INTERNATIONAL MONETARY FUND

Review of Charges and Maturities: Policies Supporting the Revolving Nature of Fund Resources

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In consultation with other Departments

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EXECUTIVE SUMMARY

This review of charges and maturities focuses on the experience with the policies on surcharges and time-based repurchase expectations in reinforcing the revolving character of Fund resources, recognizing that Fund policies on charges and maturities serve a number of other objectives as well. These policies were introduced with the establishment of the Supplemental Reserve Facility (SRF) in 1997, as amended in 2003, and in the context of the Review of Fund Facilities in 2000. The paper raises issues that could be translated into specific reform proposals in light of the Board's discussion.

The Experience

Surcharges were introduced to strengthen the incentives for members to avoid maintaining large Fund exposure and to encourage early repayment, accordingly preserving the revolving nature of Fund financing.

The costs of borrowing from the market and the Fund for an average emerging market economy have come closer in the last decade as a result of lower emerging market rates and the introduction of surcharges, although there is considerable variation across members and over time so caution is required in interpreting the experience. That said, some trends are evident:

- Where repurchases have occurred ahead of the applicable repayment schedule, they have often been associated with a narrowing to low levels of the differential between market rates and Fund charges.

- The experience also highlights that other factors, including differences in the evolution of balance of payments needs and market access conditions, have affected members' decisions to repurchase early.

- In cases where members have had credit outstanding under both the SRF and the credit tranches or the Extended Fund Facility (EFF), members have favored advance repurchases of SRF resources.

- Recent exceptional access cases, Uruguay, Turkey, and Brazil, have accessed markets at increasingly favorable rates leading to current differentials that are relatively low.

Time-based repurchase expectations were included in the SRF and introduced for purchases in the credit tranches, the EFF, and the Compensatory Financing Facility (CFF) to secure early repayment from members that are in a position to do so.

For the ***SRF***, the experience is as follows:

- The repurchase expectations arising in 1998–2001 were all met on or in advance of the expectations schedule with only limited concomitant use of Fund financing.

- The repurchase expectations arising in 2002–March 2005, on the other hand, were either extended or met but with the member making further exceptional use of Fund resources in the credit tranches.

For the ***credit tranches***, the experience is somewhat different (the first repurchase expectations under the EFF will arise in May 2005 and there have been no CFF purchases since repurchase expectations were introduced).

- About half of the amount of credit tranche repurchase expectations arising during the review period have been met.

- However, about half of the repurchase expectations that were met were accompanied by substantial purchases under new arrangements; adjusting for such purchases, 28 percent of repurchase expectations arising in the credit tranches were met.

Further Considerations and Options for Reform

The implementation of surcharges and time-based repurchase expectations has suggested a number of issues for consideration and possible reform.

Alignment of ***surcharges*** for exceptional access across facilities could be considered to address potential distortions created by differentials between the SRF and exceptional access in the credit tranches or under the EFF. If an alignment were to be considered, thought should be given to:

- whether such surcharges should be level-based, as in the credit tranches and under the EFF, or time-based, as currently under the SRF;

- the choice of a common threshold for surcharges across facilities, with the possibility of one or more step increases over time or level. Currently, for the credit tranches and the EFF, surcharges begin at 200 percent of quota, with one step increase for access above the cumulative access limit. Surcharges apply for all access under the SRF, which is only used after a member exceeds the annual or cumulative access limit;

- the appropriate level for surcharges, taking into account variability in differentials between Fund and market rates across countries and over time. Surcharges of 300 to 500 basis points, as under the SRF, would likely be consistent with providing sufficient incentives to encourage early repayment for a majority of countries and over time.

While the policy on ***time-based repurchase expectations*** has resulted in higher amounts being repurchased early, a case can be made for abolishing the policy because of implementation costs. However, eliminating this policy should only be considered if it is replaced by other incentives for early repurchases.

A more thoroughgoing reform of repurchase incentives should be considered before making minor changes to the existing system. Nevertheless, some design issues have arisen in the current system that should be kept in mind in thinking about future directions for reform:

- The differences in the policies applying to the SRF versus other General Resource Account (GRA) facilities have contributed to some confusion and may not be necessary.

- In cases where a member has had multiple arrangements, a review of the appropriate benchmark to assess the strength of the member's external position would be useful.

