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IMF Contingency Financing for Middle-income Countries with Access to Private Capital Markets:

An Assessment of the Proposal to Create a Reserve Augmentation Line

Jan Kregel

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PREFACE

The *G-24 Discussion Paper Series* is a collection of research papers prepared under the UNCTAD Project of Technical Support to the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development (G-24). The G-24 was established in 1971 with a view to increasing the analytical capacity and the negotiating strength of the developing countries in discussions and negotiations in the international financial institutions. The G-24 is the only formal developing-country grouping within the IMF and the World Bank. Its meetings are open to all developing countries.

The G-24 Project, which is administered by UNCTAD's Division on Globalization and Development Strategies, aims at enhancing the understanding of policy makers in developing countries of the complex issues in the international monetary and financial system, and at raising awareness outside developing countries of the need to introduce a development dimension into the discussion of international financial and institutional reform.

The research papers are discussed among experts and policy makers at the meetings of the G-24 Technical Group, and provide inputs to the meetings of the G-24 Ministers and Deputies in their preparations for negotiations and discussions in the framework of the IMF's International Monetary and Financial Committee (formerly Interim Committee) and the Joint IMF/IBRD Development Committee, as well as in other forums.

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IMF CONTINGENCY FINANCING FOR MIDDLE-INCOME COUNTRIES WITH ACCESS TO PRIVATE CAPITAL MARKETS:

AN ASSESSMENT OF THE PROPOSAL TO CREATE A RESERVE AUGMENTATION LINE

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Abstract

In order to assess the proposal of the IMF to create a Reserve Augmentation Line (RAL), this paper first reviews the conditions that led to the loss of IMF control over balance of payments financing, and how private capital flows increased the liquidity requirements for system stability. It then reviews how the IMF responded to these problems, before assessing whether the RAL represents a sufficient improvement to the Contingent Credit Line (CCL), the unused predecessor to the RAL, in providing signals that will reduce the probability of crisis for countries implementing it, as well as conditions to convince countries to actually use it.

The main argument of the paper is that, despite the fact that the RAL constitutes some improvements over the CCL, it also still exhibits limitations in providing the kind of rapid support that member states might expect, thereby limiting the possible success of the RAL in acting as a "seal of approval", as well as convincing countries to actually use it. Apart from the limited extent of improvement of the drawbacks of the CCL, there are still several unresolved issues regarding the RAL, as with any draft proposal, that need to be addressed in order for the RAL to be successful.

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AN ASSESSMENT OF THE PROPOSAL TO CREATE A RESERVE AUGMENTATION LINE*

Jan Kregel

Introduction

In the 1970s, a major shift took place in the international financial system that changed the role of the International Monetary Fund in providing liquidity to countries seeking to satisfy their commitment to their Article IV exchange rate peg to gold or the dollar. As a result of the sharp increase in the share of private financial flows in international balance of payments financing, the IMF lost its dominant role in overseeing the provision of liquidity to countries in external disequilibrium. It also lost its dominant role in overseeing the adjustment process and in limiting the size of external disequilibria. The increased role of private financing created the possibility of much larger cumulative imbalances that led to large accumulations of sovereign debt stocks and created the conditions in which capital flow reversals could produce internal and external default. The sums required to insure exchange rate stability in the presence of such reversals far exceeded the Fund's normal provisions for balance of payments lending, even after a number of increases in official quotas and special agreements to borrow short-term from creditor countries.

In response to these changes the Fund experimented with a new approach that used approval of a financing arrangement as a signalling device to generate a catalytic response in the private sector designed to stem a capital reversal and restore access to international capital markets. While evidence of success of this new approach to produce the anticipated catalytic effect in economies experiencing external disequilibrium due to capital flow reversal is meagre, the Fund has recently suggested that there is some evidence that Fund precautionary arrangements could reduce the probability of a future capital reversal. This would occur when there is a credible

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commitment by the Fund to make exceptional access available in the event of crisis, accompanied by a credible commitment from the government to maintain appropriate economic policies, monitored on a regular basis for compliance by Fund staff. The Fund has thus attempted to adapt the new approach to create credible precautionary "pre-crisis" programmes that contain a sufficient pre-commitment of Fund financing, accompanied by members' commitments to maintain sound policies that private capital markets would interpret as a credible defence against a crisis of confidence caused by contagion due to an external shock. It was to serve these purposes that the Fund created the Contingent Credit Line (CCL), and after it lapsed, the Reserve Augmentation Line (RAL[1]).

This paper reviews the conditions that led to the loss of Fund control over balance of payments financing, and the how the role of private capital flows increased the liquidity requirements for system stability. It then reviews how the Fund responded to these problems, before assessing whether the RAL represents a sufficient improvement of the CCL to provide the appropriate signals that will reduce the probability of crisis for countries implementing it, as well as sufficiently attractive conditions to convince countries to use it.

Flexible exchange rates and the private financing of payments imbalances

The eventual acceptance of flexible exchange rates after the United States decision to abandon the dollar peg to gold in 1971 produced a radical change in the mandate of the International Monetary Fund. However, despite a detailed set of recommendations from the Group of Twenty, the only fundamental change was the amendment in January 1976 of Article IV of the Articles of Agreement dealing with exchange arrangements to allow members complete freedom of choice.[2]

The proponents of flexible exchange rates had argued that flexibility would facilitate smoother, market-based adjustment of external imbalances and negate the need for countries to hold large foreign exchange reserves to support currency parity. The reduced importance of reserves in providing systemic stability thus implied a reduced need for countries to borrow from the IMF to bolster their reserves. It also implied that the newly created source of international liquidity, the SDR, would be largely redundant.

However, as was pointed out by Robert Triffin, the system based on flexible exchange rates produced just the opposite response. "It has led to an *inflation* of world monetary reserves unprecedented in history. ... Measured in dollars, they have increased eleven times as much in eleven years (1970-80) as in all previous years and centuries since Adam and Eve." Triffin concluded that the new "world monetary 'system' – or rather non-system – obviously functions today in a way totally opposite to the objectives it should serve."[3]

The introduction of flexible exchange rates was also accompanied by a rapid increase in the private financing of international payments imbalances, initially through the Euro dollar market, and then in response to the structural payments imbalances that followed the increase in petroleum prices.[4] However, as noted in the McCracken Report,[5] "The shift to increased reliance on private lenders for official financing purposes marked ... [a] transformation [that] had already been going on for some time. ... The events of 1974-76 simply confirmed and accelerated a trend in the process of liquidity creation that had been evident well before the oil price increases of 1973."

