, Directors recognized the uncertainty arising from blackout periods and considered options to mitigate their impact. However, with precautionary arrangements seen mainly as a vehicle for members to signal appropriate policies, blackout periods were not perceived as presenting a major obstacle.

6. **The recent far-reaching reform of the GRA lending toolkit has highlighted the need to reconsider the balance between safeguards and continuity of drawing rights.** HAPAs are now expected to play an expanded role in delivering Fund resources to members, including for countries with potential capital account vulnerabilities. In such cases, the maintenance of confidence and thus strong assurances of continuity of drawing rights are key. In this context, current policies on blackout periods have disadvantages: for the three current HAPAs, blackout periods are expected to range from four to six months on an annual basis, even assuming the programs remain fully on-track (Box 3).

7. **As noted, blackout periods can be addressed through waivers of applicability, but this approach gives rise to substantial uncertainties.** Experience with waivers of applicability outside of reviews is very limited. In this context, a member may be uncertain whether the waivers will be granted. At the same time, there may be a concern that the waivers would be viewed as a negative signal by markets (any decision by the Executive Board to grant a waiver is publicized under the Fund's transparency policies). An effort to mitigate blackout periods by making such waivers more routine could also put an administrative burden on staff and the Executive Board since, outside the context of a review, each request for a waiver would require the preparation of a stand-alone Board paper and the adoption of a decision by the Executive Board. Absent other tools to address blackout periods, these uncertainties may also create incentives for a member to purchase shortly before a new test date is reached (as one member with high access did in 2001).<sup>11</sup>

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<sup>9</sup> *Adapting Precautionary Arrangements to Crisis Prevention* (6/11/03) and *IMF Concludes Discussion on the Review of Contingent Credit Lines*, Public Information Notice (PIN) No. 03/146, December 19, 2003, Annex 1.

<sup>10</sup> *IMF Concludes Discussion on the Review of Contingent Credit Lines*, Public Information Notice (PIN) No. 03/146, December 19, 2003, Annex 1.

<sup>11</sup> At the time, the member's authorities expressed concerns over blackout periods, and the stigma associated with requesting a waiver, even one of applicability (*Adapting Precautionary Arrangements to Crisis Prevention* (6/11/03)).

## **Box 2. The 2003 Review: Adapting Precautionary Arrangements to Crisis Prevention<sup>1/</sup>**

**In light of the expiration of the Contingent Credit Line, the Executive Board considered proposals for adapting precautionary arrangements to make them more effective in crisis prevention and to strengthen the Fund's capacity to respond quickly to the needs of members with strong policies and capital account vulnerabilities.** The proposed changes to precautionary arrangements related to four areas: (i) access levels above normal limits; (ii) larger upfront phasing of financing; (iii) reducing interruptions in drawing rights (blackout periods); and (iv) program design. There was not sufficient support for the adoption of the proposed modifications.

### **The 2003 discussion considered three options for mitigating the blackout period:**

#### *Extended drawing rights*

Rather than suspending drawing rights after a test date, rights could be extended to pre-established dates for each member at which data were expected to become available. For example, for a program approved on November 15 with a first test date of December 31, the blackout period would be postponed from December 31 to a later date, say February 15, the pre-specified date at which time all data on the performance criteria at end-December were expected to be available for that member. With this modification, it would be possible for drawing rights to remain uninterrupted for an entire arrangement (provided the program remained on-track). Many Directors favored this option. However, many other Directors cautioned that this would reduce the level of safeguards for Fund resources, increasing the risks of Fund disbursements in situations where a program is off-track.

#### *High-frequency performance criteria*

In addition to extending access rights, a set of indicators of program performance, that are available at higher frequencies and with a shorter lag, could be established as performance criteria. A purchase would be allowed only at times when all criteria are observed. This modification would provide additional safeguards (as they would supplement standard quarterly performance criteria), and could be applied to the entire arrangement period, not just blackout periods. A variant of this was to maintain the current structure of blackout periods, but make conditions for waivers of applicability more transparent by linking them to high-frequency performance indicators, which would be explicitly specified, but not set as formal performance criteria. There was little interest among Directors for either approach.

#### *A floating activation review*

The first purchase could be made conditional on the completion of an activation review. The balance between safeguards and continuity of drawing rights would depend on the scope of the review, either: (i) narrowly focused and essentially backward-looking; or (ii) broadly focused, including reaching understandings on the appropriate policy response to the shock. The latter option would give the member less ex ante assurance regarding the continuity of drawing rights, but improve the safeguards to the Fund. An activation review could also provide an opportunity for a quick reassessment of the first purchase size in light of the actual balance of payments need. Some Directors expressed interest in this approach, although other Directors felt that this would not provide for adequate assurances to the member of continuity of drawing rights would be available should a need arise.