Although the **SRF** is the main vehicle for exceptional access in capital account cases, exceptional access has been provided under the credit tranches in some cases. In particular, recent exceptional access cases have not involved the kind of circumstances the SRF was designed to address. The relatively short SRF maturity may not be appropriate in all cases of exceptional access. However, a further lengthening of the maturity of the SRF would not appear desirable since it would eliminate a key distinction justifying the SRF.

I. Purpose and Scope of the Review[1]

1. **This review of charges and maturities focuses on experiences with the policies on surcharges and time-based repurchase expectations in reinforcing the revolving character of Fund resources.**[2] These policies were introduced with the establishment of the Supplemental Reserve Facility (SRF) in 1997, as amended in 2003, and in the context of the Review of Fund Facilities in 2000. This paper examines the experience with surcharges in cases involving large access and with time-based repurchased expectations, and highlights the distinctions in policies for access under the SRF versus the credit tranches and the Extended Fund Facility (EFF). It focuses on the role of charges and maturities in supporting the revolving nature of Fund resources; the role of charges in financing the administrative budget will be taken up in the broader review of Fund finances.[3]

2. **This paper raises issues for consideration. Specific proposals for reform could be developed in light of the Board's discussion.** Changes in charges require a 70 percent majority of the total voting power. Changes to policies on repurchase expectations require a majority of votes cast. Any amendment to the period for repurchase obligations requires an 85 percent majority of the total voting power.

3. **The paper is organized as follows:** Section II summarizes the recent reforms related to maturities and charges and their objectives. Section III reviews experience with surcharges and time-based repurchase expectations that were introduced in the 2000 Review of Fund Facilities and those introduced in 1997, and amended in 2003, with respect to the SRF. Section IV considers a range of issues that have arisen in the application of these policies. Section V concludes with issues for discussion.

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[1] This paper was prepared by a staff team consisting of Mr. MacArthur, Mr. Erickson von Allmen, Mr. Féler, and Ms. Shannon (all PDR) and Ms. Metzgen, Mr. Jarvis, Mr. Gershenson, and Mr. Adler (all FIN).

[2] When the policy on surcharges was introduced in November 2000, Directors agreed that no amendments to the policy would be considered for at least four years. At the same time, the Board asked that the policy on time-based repurchase expectations be reviewed by November 2005. This review provides the opportunity to consider both issues. ("Summing Up by the Acting Chairman, Review of Fund Facilities—Proposed Decisions and Implementation Guidelines," (BUFF/00/175, 11/27/00)).

[3] See "Review of Fund Finances and Financial Structure—Preliminary Considerations," (SM/05/59, 2/16/05). Follow-up discussions on financial risk management, including issues related to the accumulation of precautionary balances, are also planned for later this year.

II. Recent Reforms and their Objectives

4. **A fundamental benefit of Fund membership is the assurance that the Fund stands ready to provide financial support to member countries experiencing temporary balance of payments problems.** Article I of the Articles of Agreement stipulates that a purpose of the Fund is "to give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity."

5. **The Fund's policies on charges and on maturities aim, inter alia, at ensuring that members have access to financing that is appropriate to their balance of payments need, and preserving the revolving character of Fund resources** (Box 1). Annex I provides a short summary of the historical evolution of charges and maturities.

A. The SRF

6. **The SRF was designed with surcharges and repurchase expectations to reinforce, inter alia, the revolving nature of Fund resources and in light of the large short-term financing needs of members facing exceptional balance of payments difficulties** (Box 2). The motivation for the SRF was the sudden loss of market confidence experienced by some emerging market economies in the 1990s, which led to short-term financing needs on a much larger scale than the Fund had previously been asked to help finance.

- **Substantial surcharges were established to encourage repayment by the member as early as possible**. SRF surcharges are time-based (differentiated according to the period of use); they are set at 300 basis points from the date of purchase, with six-monthly increments of 50 basis points starting at the end of the first year, up to 500 basis points.

- **Purchases under the SRF are subject to relatively short maturities for repurchase expectations and obligations, consistent with the short-term financing needs that the policy is to address.** Member countries are expected to repay SRF resources within 2-2½ years, but may request an extension of up to six months in cases where their return to capital markets takes longer than anticipated.[4] SRF-supported adjustment programs should be designed so that the member can meet

[4] This reflects a 2003 Board decision to lengthen the expectations schedule by one year and the obligations schedule by six months, recognizing the greater variance in the duration of member countries' balance of payments need than originally anticipated.