The IMF responded to this increased demand for international liquidity with quota increases of over one-third in 1976 and over 50 per cent in 1978. In addition to a temporary Oil Facility in 1974 (renewed in 1975), an Extended Facility was also introduced in 1974 to provide for longer-term exceptional access (up to 140 per cent of quota) relief for structural adjustment problems. In 1979, a Supplementary Financing Facility provided additional access for countries experiencing persistent payments deficits substantially in excess of their quotas.[6] The result was the creation of the possibility for members to access exceptional financing[7] of over 400 per cent of quota.[8] However, these new facilities proved to be inadequate to the liquidity needs of the system as shown by the sharp acceleration in the rising trend of private financing of balance of payments disequilibria that occurred in this period.

Guido Carli, Governor of the Bank of Italy, drew the following conclusions: "... there is at present no international monetary system, that is, there is no official institution capable of supplying the international payments system with the liquidity required for the further expansion of trade. This function has been taken over by the private banking system, and primarily by the U.S. banks, through operations carried out by their branches at home and abroad. The private banks have shown a greater ability than the official institutions not only to create the necessary liquidity for the development of trade but also to organize its efficient distribution. As a result, the IMF's ability to enforce observance of rules of conduct has diminished; it should be remembered that, as originally conceived, the Fund's prescriptive powers derived from its ability to exclude refractory countries from access to conditional credit. As almost all credit is now drawn from other than official sources, the Fund's ability to lay down conditions has been correspondingly reduced. And as the function of creating international liquidity has been transferred from official institutions to private ones, so the task of supervision has passed from international bodies to national ones, whose surveillance, though keener than in the past, has nonetheless never reached beyond the boundaries of national interests."[9]

The result of this sharp increase in private market intermediation was a lapse in risk assessment on private loans and deficient national supervision that emerged in a liquidity crisis in the very year that Carli spoke, and as a full scale regional financial crisis in 1982.

After the long adjustment period in the 1980s, private capital flows again resumed their rapid pace of increase in the 1990s, and the result was another sharp increase in demand for Fund resources. But in difference from the 1970s, it was the capital flows themselves that created the external disequilibria, rather than a disruption in international commodity prices or in trade flows, so countries could not use private markets to satisfy their increased demand for liquidity. The IMF thus stood alone as provider of liquidity to meet the 1994-5 Tequila crisis, the 1997-8 Asian crisis, and the 1998 Russian default that led to the global liquidity crisis. But in similarity with the 1970s, IMF resources were still insufficient to meet the liquidity needs of the system, and it was necessary to involve governments and other multilateral and regional financial institutions in providing liquidity to the system.

As a result of this increased demand, in 1998, a record SDR 32 billion of new arrangements were approved, producing a total Fund credit outstanding of over SDR 67 billion in 1999, extending into the early years of the present decade when the absolute record high for Fund credit outstanding would reach nearly SDR 73 billion in 2003. As in the 1970s, many countries were granted exceptional access to Fund resources.

Thus, while in theory, the shift to flexible rates should have reduced global liquidity requirements, paradoxically, the increase in private global liquidity due to the increase in private financing created a substantial increase in the demand for official liquidity to ensure exchange rate stability under the revised Article IV. It also produced a sharp increase in the magnitude of the resources the IMF would have to supply to members to support their commitments under Article IV. The next section explains how the increasing dominance of private balance of payments financing produced the increase in demand for liquidity provision by the Fund.

Private financing and increased demands for official liquidity

The post-war international financial and trading system created at Bretton Woods was buttressed on the presumption that there would be minimal private capital flows and that the majority of international financing would be intermediated by the newly created multilateral financial institutions, subject to government oversight and control. IMF lending was to be directed to the support of a member's Article IV commitment to meet their declared exchange rate parity with gold or the United States dollar. Countries could draw against their quota[10] to meet external claims on domestic residents at this par rate (or at a newly agreed par rate) if they had insufficient foreign exchange reserves to do so, while domestic economic policies were adjusted to restore external balance "without resorting to measures destructive of national or international prosperity". It was presumed that this adjustment would take place within a relatively short period of time and that the resulting external surplus would repay Fund lending and restore the borrowing country's reserves to their normal levels.[11]

The primary causes of external disequilibrium were considered to be excess domestic absorption due to a fiscal imbalance created by excess government spending, or exchange rate overvaluation due to excess demand producing inflation above that of trading partners. Thus, the policies required to restore external equilibrium should reduce absorption by creating a government budget surplus and being supported by monetary restriction. If excess demand also produced an inflation differential that could not be reversed by policy measures, an exchange rate adjustment might be sought to change relative prices of traded and non-traded goods to restore international competitiveness.

In theory, the size of a country's cumulative external imbalance before it drew against its Fund quota was thus limited by the member's foreign exchange reserves. Since most countries kept foreign reserves, as a rule of thumb, at some multiple – usually three or four months – of imports, the size of the cumulative imbalance that could be built up before corrective action was taken was limited.

Fund lending that was provided to members while they implemented policies to restore external equilibrium was thus similar to what in private finance are called "bridging loans", providing the borrower with short-term funding to maintain a position in an asset until permanent financing can be arranged. In the case of IMF balance of payments adjustment lending, the funds were to allow the borrower to maintain external commitments at the official, or the new (devalued), parity for the period of time required to bring the external account back into surplus by implementing adjustment policies. The foreign exchange generated from the return to external surpluses thus represented the "permanent" financing that allowed reserves to be restored to normal levels and the bridge loan to be repaid to the IMF.[12] The adjustment period for the outstanding bridge loan was expected to be relatively short,[13] the support required relatively modest, and the interest rates charged concessional, with the IMF the sole major creditor. Under such arrangements, deficit countries could not build up large debt stocks on a permanent basis. Since quotas were broadly linked to a country's trading position and income, they were sufficient to provide the necessary bridge finance so that countries would usually not require large or sustained access to Fund resources.

However, as noted above, the breakdown of the Bretton Woods system brought with it a fundamental change in which official balance of payments financing was increasingly substituted by private bank loans and portfolio flows. As Governor Carli emphasized, this shift sharply reduced the ability of the IMF to use its monopoly on financing to enforce policy conditionality to restore equilibrium; private loans were usually made with minimal conditionality.