<sup>1/</sup> *Adapting Precautionary Arrangements to Crisis Prevention* (6/11/03) and *IMF Concludes Discussion on the Review of Contingent Credit Lines*, Public Information Notice (PIN) No. 03/146, December 19, 2003, Annex 1.

### Box 3. High Access Precautionary Arrangements and Expected Blackout Periods

**Blackout periods in the three HAPAs approved in 2009 (Costa Rica, El Salvador, and Guatemala) have led to interruptions of significant amounts of access for lengthy periods, thereby lessening their crisis prevention benefits.** More broadly, given that most programs have similar test dates, this could give rise to coinciding blackout periods across many precautionary programs (as is the case with the three current HAPAs).

**Resources under the arrangements are sizable.** Access in all three current HAPAs is high (300 percent of quota), frontloaded (200 percent of quota on approval), and equivalent to more than 2 percent of GDP.

	Approved	Duration (months)	Percent of quota		Initial purchase (million SDR)	Access/GDP	Access/GIR
			Total	First year			
El Salvador	1/16/2009	15	300	275	342.6	2.2	20.4
Costa Rica	4/10/2009	15	300	250	328.2	2.5	22.0
Guatemala	4/22/2009	18	300	260	420.4	2.5	20.5

Sources: *Costa Rica* IMF Country Report 09/134, April 2009, and *Letter of Intent* March 26, 2009; *El Salvador* IMF Country Report 09/71 and *Letter of Intent* January 7, 2009; *Guatemala* IMF Country Report 09/143 and *Letter of Intent* April 13, 2009.

**Blackout periods for the three HAPAs range from 16 to 24 weeks (annually, assuming the reporting lags spelled out in the specific arrangements are realized in full).<sup>1</sup>**

TMU Data Reporting Requirements	PC-related?	Frequency of data	Reporting Lag	Blackout Length	Annual Blackout (4 test dates/yr)
<i>Costa Rica</i>					
Net International Reserves	Yes	Daily	1 day		
Net domestic assets (central bank)	Yes	Daily	1 day		
Cash balance of central government	Yes	Monthly	6 weeks	Up to 6 wks	Up to 24 wks (6x4)
Cash balance of nonfinancial public sector	No (IT)	Monthly	8 weeks		
Stock of debt of central government	Yes	Quarterly	4 weeks		
Accumulation of external debt arrears	Yes	Continuous	Continuous		
<i>El Salvador</i>					
Bank deposits in commercial banks	No	Daily	3 working days		
Balance sheet/liquidity position of banks	No	Weekly	5 working days		
Monetary Survey and CB balance sheet	No	Monthly	6 weeks		
Revenues and expenditures of NFPS	Yes	Quarterly	6 weeks	Up to 6 wks	Up to 24 wks (6x4)
Financing of the nonfinancial public sector	Yes	Quarterly	6 weeks	"	"
Balance of payments	No	Quarterly	One quarter		
Central bank report on economic activity	No	Quarterly	One quarter		
<i>Guatemala</i>					
Net International Reserves	Yes	Daily	2 working days		
Central govt deposits at central bank	No (IT)	Daily	2 working days		
Overall balance of central govt	Yes	Monthly	One month	Up to 4 wks	Up to 16 wks (4x4)
Accumulation of external arrears	Yes	Continuous	Continuous		
Inflation	Consultation clause	Monthly	2 weeks		
18 other data items	No	Daily/wkly/mnthly	2 working days to one month		

<sup>1</sup> The reporting lags indicated in the table correspond to the limits set in the TMU. Reported data may be received in advance of the respective limit.

### III. PROPOSED REFORM

#### A. Criteria

8. **Any solution to the blackout period issue should be simple, mitigate interruptions in access thereby enhancing the continuity of drawing rights for the member, and maintain appropriate safeguards.** The current policy to block access after test dates provides strong safeguards. However, in the context of the expanded role of HAPAs, the choice of the test date as the cut-off may lead to excessive interruptions in access. Moreover, the current tools available to address blackout periods, i.e., waivers of applicability, give rise to substantial uncertainties. Taking these factors into account, and recognizing that the choice of cut-off dates is by its nature somewhat arbitrary (i.e., the member's performance in the days just before and the days immediately following the cut-off date are unlikely to be substantially different), it is reasonable to consider alternatives.