Box 1. Principles and Objectives of Fund Charges and Maturities

Charges: Charges serve multiple purposes. From the perspective of members whose currencies are used in the Fund's operations and transactions, they reinforce safeguards on Fund resources and help to ensure that Fund financing receives appropriate remuneration. Charges also cover administrative costs of Fund operations. From the perspective of members receiving Fund financing, they provide incentives against excessively long and large use of the Fund resources. This review focuses on the incentives that charges can create for users of Fund resources.

While charges would be expected to provide important incentives to borrowers, assessing such incentives is challenging. All else equal, relatively low charges may create incentives for larger and more extended use of Fund credit than necessary while relatively high charges may lead to excessive delays by members in approaching the Fund for assistance. These concerns are particularly pertinent as more members gain capital market access. At the same time, some caution is needed in assessing the effectiveness of charges in providing such incentives. First, the rate of charge is only one factor influencing a member's decision to use Fund resources. Second, there are other "costs" associated with use of Fund resources not captured by the rate of charge. Third, given the treatment of Fund claims as senior to private instruments, lower charges for Fund lending do not necessarily imply that members would seek to substitute private with official lending (Box 4).

Any policy on charges must also take full account of the interests of the Fund as a creditor.

- In terms of safeguards, Fund charges reinforce the financial position of the institution and the treatment of their Fund position as risk-free by its shareholders. In this context, large exposures in exceptional access cases imply the need for a higher level of precautionary balances, and, arguably, members making use of large access should bear a large portion of the cost of accumulating these balances through a higher rate of charge. In principle, a rate of charge set too high would be counterproductive from a safeguards perspective if it contributed to concerns about a member's ability to meet its obligations. However, this is unlikely to be a relevant concern for the range of charges under discussion.

Box 1. (continued). Principles and Objectives of Fund Charges and Maturities

- A comparison of Fund charges with market rates from the creditor perspective is not straightforward, given the Fund's unique nature. The Fund's treatment as a preferred creditor (which derives from its role in providing emergency financing and from the treatment accorded to the Fund by the debtor and other creditors), and the safeguards provided by conditionality and other lending policies are relevant to the institution's policies on charges. The debtor's treatment of the Fund as a preferred creditor also argues for the member to reap some of the benefit. From a pure creditor perspective, a differential between Fund and market rates would be expected.

- In addition, the cooperative nature of the Fund underlies the distinctive structure of charges. Specifically, the Fund has adopted a "cost-plus" rather than profit maximizing approach to charges. Also, a uniform rate of charge within each GRA facility is stipulated by Article V, Section 8(d). Inter alia, this structure avoids a range of complex operational issues that would arise with country-specific risk-based charges.

Maturities: The Fund's repurchase policies are also intended to reinforce the revolving nature of Fund resources, with the repurchase schedule of each Fund policy or facility tailored to the specific balance of payments need that is being addressed. A member may make advance repurchases at any time.[1/]

Under Article V, Section 7(b), a member "will be expected normally, as its balance of payments and reserve position improves, to repurchase the Fund's holdings of its currency that result from [a] purchase."[1/] In practice, a member is subject to an early repurchase expectation if its balance of payments is judged by the Executive Board to be sufficiently strong for it to join the Fund's Financial Transactions Plan. In that case, the amount to be repurchased is determined by a formula based on the level of and changes in the member's gross reserves.

The 2000 Review of Fund Facilities recognized that the early repurchase policy had not been effective. The amounts of early repurchases had been small and falling over time, despite the fact that many members had experienced faster-than-programmed improvements in their balance of payments.[2/] One of the main challenges of policy has been the fact that an active request by the Fund for early repurchases is required.

[1/] "The Fund's Early Repurchase Policy," (EBS/01/11, 2/2/01) and Decision No. 6172-(79/101), adopted June 2, 1979 as amended.

[2/] "Review of Fund Facilities—Follow Up," (EBS/00/187, 8/31/00) and the corresponding Summing Up (BUFF/00/145, 9/8/00).

Box 2. The Supplemental Reserve Facility

The SRF was created in December 1997 during the Asia crisis.[1/] The SRF Decision sets out a very specific circumstance test: SRF support would only be provided "to a member that is experiencing exceptional balance of payments difficulties due to a large short-term financing need resulting from a sudden and disruptive loss of market confidence reflected in pressure on the capital account and the member's reserves."