More important, however, was that private financing made it possible for countries to undergo external disequilibrium for much longer periods, and as a result, to accumulate large stocks of private and sovereign external indebtedness, usually denominated in foreign currencies. In difference from the original Bretton Woods system, in which cumulative deficits were limited by exchange reserves and Fund resources, under the emerging system of private financing, the size of the cumulative imbalance was only limited by the ability of the borrower to continue to access private sector lending.

Rather than "bridge" lending, this private sector financing of individual country balance of payments deficits was similar to what is called "Ponzi" finance, where additional borrowing is required in order to finance debt service on previous lending. Just as in any Ponzi financing scheme, continued lending depends on the creditors' belief in the ultimate ability of debtors to repay. And since the ability to repay depends on the ability of the debtor to continue to borrow, these beliefs can be self-reinforcing, but also highly volatile and rapidly reversed. Even a failure to roll over existing facilities could lead not only to exchange rate instability, in many cases, it could lead to currency inconvertibility imposing default on foreign loans and insolvency in domestic financial and non-financial institutions which had incurred foreign indebtedness.[14]

In the case of private sector funding of payments deficits, the line between the extreme need for liquidity and insolvency becomes blurred. In principle, any Ponzi borrower is insolvent. However, as Walter Wriston noted with respect to private bank lending to Latin America in the 1970s, sovereign borrowers cannot go bankrupt.[15] This is technically true, but it depends on whether a country can implement policies that will bring its external accounts back into equilibrium and generate the resources necessary to meet debt service "without resorting to measures destructive of national or international prosperity". This means that the redirection of resources must take place without becoming politically unsustainable, in which case there will there be a default, irrespective of whether the country is technically insolvent or not. Insolvency and default then cease to be a purely economic matter.[16]

Under the new system, larger accumulated deficits meant larger liquidity support required to allow countries to avoid default and initiate adjustment. The amount of support to ensure exchange rate stability in the face of such a reversal in confidence by lenders would require, at a minimum, the value of creditors' outstanding short-term foreign claims, plus funds sufficient to see off any foreign speculators and domestic capital flight.[17] That is, sums several orders of magnitude greater than were required under fixed exchange rates with official financing. Further, the need for liquidity could come much more rapidly and with much less warning than under a system in which declining foreign reserves represented a certain signal of impending need for Fund support for the exchange rate.

Despite the quota increases approved in the 1970s, the Fund had not increased its liquidity sufficiently to meet the vastly increased magnitude of the imbalances that would emerge from a system based on private financing and the associated accumulation of external debt. As a result, the Fund thus lost its ability to impose policies on countries facing external imbalance because it was no longer the monopoly supplier of adjustment financing. Unable to increase resources and unwilling to allow measures that would stem the flow of private financing, the Fund sought to leverage its resources by changing its approach to "catalytic" liquidity provision in order to restore its ability to control financing and impose policy conditionality for members facing external instability.

This new approach is described by Managing Director Rodrigo de Rato: "The shift to a system in which member countries choose their own exchange rate regimes brought a new mandate for the Fund to exercise firm surveillance over members' exchange rate policies, and their macroeconomic policies more broadly, in order to ensure the effective operation of the international monetary system."[18] As described by a former IMF Deputy Director, this "firm surveillance" of countries with Fund stand-by arrangements represents a "seal of approval" that "reassures investors and donors that a country's economic policies are on the right track, and helps to generate additional financing from these sources. This means, of course, that the Fund has to be careful to maintain its credibility: if we lose that credibility, by lending in support of inadequate policies, such catalytic, complementary support would not be forthcoming."[19] This new role of the surveillance of policy conditionality of IMF lending acting as a catalyst for additional private sector financing, rather than as the sole provider of liquidity for its members, is confirmed by the IMF Independent Evaluation Office noting that, in practice, "creditors ... tended to link increasing parts of their financing flows to the existence of an IMF lending arrangement acting as a 'seal of approval' on recipient country policies."[20]

In this new approach, Fund assumed the role of guarantor to private lenders that the adjustment policies recommended to and adopted by the borrowing country would restore equilibrium and ensure full repayment of interest and principal on outstanding private claims. There would then be no reason for capital flight and private lenders should be convinced to roll over existing commitments. A Fund arrangement thus has to provide a signalling function[21] to private market participants that acts as a catalyst that generates additional lending to the country to supplement the IMF lending. The new approach did not, however, deal with the source of the difficulty in the sustained private market financing of payments imbalances – only with its ability to deal with the resulting instability.[22]

Thus, it is the credibility of the Fund's policy advice in the view of private sector lenders, more than the signalling provided by the commitment of sufficient liquidity, that is now critical in generating the overall levels of liquidity support required for the Fund's role in providing stability to the international financial system. This is not to say that Fund lending is not important – the size of the Fund's own commitment in a policy arrangement will produce a strong demonstration effect to private lenders. And this signalling effect is reinforced by the willingness of the Fund to commit itself to the country by granting exceptional access.[23]

Thus, the basic components of the Fund approach to a credible catalytic arrangement include support that exceeds traditional limits, i.e., exceptional access, and policy commitments from the borrower. Success would ensure the necessary private capital inflows to allow repayment to the Fund within a relatively short period of time, and to meet debt service to private lenders on a timely basis.

Special liquidity facilities for developing countries with private financing

As noted above, the least developed country members of the IMF are dealt with through a separate process, while developed countries have not been borrowers from the Fund for some decades. The new approach is thus designed to deal with problems facing those, primarily middle-income, developing countries that have been able to access private international borrowing to finance their external positions or have been recipients of substantial foreign inflows in excess of their financing needs. As in the 1970s, the Fund responded to the increased needs for liquidity after the series of capital account balance of payments crises in the 1990s with the creation of new facilities that were meant to incorporate those factors noted above as being necessary to generate a catalytic response from private sector lenders.

Short-term Financing Facility (STFF)

A proposal was made on the eve of the Mexican crisis to create a new facility for emerging market and industrialised countries with extensive integration in international capital markets. The "short-term financing facility" (STFF) proposal incorporated an automatic right to draw (analogous to the original gold tranche) and a drawing subject to Executive Board review and approval. The two-tier approach was designed to strike a balance between automaticity and protection of Fund resources against moral hazard. The request for conditional support was to be made during Article IV consultations, and considered separately from any support required for current account imbalances. The Fund approval of access was designed to signal international financial markets a seal of approval of the country's underlying external payments position. The proposed Fund support was to be commensurate with the size of reserve losses that countries could sustain with generating loss of confidence, but with a proposed upper limit of 300 per cent of quota, the facility was clearly not designed to provide full financing for the impact for reserve losses due to external shocks. The Facility was never approved.