#### B. Proposal

9. **To enhance the continuity of drawing rights for members, the stock of accumulated but undrawn resources could remain available for a specified period beyond each test date.** The period of this extension should seek to minimize both: (a) the possibility of a purchase when the member's program is off-track; and (b) the likelihood of an interruption in access. The maximum extension period could be set on a case-by-case basis (as proposed under the 2003 proposal for extended drawing rights, described in Box 2) or based on a standard timeframe.

- Staff propose that access be maintained for a period (an "extension period") of no more than 45 days following each test date under a new Extended Rights to Purchase (ERP) mechanism, under the conditions specified in paragraph 10 below (see also Figure 3). A maximum period of 45 days would be simple and transparent and would maintain incentives for timely reporting on PCs. It would be shorter than the maximum two-month "lag" contemplated in Fund policy between a test date for a PC and the date upon which members are expected to report data for that test date.<sup>12</sup> A maximum period would also avoid incentives for negotiation of longer lags upfront than may be strictly necessary.

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<sup>12</sup> Decision No. 14281-(09/29), adopted March 24, 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."

10. **Maintenance of appropriate safeguards is key.** During the extension period, a member would be able to purchase accumulated amounts without having to demonstrate observance of the PC for the most recent test date,<sup>13</sup> subject to several important safeguards.

- A member’s access would be interrupted following the test date if data reported by the member for such PCs (“test data”) showed that any PC was not met. Staff would immediately inform the member when such a circumstance arises.<sup>14</sup>
- To reinforce the importance of timely provision of data, no purchase would be available during any part of an extension period in which the member had not reported test data for the relevant test date by the deadline specified in the Technical Memorandum of Understanding (TMU). More specifically, the member’s TMU sets out deadlines by which the member is expected to provide test data for such PCs. These deadlines can vary for each PC and generally would fall within the extension period. To the extent that the member did not provide the relevant data for any such PC by a specified deadline, the member’s right to purchase would be interrupted until the data for that PC was provided and it demonstrated that the PC was met.<sup>15</sup>
- As a condition for making the purchase during the extension period, the member would be required to represent that relevant test data were, in fact, unavailable at the time of the purchase. To the extent a member represented that such data were not available and this representation was later found to be incorrect, the relevant purchase would be subject to the Fund’s misreporting policies.
- As in any other case, the Fund’s existing policies on misreporting and noncomplying purchases in the GRA would apply in the event a member makes a purchase during the extension period based on test data that later proved to be incorrect.

11. **Staff considered the possibility of introducing a repurchase expectation into the ERP framework to address the risk of a purchase being made where a program is off-track.** Specifically, where, during the extension period, test data concerning the observance of a particular PC is unavailable at the time of purchase, but subsequently shows the PC was missed, the member would be subject to a repurchase expectation for the amount purchased, unless the Executive Board decided to waive the nonobservance. However, staff

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<sup>13</sup> Consistent with current Fund policy, the member would have to observe all other conditions applicable to purchases under the arrangement (e.g., observance of continuous PCs).

<sup>14</sup> The communications with country authorities referred to in this paragraph would normally be carried out at the country team level.

<sup>15</sup> Staff would confirm that all test data reporting are up-to-date as part of the procedures to authorize a purchase of accumulated drawing rights.

ultimately reached the view that this approach would not be advisable for two reasons. First, the establishment of a repurchase expectation would give rise to greater uncertainty for members wishing to purchase during the extension period, thus undermining the objective of reducing blackout periods. Moreover, the requirement that members wishing to purchase during the extension period remain current on the reporting deadlines prescribed by the TMU significantly reduces the risk of a purchase being made when a program is off track.

**12. Board notification and transparency under the proposed strategy would be based on the following procedures:**

- Currently, the Board is not informed when a member enters into or comes out of a blackout period, nor is any public statement made. Staff does not propose to change this practice. If a member enters into a blackout period due to either: (a) a delay in provision of test data past the extension period; or (b) delays in provision of test data as agreed under the TMU, the Board would not be immediately informed and no public statement would be made on the fact of suspension from the ERP.
- The Board would be formally informed of any missed PCs at the time of the subsequent review or in the context of a stand-alone request for a waiver of nonobservance, if applicable.<sup>16</sup> This is consistent with current practice in cases where no misreporting is involved, including in cases involving quarterly PCs and semi-annual reviews. Also consistent with current policies, information on missed PCs would be published following the completion of the review. This sequence allows the missed PC to be reported with appropriate context.
- If, during the extension period, test data on the observance of a PC is unavailable at the time of a purchase, but subsequently shows it was missed, the Board would be promptly informed, at least on an informal basis (e.g., at an informal country matters session). This reporting requirement would serve as an indication to the member of the importance of avoiding such circumstances.