The SRF is subject to relatively short repurchase expectations and obligations. Initially, members were expected to repurchase within 1 to 1½ years, and were obligated to purchase within 2 to 2½ years. In February 2003, in recognition of the greater variance in the duration of countries' balance of payments need than originally expected, the Board lengthened the expectations schedule by one year and lengthened the obligations schedule by six months.

The Board also strengthened the presumption that exceptional access in capital account crises should be provided under the SRF.[2/] This presumption was reaffirmed in the 2004 Review of Exceptional Access, though with many Directors suggesting the need for some flexibility. [3/] When discussing financial risks to the Fund, the Board again noted the importance of incentives for members to repay the Fund as their balance of payments improves, including through the presumption that exceptional access will be on SRF terms.[4/]

SRF resources are subject to a surcharge above the basic rate of charge. During the first year from the date of the first purchase, the surcharge is 300 basis points, and it rises by 50 basis points at the end of the first year, and every six months thereafter, up to 500 basis points.

[1/] "Supplemental Reserve Facility," (EBS/97/225, 12/5/97) and Decision No. 11627-(97/123), adopted December 17, 1997, as amended by Decision No. 12340-(00/117), adopted November 28, 2000 and Decision No. 12943-(03/15), adopted February 21, 2003.

[2/] "The Acting Chair's Summing Up, Review of Access Policy Under the Credit Tranches and the Extended Fund Facility, and Access Policy in Capital Account Crises—Modifications to the Supplemental Reserve Facility and Follow-Up Issues Related to Exceptional Access Policy," (BUFF/03/28, 3/5/03). The Board decided to lengthen the maturity of SRF expectations by one year and obligations by six months, and to strengthen the presumption that exceptional access in capital account crises should be provided under the SRF. A number of Directors stressed that there should be a strong presumption to use only SRF resources in all cases where exceptional access is used in capital account crises.

[3/] "Summing Up by the Acting Chair, Review of Exceptional Access Policy," (BUFF/04/81, 4/23/04). In the discussion, most Directors noted the importance of incentives for members to repay the Fund as their balance of payments improves, and reiterated the strong presumption that exceptional access should be provided on SRF terms. A number of these Directors stressed that, as a principle, exceptional access should always be subject to SRF-type charges. However, many Directors noted that the maximum maturity of the SRF obligations may sometimes be too short relative to the duration of the balance of payments need, including, in some cases, where the member has high preexisting use of Fund resources and where portfolio shifts may be longer-lasting.

[4/] "The Acting Chair's Summing Up, Financial Risk in the Fund and the Level of Precautionary Balances," (BUFF/04/35, 3/2/04).

the SRF repurchase expectations schedule. Neither the SRF decision nor the Concluding Remarks of the Board discussion establishing the SRF identified criteria for an extension to an obligations basis; however, the staff statement issued for the SRF Board meeting offered some general guidance.[5] This guidance was clarified in January 2002, when the Board considered the first request by a member (Argentina) to extend an SRF repurchase expectation. Since then the extension of SRF repurchase expectations has been subject to two criteria, namely that (i) the member is unable to meet the repurchase expectation without undue hardship; and (ii) the member is taking actions to strengthen its balance of payments. The first criterion would be met in a situation where a member is technically able to repay, but only at an unacceptably high cost or risk. The second of these two criteria amounts to a "policy test," which is justified by the need for the Fund to have a sufficient degree of confidence that the member will be in a stronger position to repay at the obligation date.[6]

B. Review of Fund Facilities

7. **At the time of the 2000 Review of Fund Facilities, the Board was concerned with unduly large and prolonged use of Fund credit more generally.**[7] Such concerns were based on the presumption that because a growing number of members have access to capital markets, there was scope for them to resolve their balance of payments problems more rapidly than in the past. Furthermore, looking at the record for the 1990s, the Review of Fund Facilities found that the duration of balance of payments needs was often shorter than projected. The review also noted the potential substantial differential in the rates charged by the Fund and the markets. Finally, it was observed that the early repurchase policy had not worked well, since the amounts repurchased early had been small, despite the fact that a

[5] Decision No. 11627-(97/123) SRF, adopted December 17, 1997, "Concluding Remarks by the Chairman, Supplemental Reserve Facility," (BUFF/97/125, 12/19/97), and "Statement by the Staff Representative on the Supplemental Reserve Facility," (BUFF/97/123, 12/17/97).