Supplemental Reserve Facility (SRF)

Created in December 1997 as part of the exceptional Fund assistance for the Republic of Korea, the SRF was intended to meet the needs of countries with exceptional balance of payments problems owing to large short-term financing needs caused by a sudden reversal of capital flows due to loss of market confidence. It provides exceptional access under a Stand-By or Extended Arrangement for up to one year, available in two or more drawings. Approval was based on the expectation that the financing will allow borrowers to commit to and consistently implement adjustment policies that will result in early correction of the balance of payments difficulties – the seal of approval. Repayment is expected in 1 to 1½ years of the date of each drawing, with possible extension by one year, after which time repayment is obligatory. The SRF is clearly designed to generate a catalytic impact and IMF assessment of the request for a SRF takes into account the financing provided by other creditors.

During the first year from the date of approval of financing to a country under the SRF, the use of IMF resources is subject to a surcharge of 300 basis points above the rate of charge on IMF loans. This rate is increased by 50 basis points at the end of that period and every six months thereafter until the surcharge reaches 500 basis points.

However, the experience of catalytic lending by the Fund produced little evidence that it made a major impact in preventing or lessening the severity of crisis by convincing private lenders to change their risk-averse flight behaviour in conditions of crisis. However, the Fund did believe that there was evidence that its precautionary lending arrangements had been instrumental in preventing crisis, and it thus fine-tuned the new approach by creating new precautionary facilities.

Contingent Credit Line (CCL)

The global liquidity crisis that followed the Russian default confirmed the existence of contagion in globally integrated financial markets. In response, the Fund created the Contingent Credit Line in 1999. It was designed to provide countries who requested it with a positive signalling device concerning their performance during any external financial difficulties in order to pre-empt any substantial capital flow reversal due to a liquidity crisis caused by contagion from an external shock. It was, in a sense, an attempt to provide insurance against the loss of the benefits of good policies resulting from failures in other countries. Similar to the SRF, it provided for a pre-commitment to exceptional access. In addition, it required a history of good performance in pursuing policies that were considered unlikely to produce a need for balance of payments financing as evidence of the pre-commitment to maintain credible policies. It provided the IMF seal of approval for countries without the need for a current IMF Stand-by arrangement.

However, many countries considered that the signal might be more negative than positive and indicate a country's expectation of an impending difficulty that had not been detected by market participants. An additional drawback was the phasing of the overall commitment. Making the disbursement of funds subject to an initial reexamination and a phased review implicitly creates doubt about the commitment of a country to maintain its policy stance and signals the possible withdrawal of the seal of approval. This reduced the credibility of both the Fund's commitment of resources and its own belief in the durability of a country's commitment. Interruption of the Facility would send a clear negative signal and generate the outflows that the Facility was designed to stop. This drawback remained after the 2000 review led to more rapid disbursement of the initial phase of the financing.

The repayment period of one year to eighteen months was also designed to enhance credibility – any imbalance that lasted longer than that period of time would, in all probability, represent a more permanent, structural difficulty, rather than the result of contagion from external events. Implicitly failure to repay within this short timeframe would require rolling over the CCL into a traditional Stand-by or Extended Fund arrangement through the SRF.

This raises an even more important drawback as a country meeting the conditions applicable to CCL relief would always be able to access SRF funding in the case of need and the initial charges on the two facilities were the same. Since the commitment fee was only waived on condition of taking up funding, this made the CCL more costly for the strongest countries and indifferent for weaker countries. This drawback was not fully eliminated by the reduction in charges and revision of commitment fees in the 2000 revision. The failure of any country to take up the Facility in what was a reasonably stable period from 2000 to 2003 raised the question of whether a separate Facility is necessary.

Reserve Augmentation Line (RAL)

In spite of the fact that it was never used, the Fund has indicated that it has received requests from members to provide a replacement for the CCL, and has recently proposed a Reserve Augmentation Line (RAL).[24] Like the CCL, it is designed to act as a "seal of approval" signalling device to shield qualifying countries from contagion capital account crises originating in other countries.

Expanded qualification

While it is also designed for middle-income developing countries integrated into the international private financial and trading system, qualifications would be amended to include countries whose performance is sufficient not to require Fund support, but nonetheless exhibit "some vulnerability, primarily with respect to their external debt position and private sector balance sheets". This expands the universe of potential applicants to those emerging-market economies that have shown improving current account positions and stable primary fiscal surpluses in the recent past that might have been excluded from the CCL.

Qualification conditions

Qualification for an RAL, on the request of the member, would be subject to submission and approval of a forward-looking policy framework document, including measures leading to reduction of vulnerabilities that might trigger a capital account crisis in countries where these are still present. Thus, while there is a precommitment of policy credibility similar to CCL, the scope of the policies covered is potentially much broader.

Liquidity provision

In difference from the CCL the RAL has a specific precommitment to exceptional access of 300 per cent of quota, with full and automatic disbursement on request. While it meets the credible signalling requirement of exceptional access, the amount of access is only in the mid-range of the suggested access under the CCL. Further, according to a Fund study on the role of exceptional access to Fund resources in reducing the probability of crisis, lowering the probability of a crisis to 25 per cent for a sample of capital crisis countries included in the study would have required 345 per cent of quota.

Lowering this to 10 per cent and five per cent respectively would require 410 per cent and 460 per cent of quota, respectively. While the study notes that such amounts are not out of line with the financial resources subsequently provided in some capital account crises, these figures indicate that the pre-commitment to exceptional financing guaranteed in the RAL is only a very modest signal.[25] Given this background, a figure in the range of 500 per cent of quota, nearer that introduced in response to the 1970s' crisis would be more appropriate. Since that time, the size of private financial flows has increased dramatically, and even if they are not used to provide non-conditional financing of balance of payments' disequilibria, their reversal in the event of a global liquidity crisis, such as that experienced in 1998, can be even more damaging. Further, in difference from the 1970s, the nature of flows has changed from syndicated bank lending to bond financing and foreign direct investment flows, reducing even more the potential catalytic impact of Fund lending.[26]

In addition, the 50 billion SDR overall maximum placed on commitments under the Facility also raises difficulty since the desirable increase in Fund quotas would reduce the number of countries that could be granted coverage.