**13. The staff proposal for the ERP would provide a relatively simple approach that seeks to balance safeguard to the Fund and continuity of drawing rights for members.** However, it would be important to monitor and review the application of the ERP over time, including to help ensure uniformity of treatment. In this context, it is proposed that this policy be reviewed following a three-year period of experience.

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<sup>16</sup> In cases involving misreporting management, as is current policy, would be required to promptly report to the Executive Board. See paragraph 2 of Decision No. 7842-(84/165), adopted November 16, 1984, as amended.

14. **Implementation arrangements.** The decision establishing the ERP would, once it is adopted by the Executive Board, be incorporated by reference into (i) every new stand-by and extended arrangement; and (ii) every existing stand-by and extended arrangement. This could be done either in the context of an upcoming program review or earlier, at the request of a member, by a lapse of time decision.

**PROPOSED DECISION**

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

1. This decision shall apply to all stand-by and extended arrangements approved by the Fund.
  
2. A member may purchase any amount available under the phasing provisions of an arrangement without having to demonstrate observance of any periodic performance criterion specified for the most recent relevant test date if:
  - (i) the purchase is requested within 45 days of the most recent test date;
  
  - (ii) the member is meeting all other conditions applicable to purchases under the arrangement;
  
  - (iii) the member has either met or been granted a waiver for nonobservance of each periodic performance criterion for the relevant test date immediately preceding the most recent test date, provided that in cases where a purchase is subject to periodic performance criteria specified for more than one test date, this paragraph (iii) shall not apply to performance criteria specified for the earlier of such test dates where the data is unavailable and the 45-day period referred to in paragraph 2(i) of this Decision for that earlier test date has not elapsed;
  
  - (iv) 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”);

- (v) 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 criterion; and
- (vi) with respect to any performance criterion for the most recent relevant test date for which data are unavailable and the reporting deadline set out in the TMU has not passed, the member represents that such data are unavailable.

3. Any purchase made pursuant to Paragraph 2 above shall, for the purposes of the Guidelines on Corrective Action for Misreporting and Noncomplying Purchases in the General Resources Account set out in Decision No. 7842-(84/165), adopted November 16, 1984, as amended (hereinafter the “Misreporting Guidelines”), be deemed to have been made subject to a condition that any representation made by the member under Paragraph 2(vi) above is accurate.

4. When a purchase is made under Paragraph 2 in circumstances where the Misreporting Guidelines do not apply, and it is subsequently determined that the member did not observe a performance criterion for which a representation was made under paragraph 2 (vi), the Managing Director shall promptly inform Executive Directors in such manner as he deems appropriate.

5. Accordingly, to implement this Decision, the following amendments shall be made to the standard forms of the stand-by and extended arrangements set out, respectively, in Attachments A and B to Decision No. 10464-(93/130), September 13, 1993, as amended:

(a) The first sentence of Paragraph 3 (a) of the standard form of the stand-by arrangement shall be modified as follows:

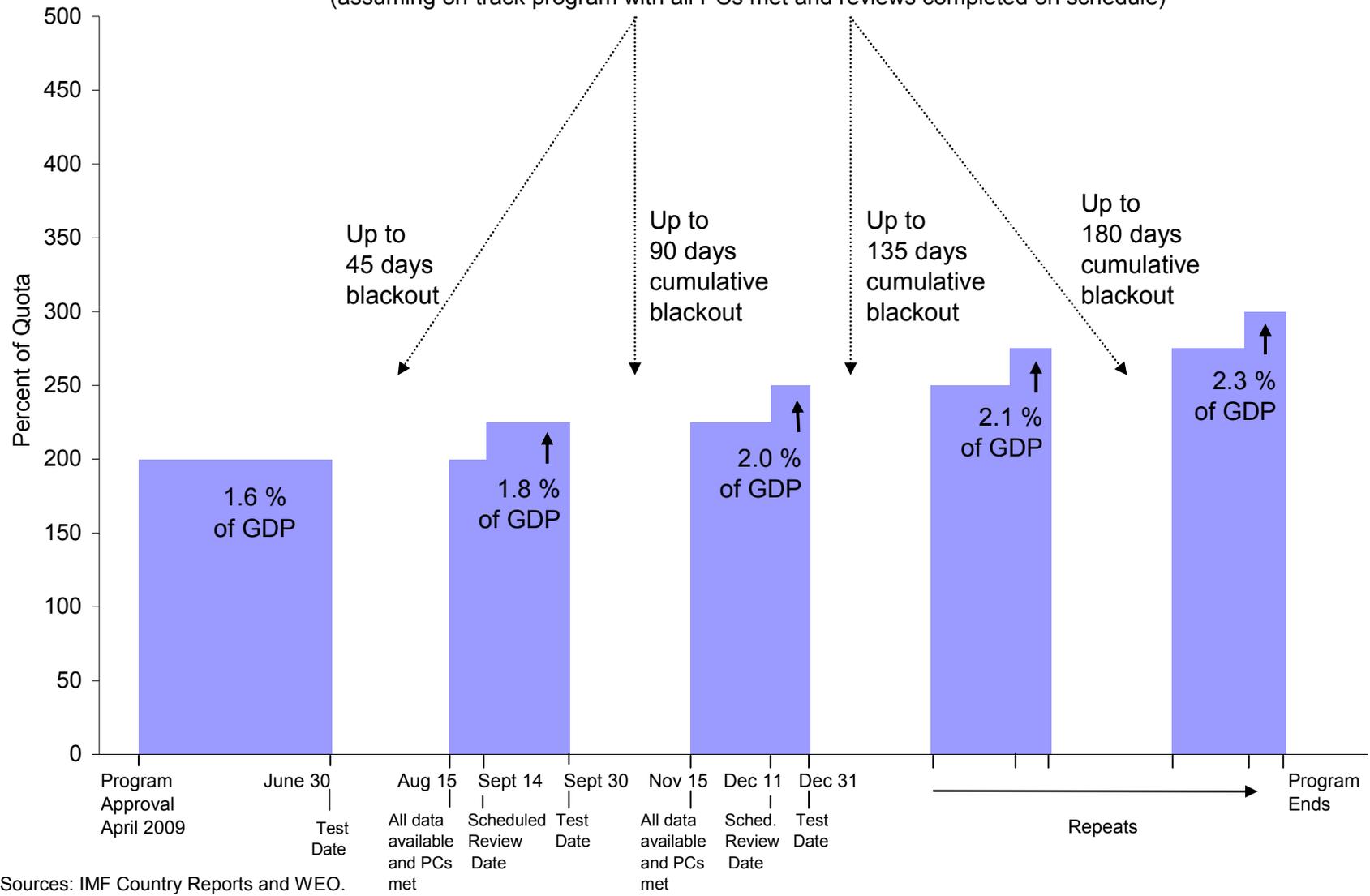
“Subject to paragraph 2 of Decision No. [insert this decision #], during any period in which the data at the end of the preceding period indicate that:”.

(b) The first sentence of Paragraph 3 (a) of the standard form of the extended arrangement shall be modified as follows:

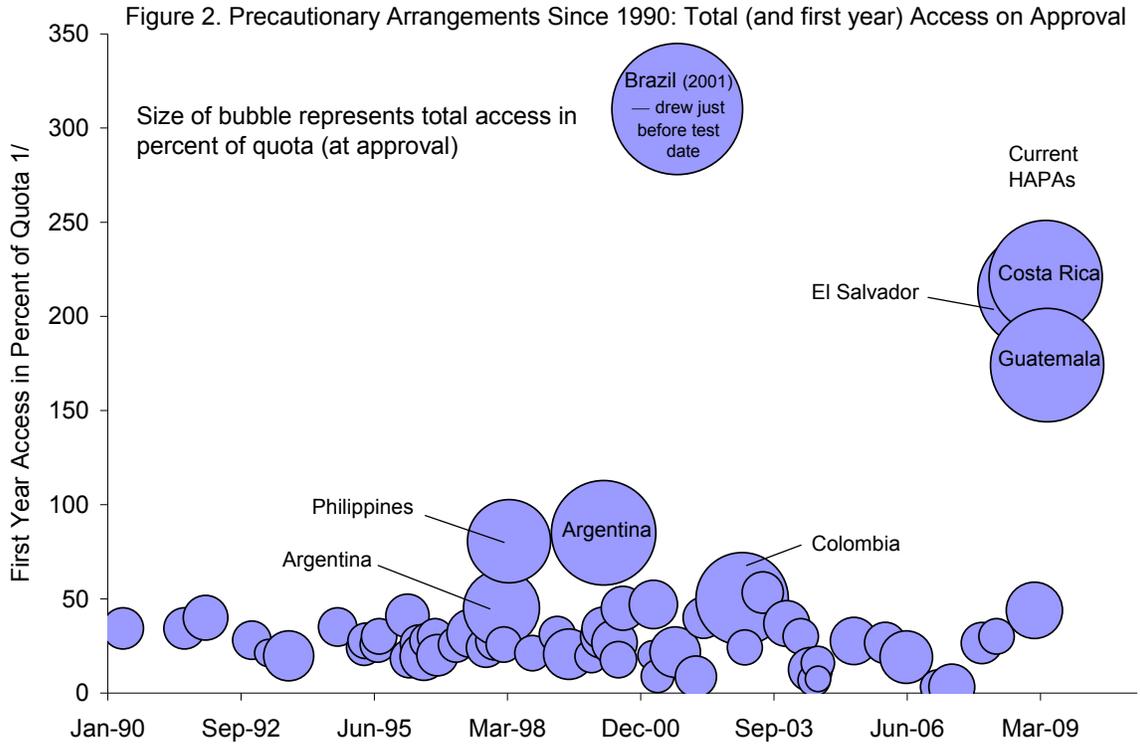
“Subject to paragraph 2 of Decision No. [insert this decision #], during any period in which the data at the end of the preceding period indicate that:”.