[6] "The Chairman's Summary of Key Points, Argentina—Request for Extension of Repurchase Expectation Under the Supplemental Reserve Facility," (BUFF/02/5, 1/16/02) and "Argentina—Request for Extension of a Repurchase Expectation Under the Supplemental Reserve Facility," (EBS/02/4, 1/11/02).

[7] "Review of Fund Facilities—Further Considerations," (EBS/00/131, 7/10/00), "Review of Fund Facilities—Further Considerations—Supplementary Information on Rates of Charge," (EBS/00/131, Sup. 1, 7/18/00), "Review of Fund Facilities—Follow Up," (EBS/00/187, 8/31/00), "Summing Up by the Acting Chairman, Review of Fund Facilities—Supplementary Information," (BUFF/00/153, 9/18/00) and "Summing Up by the Acting Chairman, Review of Fund Facilities—Proposed Decisions and Implementation Guidelines," (BUFF/00/175, 11/27/00).

substantial proportion of members had experienced a rapid turnaround in their balance of payments following an arrangement.[8]

8. **The 2000 Review also took up the issue of the differential between the rates charged by the Fund and the markets.** Directors recognized that there was a balance of considerations in addressing these differences.[9] In the March 2000 discussion, some Directors considered that sound reasons existed for maintaining a relatively low basic rate of charge, based upon a "cost-plus" approach. In particular, they noted the cooperative nature of the Fund and justified a "subsidy" element in the rate of charge based on the positive externalities for the world economy from stronger economic policies and crisis prevention; they also commented that direct comparisons could be misleading given other "costs" involved in using Fund resources not captured by the rate of charge. Noting that the rate of charge was a key incentive in determining whether and for how long members make use of Fund resources, a few other Directors argued that the rate of charge should be raised, in particular, to reduce the incentive for members to substitute financing from the Fund for reliance on financial markets, and induce advance repurchases. In their April 2000 Communiqué, the IMFC asked the Board "to consider the policies on the maturity, pricing structure, and other aspects of existing facilities with a view to ensuring that they provide the right incentives, in particular by avoiding unduly prolonged use of resources provided under the SBA and the EFF."

9. **The Board introduced two complementary reforms in November 2000: level-based surcharges, and time-based repurchase expectations**.[10] Table 1 specifies the structure of charges and maturities by facility following these reforms.

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[8] Average yearly amounts of early and advance repurchases combined constituted 1.4 percent of credit outstanding in 1983-90, and 1.9 percent in 1991-2000, "Review of Fund Facilities—Follow Up," (EBS/00/187, 8/31/00, pp.15-16).

[9] "Summing Up by the Acting Chairman, Review of Fund Facilities—Preliminary Considerations," (BUFF/00/41, 3/24/00).

[10] At the time of the 2000 reforms, the Board also saw a need to ensure that assistance under the EFF be provided only in cases where there is a reasonable expectation that the member's balance of payments difficulties will be relatively long term, including because it has limited access to private capital. The Board also agreed that EFF support should generally not be granted on a precautionary basis as circumstances where potential balance of payments difficulties were likely to turn out to be longer-term are probably very rare (BUFF/00/175, 11/27/00).

Table 1. General Terms of Fund Financial Assistance

Facility or Policy	Charges	Repurchase Terms: Obligation Schedule (Years)	Repurchase Terms: Expectation Schedule[1] (Years)	Repurchase Terms: Installments
Credit Tranches	Basic rate[2] plus level-based surcharge[3]	3¼-5	2¼-4	Quarterly
Extended Fund Facility	Basic rate[2] plus level-based surcharge[3]	4½-10	4½-7	Semiannual
Compensatory Financing Facility	Basic rate[2]	3¼-5	2¼-4	Quarterly
Emergency Assistance	Basic rate[2]	3¼-5	N/A	Quarterly
Supplemental Reserve Facility	Basic rate[2] plus time-based surcharge[4]	2½-3	2-2½	Semiannual
Poverty Reduction and Growth Facility	0.5 percent a year	5½-10	N/A	Semiannual
Memorandum Items:[5]				
Service Charge	50 basis points			
Commitment Charge[6]	25 basis points on committed amounts of up to 100 percent of quota, 10 basis points thereafter			