The decision to offer only a uniform commitment for all countries also reduces the credibility of the Fund's signal to the extent that Fund quotas do not currently reflect a country's potential exposure to capital reversal, in difference from its exposure to a decline in export earnings. Thus, in the absence of a substantial quota increase the magnitude of funding provided by the Facility remains both insufficient and possibly inappropriate to needs. This means the success of the Facility in providing a credible signal of the ability of a country to resist crisis will depend on discussions concerning quota increases.

Finally, the kind of situation that the RAL is meant to deal with is similar to that faced by a Central Bank seeking to stop the systemic spread of lack of confidence caused by the failure of a single bank. Indeed, many have recommended that the IMF act more like an international lender of last resort, and it seems clear that the RAL is intended as a step in that direction. However, the ability of a Central Bank to exercise this function is due to its unlimited ability to create and commit liquidity resources to institutions under threat of a loss in confidence by its creditors. Limitations on support can thus only reduce the effectiveness of the RAL in this regard.

Review process

The revised review process involves an assessment immediately after the decision to draw on the Line, and subsequent semi-annual reviews. Although the RAL may be renewed indefinitely, once it is drawn, it will carry a one-year repayment period and thus have a single review.[27] In the event that a country requires more sustained support, it is presumed that this will be provided through an SRF or other existing Stand-by arrangement. The broader definition of coverage for RAL qualification means that its scope is now virtually identical to the SRF. As such the Fund has decided to impose the same terms and charges.

Fee structure

As already noted, one of the major drawbacks of the CCL was the commitment fee and structure of charges. In the 2000 review of Fund Facilities, IMF staff had already noted that the similarity in the terms and charges between the CCL and the SRF gave countries little incentive to undergo the CCL review and pay the commitment fee. In the event of a crisis, they would get more or less the same support at the same charge structure without the potential for negative signalling and the prepayment of the commitment fees.[28] While this led to a decision to reduce fees for the CCL, that decision appears to have been reversed in the RAL. Indeed, the drawback has been made stronger by the stronger linkages to the SRF and the presumption that in cases where there is not a rapid return to stability, an SRF arrangement will be required.

Issues left unresolved

The commitment to full and automatic initial disbursement without additional review is an important improvement over the CCL and makes the signal of the Fund's commitment as a seal of approval more credible. However, the proposal only notes that the disbursement will take place "if need arises", without introducing an explicit mechanism for determining need. It should be supposed that it would be granted on the simple request of the country.

Presumably, the commitment to disbursement on request is the basis for conducting the immediate post-disbursement review in order to assess whether the conditions for RAL support indeed existed, rather than having been more appropriate to some other Facility. But an announcement to this effect would have negative consequences for the country and require the normal review for an alternative Facility, thus reducing the strength of the commitment signal and the immediacy of provision of support. It would clearly be more expeditious to leave this assessment for the end of the period, making the RAL funding unconditional for the one-year period. The proposal also calls for a semi-annual interim review that would also limit the benefit gained from automatic implementation by raising the possibility of withdrawal of support and should also be unnecessary.

The roles of liquidity and policy conditionality

In supporting its new approach to liquidity provision, the Fund has insisted that the success of its precautionary programmes is due as much to their policy conditionality as to the liquidity provided.[29] While the RAL does not indicate specific policies to maintain macroeconomic stability, the Fund expects from countries qualifying for an RAL, an indication can be found in the already cited IMF paper[30] that attempts to assess and distinguish empirically between the contributions of the amount of Fund liquidity and the policy conditionality that accompanies Fund lending programs. It notes the finding that "better policies, the signaling of these policies and of the authorities commitment to them, and liquidity – through which a Fund supported program may reduce the likelihood of a crisis, taken together, ... suggest that: stronger policies – tighter monetary policy (higher real interest rates) or greater fiscal adjustment (particularly in the context of a Fund supported program) are significantly associated with a lower crisis likelihood."

However, if the appropriate response to a crisis resulting from contagion is to maintain "tighter monetary policy (higher real interest rates) or greater fiscal adjustment (particularly in the context of a Fund supported program)", then the policy will reinforce the inherently pro-cyclical nature of most external shocks. It is unlikely that such measures introduced to reduce absorption are likely to convince foreign lenders to continue to provide the capital inflows that would allow the borrower to repay the Fund and other official lenders, and to provide sufficient additional inflows to allow existing creditors to exit if they so desired. In the past, such policies have had the impact of causing a decline in tax yields and a recession that simply reinforces the loss of confidence of international investors.[31]

Further, since developing countries tend to have more volatile export earnings than developed countries, even stable domestic policies will tend to be procyclical. Most studies show that output volatility leads to lower sustainable growth rates, so that these policies would tend to run counter to the objective of providing funding in order to allow a country to continue to undergo sustained expansion.[32]

Debt sustainability

The RAL proposal also indicates that approval will include a "rigorous and systemic analysis" that shows "a high probability that the debt will remain sustainable" and that the country must remain "committed to policies directed at reducing remaining vulnerabilities, including as they relate to balance sheets and the financial sector, giving confidence that it will react appropriately in the event of crisis."[33] With respect to strategies to ensure debt sustainability, the IMF and World Bank have recently produced a new forward-looking approach to be applied to borrowing permitted to IDA countries and those emerging from the Heavily Indebted Poor Countries (HIPC) process. However, this approach does not seem to be applicable to the market-access countries envisaged for the RAL. It is thus probable that the RAL refers to the traditional Bank-Fund approach to debt sustainability defined "as a situation in which a borrower is expected to be able to continue servicing its debts without an unrealistically large future correction to the balance of income and expenditure."[34] As noted in one of the first formal analyses of debt sustainability: "The fulfillment of debt service obligations is thus dependent on the economy's capacity to adjust the claims on total resources, savings, and foreign exchange in any given year and over time so as to release the amount required for debt service."[35] Debt sustainability thus depends on the capacity, willingness and ability of governments to sacrifice domestic objectives to meet foreign claims. Note the contract with the commitment under the original version of Article IV to adjust "without resorting to measures destructive of national or international prosperity". Both deal with the ability of policy to reduce the domestic use of resources to meet foreign claims without a negative impact on external or international conditions and with continued domestic political support. This would seem to imply that in the event of contagion from external shocks, countries approved for the RAL would be required to show the political will to sacrifice domestic objectives such as growth, full employment and improved income distribution to meet debt service. This would also add to the pro-cyclical nature of the policies pursued to prevent capital reversal.