6. This Decision is expected to be reviewed no later than three years after the date of its adoption.

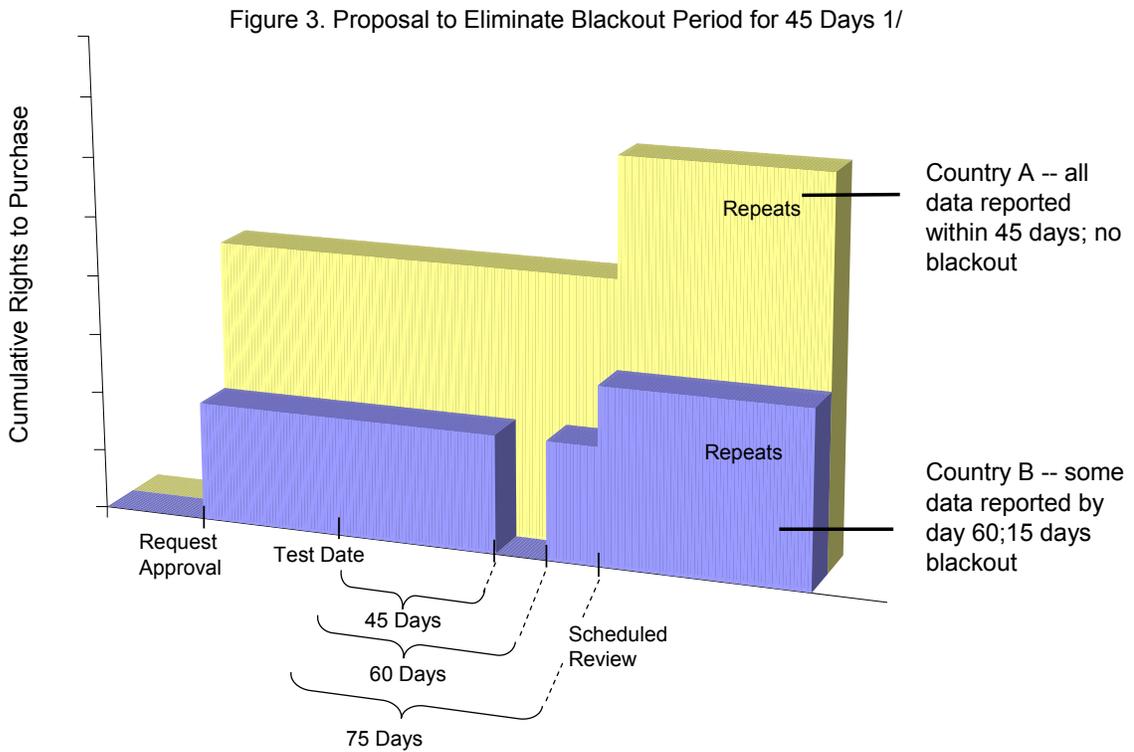
Figure 1. Costa Rica Precautionary SBA Blackout Periods, 2009–10  
 (assuming on-track program with all PCs met and reviews completed on schedule)



Sources: IMF Country Reports and WEO.



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



1/ Figure assumes on-track programs with all data reported on schedule, PCs met, and reviews completed on schedule.