[1] Purchases made after November 28, 2000—with the exception of purchases under the Emergency Assistance policy and loans under the Poverty Reduction and Growth Facility (PRGF)—are subject to repurchase expectations. A member not in a position to meet the expectations schedule can request an extension to the obligations schedule.
[2] The basic rate of charge is linked to the SDR interest rate. Effective FY 2006, it is fixed at the beginning of each financial year as a margin in terms of basis points above the SDR interest rate (previously, it was set each year as a fixed coefficient of the SDR interest rate). The basic rate of charge therefore fluctuates with the SDR rate. The basic rate of charge is adjusted for burden sharing to compensate, inter alia, for the overdue charges of members in arrears to the Fund. See "Review of the Fund's Income Position for FY 2005 and FY 2006," (EBS/05/62, 4/11/05). For PRGF-eligible members, the rate of charge under Emergency Assistance may be subsidized to 0.5 percent per annum, subject to the availability of subsidy resources.
[3] The surcharge applied to high levels of access in the credit tranches and under the EFF is 100 basis points above the basic rate of charge for credit over 200 percent of quota, and 200 basis points above the basic rate of charge for credit over 300 percent of quota.
[4] For credit under the SRF, during the first year from the date of the first purchase, the surcharge is set at 300 basis points above the basic rate of charge, and it rises by 50 basis points at the end of the first year, and every six months thereafter, up to a maximum of 500 basis points above the basic rate of charge.
[5] These charges do not apply to PRGF.
[6] Commitment charges do not apply to purchase under the CFF and Emergency Assistance, as they are made available as outright purchases.

- **Level-based surcharges, which rise with increases in the amount of resources outstanding, were introduced to discourage unduly large use and encourage early repurchase for members in a position to do so.** After November 28, 2000 holdings of a member's currency arising from purchases made in the credit tranches and under the Extended Fund Facility (EFF) that exceed 200 percent of the member's quota are subject to surcharges of 100 basis points over the basic rate of charge and holdings above 300 percent of quota are subject to a surcharge of 200 basis points above the basic rate of charge.

- **A policy on time-based repurchase expectations was established for purchases in the credit tranches, under the EFF, and under the Compensatory Financing Facility (CFF), with the aim of securing early repayment from members that are in a position to do so** (Box 3). While purchases continue to be subject to repurchase obligations, purchases made after November 28, 2000 are also subject to repurchase expectations. The Board can approve a member's request to extend repurchase expectations to the obligations schedule if the member's external position is not sufficiently strong for it to repay early without undue hardship or risk. Various elements were identified to be taken into account in this judgment. Fund-supported programs (in the credit tranches, under the CFF, and the EFF) continue to be guided by the requirement that the member should be able to meet repurchase obligations (rather than expectations). It follows that in most cases members will be considered in a position to meet repurchase expectations only if their external position is stronger than anticipated at the time of approval of the arrangement. Contrary to the policy for SRF repurchase expectations, members are not required to meet a policy test for extensions of repurchase expectations in the credit tranches, under the EFF, and the CFF.

III. EXPERIENCE

10. **The experience with these reforms comes in the context of an evolution in Fund financing, stemming from changes in the nature of balance of payments issues confronting some members.** With a decline in the total number of Fund arrangements since the mid-1990s, exceptional access cases now represent a larger share of Fund arrangements (Table 2).[11] Immediately after its inception in late 1997, the SRF was the main instrument for exceptional access, but more recent cases have involved much larger or exclusive drawings in the credit tranches because they did not involve the kind of liquidity need that the SRF was

[11] Another recent trend in access is the rising proportion of precautionary arrangements (see "Review of Access Policy in the Credit Tranches, the Extended Fund Facility and the Poverty Reduction and Growth Facility, and Exceptional Access Policy," (EBS/05/42, 3/16/05)).

Box 3. Time-Based Repurchase Expectation Policy for GRA Facilities other than the SRF [1/]