In addition, for most middle-income borrowers, debt ratios are strongly influenced by the translation effect of exchange rates on foreign currency debt and by international interest rates, both of which are largely independent of government policy measures. Just as the reversal of United States policies in the late 1970s produced the rapid rise in United States interest rates and the dollar exchange rate, the currently low United States rates, the dollar weakness and rising external United States trade deficits have brought improvements to many middle-income countries' external and debt positions, largely independent of domestic policies. Thus, stable domestic policies may be pro-cyclical or counter-cyclical, depending on international economic conditions. Given that the RAL is meant to allow countries to resist the impact of external shocks, one of the roles should be to provide policy flexibility to offset their negative consequences.

Given the short-term nature of most domestic debt, domestic interest rates are another major determinant, but policies to ensure central bank independence may conflict with policies to increase debt sustainability and to ensure fiscal surpluses. In many countries, interest rates are sufficiently high so that they increase the outstanding domestic currency government debt stocks by more than the government primary surplus, thus leading to increasing nominal debt and nominal surpluses. The remaining mechanisms for improving debt sustainability are changing the terms and composition of existing debt through debt management policies or restructuring, again only feasible over the medium term.

Neither are there indications of the policy that might be implemented toward "reducing remaining vulnerabilities, including as they relate to balance sheets and the financial sector, giving confidence that the member will react appropriately in the event of crisis."[36] These might refer to building domestic capital markets, with the associated institutional regulatory and supervisory institutions. But these are long-term policies and are unlikely to change markedly over the one-year period of an RAL, nor are they likely to be affected by an external crisis or to provide signals of the ability of a country to survive contagion. Neither can they be implemented with rapid effect to offset an internally generated crisis. The same will generally be true of strengthening private sector balance sheets and reducing currency mismatches.

Conclusions

It is now widely accepted that the attempt to use a Fund programme as a catalyst to encourage private lenders to support adjustment in conditions of capital account crisis has not been a success. The shift from bank lending to capital market lending and foreign direct investment as the major private financial flows has further reduced the possibility of success.

The appropriate conditionality

On the other hand, the recent experiments with market-driven sovereign debt resolutions has produced evidence that a Fund programme may have a positive influence on the negotiation of a sustainable debt restructuring package.[37] There is also evidence that the impact of Fund lending is also improved when coupled with policies to dampen the negative impact of the crisis on domestic demand.[38] This suggests that Fund lending packages be coupled with some form of institutional debt restructuring mechanism, similar to the SDRM proposals made in the aftermath of the Asian debt crisis, and that more flexibility be allowed for counter-cyclical policies to support growth and employment.

Nonetheless, it is still the belief that the new Fund policy could be effective in crisis prevention. This has been the basis for the proposed CCL and the more recent RAL. Here, a Fund commitment to exceptional access is coupled with a positive existing record of policy performance and debt sustainability to limit contagion with the intention to reassure lenders of the viability of the country's programme and the ability to meet any difficulties by an automatic exceptional access drawing on the Fund. However, given the strict qualifying conditions, any deterioration in a country's condition is likely to be the result of factors beyond the control of its domestic policies. Thus, maintaining a commitment to policies in order to access funding may not be the optimal response to an external disturbance. Rather, funding might be better used to provide the country with the ability to use policy to offset, rather than reinforce, the domestic impact of the external shock. This would make it easier to maintain stable policies over the long term.

That this flexibility has not been included is usually justified by fear of moral hazard – that countries receiving support will avoid undertaking the necessary adjustments. However, if the shocks are truly external, then there should, by definition, be no need for additional adjustment, but rather for counter-cyclical policies to offset the shock. Moral hazard should not be a relevant consideration in these circumstances.

Sufficient liquidity, insufficient income

Despite the clear evidence that success in the new approach to liquidity provision requires much higher levels of Fund resources, and in particular, a revision of quotas, the IMF has recently argued that its liquidity position is more than sufficient to meet its needs. However, this position is primarily due to the fact that the demand for Fund resources has declined even more rapidly. Purchases from the General Resources Account in 2005 and 2006 were only slightly above 2 billion SDR and no activity has been reported for 2007. Of the current value of member quotas of over 215 billion SDR, the Fund reports 157 billion SDR of usable resources. The IMF currently has only 8 outstanding General Resources Account (GRA) arrangements of 7.750 billion SDR, with more than 6.8 billion SDR to Turkey alone.[39] Since the Fund generates operating revenues from the interest spread on its GRA arrangements, the recent repayments, often anticipated, of outstanding arrangements has led to a sharp compression in Fund income. Paradoxically, despite the appearance of sufficient liquidity, the fact that the Fund is currently running a deficit may jeopardize its ability to meet its mandated current activities such as the role of augmented surveillance in generating efficient signalling to the private sector.

Ideally, the SDR could play a key role in creating a lender-of-last-resort facility, so that it would become a true fiduciary asset and enhance its role and share in global reserves. Indeed, after the outbreak of the Mexican crisis, in his statement to the Copenhagen Social Summit in March 1995, the Managing Director of the IMF suggested that an effective cure depended on “convincing our members to maintain, at the IMF level, the appropriate level of resources to be able to stem similar crises if they were to occur”, adding that this would imply a decision, inter alia, for “further work on the role the SDR could play in putting in place a last-resort financial safety net for the world”. Such a step would require an amendment of the Articles of Agreement and could face opposition from some major industrial countries. Since it is insisted that the IMF should remain largely a quota-based institution, funding through bond issues by that institution is also ruled out. This leaves the Fund’s normal resources, together with its borrowing facilities, as the only potential sources of funding. However, they alone would not provide financing on the scale made available by the IMF and other sources during the recent Mexican and East Asian crises.

The simultaneous appearance of excess liquidity and declining income from use of Fund liquidity is largely due to the decline in demand for Fund services that has occurred since the late 1990s. Part of this is due to the sharp recent decline in credit spreads on emerging market debt which has brought the cost of private sector borrowing down to levels that are more than competitive with Fund resources, especially given the fact that they do not incorporate repayment conditions. Another factor is the sharp build-up of foreign exchange reserves in many emerging market countries. What is a clear policy decision on the part of these countries to provide insurance against capital reversals, that was formerly provided by accessing Fund liquidity, has been supported in some countries by extremely high levels of direct investment inflows, and in others by sharp improvements in the terms of trade for primary goods leading to commercial and, in some cases, current account surpluses. Given current patterns of interest rates, in some countries, these large reserve balances now have a positive carry and represent a source of income. These factors have also allowed some countries with existing Fund arrangements to make early repayment. It seems clear that most countries that have built up excessive external reserves have done so precisely because they believe that the policy conditionality attached to IMF liquidity is not always in a country’s interest. This is also likely to be true of the assessment of the conditionality attached to the RAL. This means that the IMF is failing to provide one of its initial mandates, of reducing the costs of its members’ holding of reserves through pooling.