- The policy applies to all purchases made under the credit tranches, the Extended Fund Facility (EFF) and the Compensatory Financing Facility (CFF) after November 28, 2000.
- For purchases in the credit tranches and the CFF, repurchases are expected to begin 2¼ years after the date of purchase and to be completed after 4 years. For the EFF, repurchases are expected to start after 4½ years and be completed after 7 years.
- Extensions from the expectations schedule to obligations schedule are to be granted if the Board agrees that the member's external position is not strong enough for it to repay early without undue hardship or risk. Elements that will be taken into account in assessing the external position are the level of international reserves, the balance of payments outlook and access to international capital markets, and the Board will consider the member's overall external position, including any relevant special factors, in arriving at a judgment.
- Since Fund-supported programs in the credit tranches, the EFF, or the CFF would not as a general rule target adjustment sufficiently rapid for members to meet repurchase expectations, it follows that in most cases members will be considered strong enough to meet repurchase expectations only if their external position is stronger than projected.
- Requests for extensions are in principle possible at any time, although as a practical matter members are encouraged to make such requests at least two months before an expectation arises, in order to avoid the expectation date passing without the Board having considered the request.
- The Board could agree to extend one, several, or all repurchase expectations at once, but there will be a presumption that extensions would cover repurchases expectations arising over a period of one year. If necessary, additional extensions can be requested and granted at a later date.
- When expected repurchases are extended, the repurchases will become due on the date of the corresponding obligations.
- Should a member fail to meet a repurchase expectation that has not been extended, its right to make further drawings, including under ongoing arrangements, would be automatically suspended. The Managing Director would not recommend, and the Board would not approve, new arrangements or outright purchases in these circumstances.
- Extensions of expectations will be made public in the form of a factual statement posted on the member's country specific page of the IMF web site.

[1/] See "Summing Up by the Acting Chairman, Review of Fund Facilities—Proposed Decisions and Implementation Guidelines," (BUFF/00/175, 11/27/00).

Table 2. Trends in the GRA, 1996-2005 1/

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005 2/
Arrangements										
Number of arrangements in place 3/	29	26	27	28	25	19	14	19	16	12
of which exceptional (including SRF) 4/	2	4	5	5	4	4	5	5	4	1 5/
of which precautionary upon approval	8	7	9	8	10	10	9	5	7	6
Number of Stand-By arrangements approved	13	10	6	7	10	8	9	10	6	1
Number of Extended arrangements approved	5	2	4	4	1	0	1	1	0	0
Fund credit outstanding, GRA										
In billions of SDRs	36.1	46.6	60.5	51.1	43.0	53.5	63.6	65.0	55.5	50.3
In percent of total quotas	24.9	32.0	41.6	24.3	20.4	25.2	29.9	30.6	26.0	23.6
Credit Concentration: five largest borrowers in the GRA										
In billions of SDRs	25.4	31.3	42.0	32.7	28.8	42.2	53.4	56.0	47.6	44.6
In percent of total credit outstanding	70.4	67.3	69.5	64.2	66.9	78.8	84.0	86.2	85.7	85.8
Average Annual Access in the GRA 6/										
SBA										
Non-exceptional 7/	39	36	44	43	46	34	39	55	21	86
Exceptional	...	329	200	100	...	320	510	156	...	...
Precautionary	27	27	42	21	40	30	30	55	17	...
EFF										
Non-exceptional	37	28	50	46	12	...	46	12	...	...
Exceptional	53	...	144	...	58	...	...	...	...	...
Precautionary	...	...	45	21	...	...	...	...	...	...
SBA and EFF										
Non-exceptional 6/	38	33	46	43	43	33	40	50	21	86
Exceptional	53	329	172	100	60	320	510	159	...	...
Precautionary	27	27	42	21	40	30	30	55	17	...
Range of average annual access										
SBA										
Non-exceptional 6/	18-80	24-69	20-81	20-85	18-85	16-57	19-97	25-100	7-42	86
Exceptional	...	163-646	200	100	...	320	456-564	141-170	...	...
EFF										
Non-exceptional	17-55	20-45	45-55	21-84	12	...	46	12	...	...
Exceptional	53	...	144	...	58	...	...	...	...	...