Dealing with symptoms or dealing with causes

In assessing the ability of any contingent financing facility to succeed it is important to recall that the new Fund approach was created by the usurpation of the Fund's role as arbitrator of adjustment financing by private international capital flows. It is this that has created the possibility of excessively large accumulated external imbalances, the risk of capital reversals, and the more or less permanent need to provide exceptional access for countries experiencing reversals. In this context, it is important to remember that capital surges can have the same negative impact on a country's performance and its ability to meet its policy commitments as capital reversals. The problems currently being faced by a number of Asian and Latin American countries with capital surges make it obvious that the risks are asymmetric. Thus, a comprehensive Fund approach to the problem of capital outflows should also include measures to deal with capital inflows. The recent experience in Thailand is a case in point. Thus, policies to manage private capital inflows should also be part of the qualifications for contingent access to Fund resources. Just as Central Banks exercise prudential controls over the activities and balance sheets of the institutions that have access to lender of last resort facilities, the IMF should allow governments to exercise similar prudential regulations to manage the impact of external flows on domestic balance sheets.

Notes

1 References to the RAL are to the specific proposal for discussion contained in the Staff paper "Consideration of a New Liquidity Instrument for Market Access Countries", prepared by the Policy Development and Review Department in consultation with other Departments, Washington, DC, International Monetary Fund, 3 August 2006.

2 The revision, reached by negotiation between France and the United States at the Rambouillet Summit in November 1975 noted in Article 2(b): "under an international monetary system of the kind prevailing on January 1, 1976, exchange arrangements may include ... (iii) other exchange arrangements of a member's choice". The other significant change was elimination of gold from the quota, replacing it with subscription in SDRs or national currency, creating a "reserve" tranche to replace the "gold" tranche. For a review of the work of the G-20 and the eventual decision to undertake "intermediate steps" towards reform, see John Williamson, *The Failure of World Monetary Reform, 1971-74*, Sudbury-on-Thames: Thomas Nelson, 1977.

3 See Robert Triffin, "The European Monetary System and the Dollar in the Framework of the world Monetary System", *Banca Nazionale del Lavoro Quarterly Review,* No. 142, September 1982, p. 245. A participant in the work of the G-20, John Williamson, also refers to the new system as a "non-system", see Williamson, op. cit.

4 Since the price of petroleum was set in the currency of the largest user, there was no impact on exchange rates between the producers and the major consumer, while the structural demand for oil in most developed countries could only be changed by longer-term investments in energy saving production methods. Thus, the basic need facing the international system continued to be increased liquidity.

5 *Towards Full Employment and Price Stability: a report to the OECD by a group of independent experts*, Paris: OECD, 1977.

6 The Fund also used gold sales to create a Trust to provide supplementary access for developing countries. Nonetheless, the Fund provided little support to developing countries in meeting their imbalances.

7 This was not the first experience with exceptional access. The Compensatory Financing Facility and the Buffer Stock Financing Facility, established in 1963 and 1969 respectively, provided for lending an additional 50 per cent of quota in addition to that available from the credit tranches.

8 James Boughton reports that "First informally, and later through an explicit policy, the effective ceiling on access became 450 percent of quota for countries with three-year programs and with no outstanding obligations from earlier stand-by arrangements." See *Silent Revolution: The International Monetary Fund 1979–1989,* Washington, DC, IMF, 2001, Chapter 15.

9 See Guido Carli, "Why Banks Are Unpopular", Per Jacobsson Lecture, 1976, p. 8 (http://www.perjacobsson.org/lectures/1976.pdf).

10 Countries had the automatic right to draw against the 25 per cent gold (or dollar) share of their quota (the gold tranche), and four additional, nominally annual, drawings of 25 per cent of the total quota (the "initial" and three "higher" credit tranches). If another member purchased the borrower's currency for its own use, an additional drawing of the same amount was permitted (the "super" gold tranche), which could push the total above the normal limit of 125 per cent of quota.

11 In the discussions at Bretton Woods, Keynes had argued in favour of "automaticity" and against placing policy "conditionality" on member drawings from the Fund. Conditionality was formally introduced in a 1952 Amendment to the Articles of Agreement and institutionalised policies of fiscal retrenchment and monetary control. See Ariel Buira, "An Analysis of IMF Conditionality", in *Challenges to the World Bank and IMF,* A. Buira, ed., London: Anthem Press, 2003, pp. 82–85.

12 Initially repayment was to commence only after reserves started to increase and reach one-half of the annual increase in reserves.

13 In 1952 the automatic formula linked to reserve growth was dropped in favour of a specified repayment schedule of from 3 to 5 years. The increasing United States payments deficits in the 1950s also aided adjustment.

14 In the case of the "tequila" crisis, Mexico did not default on its tesobono debt, because they were denomi-

nated and paid in Pesos. However, they did not have enough exchange reserves to meet the desires of tesobono holders to sell Pesos for dollars at a positive rate of exchange, leading to inconvertibility and generalized insolvency for private sector agents with dollar liabilities.

15 What he meant was that their creditors would always roll over their loans – implicitly sanctioning Ponzi finance. However, it is usually technically true that the value of a country's total real and financial assets exceeds their foreign exposure so that the sale of domestic assets could cover outstanding indebtedness.

16 This is the major source of difficulties in debt renegotiations and restructuring, for creditors know that countries could meet their commitments in full if they were only willing to make the necessary sacrifice, while governments know that they risk political survival if they impose the sacrifices, leaving the only choice that of default or postponing adjustment. This also provides a rationale for some form of institutional debt restructuring mechanism, such as the Sovereign Debt Restructuring Mechanism (SDRM).

17 In a 1999 response to a request by India under a dispute on the application of GATT Article XVIIIB, the IMF used the sum of short-term liabilities by residual maturity and the mark-to market value of the stock of portfolio investment as the measure of adequate reserves. Subsequently, Greenspan and Guidotti suggested that reserves should cover external liabilities coming due in one year. Others have suggested that this be amended to include three months' value of imports. Another proposal would add an amount sufficient to cover the foreign currency liabilities of the domestic banking system to domestic residents.

18 "The IMF at 60: Evolving Role, Current Challenges", Remarks by Rodrigo de Rato Managing Director of the International Monetary Fund at the Breakfast Meeting with the Council on Foreign Relations New York, 20 September 2004 (http://www.imf.org/external/np/speeches/2004/092004.htm).

19 Remarks by Agustín Carstens, Deputy Managing Director, International Monetary Fund, at the WCC-World Bank-IMF High-Level Encounter, Geneva, 22 October 2004 (http://www.imf.org/external/np/speeches/2004/102204a.htm).

20 Independent Evaluation Office, "Evaluation of Prolonged Use of IMF resources" Washington, DC, International Monetary Fund, 2002. ISBN 1-58906-205-1.

21 The Fund has suggested that this signalling function was, in fact, implicit in the creation of precautionary "stand-by" arrangements in 1952 for the defence of exchange rates. See "Signaling by the Fund—A Historical Review", prepared by the Policy Development and Review Department in consultation with other Departments, 16 July 2004.

22 It is also important to note that the approach does not deal with the least developed members of the Fund whose longer-term needs are dealt with through a completely separate concessionary process centred on the Poverty Reduction and Growth Trust Fund in October 2005, the Fund created a Policy Support Instrument (PSI) that provides no IMF funding to the borrower, but only serves as a seal of approval for an IMF sanctioned policy programme implemented by the country. It is complemented by the Exogenous Shocks Facility (ESF) that would provide expedited access to emergency assistance without requiring application to a normal PRGF arrangement.

23 A Fund study assessing the reduction in the probability of crisis in a country receiving Fund support notes that a twenty-five per cent reduction from an average recorded probability of 0.8 5 in t-1 for capital account crisis countries in the data sample "would require exceptional access -- typically in the order of 300-350 percent of quota." See "Fund-Supported Programs and Crisis Prevention", 23 March 2006, p. 21; and Jun Il Kim, "IMF-Supported Programs and Crisis Prevention: An Analytical Framework", WP/06/156.

24 "Consideration of a New Liquidity Instrument for Market Access Countries", prepared by the Policy Development and Review Department in consultation with other Departments, Washington, DC, International Monetary Fund, 3 August 2006.

25 "Fund-Supported Programs and Crisis Prevention", prepared by the Policy Development and Review Department in consultation with other Departments, Washington, DC, 23 March 2006, p. 21.

26 For instance, in the 1994–1995 Mexican crisis, the initial offer of IMF funding of $7.8 billion was three times the country's quota. Even though this was subsequently raised to $17.8 billion, representing no more than one third of the total rescue package, this amount was widely regarded as unusually high and risky for the Fund.

27 Since the RAL has a semi-annual review structure, if it is drawn in the six-month interim period, it would have an immediate post-draw review and an additional review, but it is unclear whether this would be according to the original schedule of semi-annual review, or six months after the post-draw review.

28 See "Review of Fund Facilities – Further Considerations", prepared by the Policy Development and Review and the Treasurer's Department (in consultation with other Departments), 10 July 2000, pp. 25–26 (http://www.imf.org/external/np/pdr/roff/eng/fc/index.html).

29 While at the same time admitting that the results of the counterfactual experiments upon which this conclusion is based "need to be interpreted with extreme caution because ... the country's policy response and Fund financing may be simultaneously determined." See "Fund-Supported Programs and Crisis Prevention", prepared by the Policy Development and Review Department in consultation with other Departments, Washington, DC, 23 March 2006, p. 19.

30 "Fund-Supported Programs and Crisis Prevention", prepared by the Policy Development and Review Department in consultation with other Departments, Washington, DC, 23 March 2006, p. 18.

31 See the discussion between Ernesto Tenembaum and Claudio Loser over the difficulties involved in explaining how Fund adjustment policies applied in conditions of recession can produce positive signalling in *Enemigos – Argentina y el FMI: la apasionanante discussion entre un periodista y uno de los hombres del Fondo en los noventa, Capitulo V, Ajustes*, Buenos Aires: Grupo Editorial Norma, 2004, pp. 107–150.

32 For the most recent, see UNDESA *World Economic and Social Survey, 2006:* Diverging Growth and Development, Chapter IV, p. 107. There is a strong negative correlation between pro-cyclical scal behaviour and the rate of long-term growth when measured for a large sample

of developing countries. ... The costs of pro-cyclical policies for many developing countries are high ... In the downturns, pro-cyclical policies, such as over-tightening monetary policy and indiscriminate scal adjustments, could lead to substantial losses in many valuable social projects, weakening accumulation of infrastructure and human capital, and thus not only aggravating the downturn, but also reducing the potential for long-run growth.

33 Op. cit., p. 11.

34 See International Development Association and International Monetary Fund, "Assessing Sustainability", Washington, DC, 28 May 2002.

35 See Gerald M. Alter, "The Servicing of Foreign Capital Inflows by Underdeveloped Countries", Chapter 6, pp. 139–162, in *Economic Development for Latin America*: proceedings of a conference held by the International Economic Association, edited by Howard S. Ellis, assisted by Henry C. Wallich, London: Macmillan, 1961. Alter was on the economic staff of the Bank and appears to have started analysis of the problem.

36 "Consideration of a New Liquidity Instrument for Market Access Countries", 3 August 2006, p. 11.

37 See José Antonio Ocampo, Jan Kregel and Stephany Griffith-Jones, *International Finance and Development*, Chapter III, pp. 129–136, London: Zed Books, 2007.

38 For example, the *Trade and Development Report 2000* notes that restoration of currency stability in the Republic of Korea was not the result of the policy of high interest rates, but of the successful rescheduling of its short-term debts. "However, currency stability is not sufficient to bring about a turnaround in economic activity. Recovery occurred only when initial policies had been reversed and fiscal deficits and lower interest rates were allowed to operate to offset the massive reduction in domestic private spending", p. 56. Foreign inflows only returned once the economy had emerged from the recession (UNCTAD, *Trade and Development Report*, *2000*: Global economic growth and imbalances, United Nations publication, New York and Geneva, 2000).

39 On the other hand, it has over 5.5 billion SDR in concessional commitments to developing countries under the Poverty Reduction and Growth Trust Fund, HIPC and the Multilateral Debt Relief Initiative (MDRI).

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