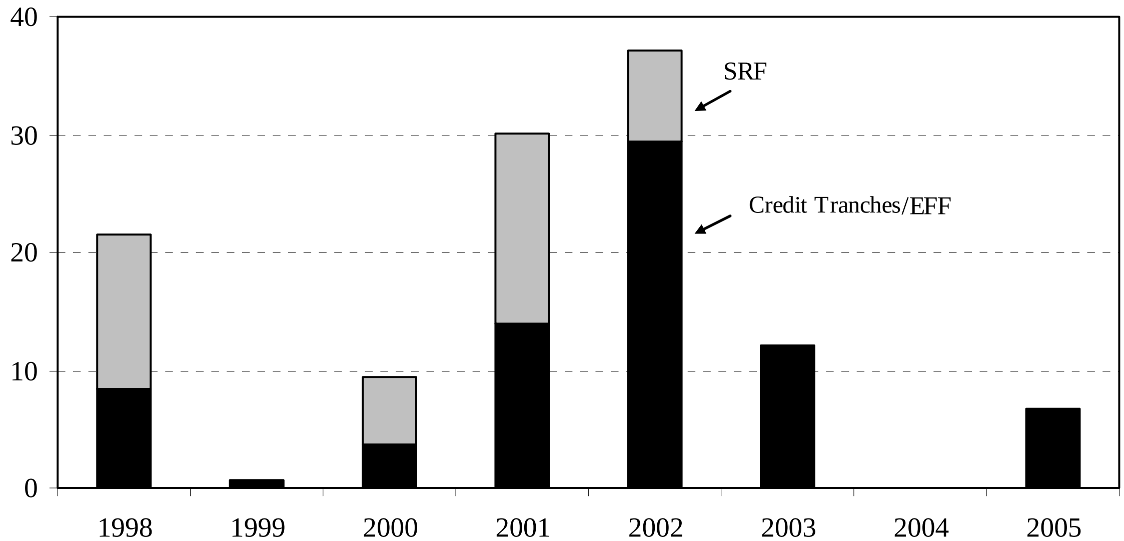
Sources: Finance Department, PDR Databases and staff estimates.
1/ Reflects amounts at the time arrangements were approved; excludes potential access under augmentations.
2/ Based on data as of end-March 2005.
3/ Arrangements in place as of December 31 of each year.
4/ Includes Argentina's 2001 and Uruguay's 2002 augmentations.
5/ Does not include the 3-year, SDR 6.7 billion stand-by arrangement for Turkey approved May 11, 2005. In addition, the Executive Board is expected to consider a new request for exceptional access for Uruguay in coming weeks.
6/ Access expressed in terms of quotas of Ninth General Review of Quotas through January 1999, 11th General Review of Quotas through January 2003, and 12th General Review of Quotas thereafter.
7/ Includes first credit tranche arrangements.

designed to address (Figure 1). This trend reflects the different circumstances and longer time needed to resolve balance of payments problems in recent exceptional access cases.[12] The precise timing for regaining market access has been affected by different degrees of policy implementation, differences in the time needed to address the causes of crises, as well as variations in investor appetite for emerging market risk.

11. **In principle, the reforms should limit undue use of Fund credit and encourage members to repay when their balance of payments has improved.** The extent to which this has occurred and the role of the reforms in the outcome are hard to determine. Therefore, the results below should be interpreted with considerable caution.

Figure 1: Approvals of Exceptional Access, 1998-2005[1/]

(Billions of SDRs)



Source: Staff Reports

1/ Total exceptional access approved at time of new program or augmentation through end-May 2005. Excludes the approval of an arrangement for Turkey (1999), which exceeded annual access limits when the effect of emergency assistance just prior to program approval was factored in.

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[12] This experience was discussed extensively in the "Review of Exceptional Access Policy," (SM/04/99, 3/23/04). See also "Assessing the Determinants and Prospects for the Pace of Market Access by Countries Emerging from Crises—Further Considerations," (SM/05/76, 3/2/05) for a discussion of market re-entry for a number of countries emerging from capital account crises.

A. Surcharges

12. **Surcharges were intended to strengthen the incentives for members to avoid maintaining large Fund exposure after regaining access to capital markets.** Surcharges are unlikely to reduce initial demand for Fund assistance when the member lacks alternative sources of financing. However, surcharges reduce the cost advantage for use of Fund resources versus other sources of finance, and should help encourage early repayment when conditions permit.

13. **The costs of borrowing from the market and the Fund for an average emerging market economy have come closer in the last decade as a result of lower emerging market rates and the introduction of surcharges, although caution is required in making these comparisons** (Figure 2 and Box 4).[13]

- While the differential between market rates and the Fund rate of charge averaged 915 basis points before the introduction of the SRF in 1997, since then it has averaged 240 to 440 basis points, applying the maximum and minimum SRF surcharge levels, respectively.[14] For exceptional access and for access between 200 percent and 300 percent of quota in the credit tranches, the differential has averaged 426 basis points and 526 basis points, respectively, since the introduction of level-based surcharges in 2000 (Figure 2, Panel A).

- For large borrowers from the Fund, the differential between the market rate and the Fund rate has averaged 605 basis points since 2000. The differential before surcharges has varied over time, mainly reflecting market movements; narrowing in the late 1990s, widening in 2001, and narrowing thereafter. The introduction of surcharges has reduced the differential in marginal cost between the Fund and market for the largest users of Fund credit by an average of 162 basis points since 2000 (Figure 2, Panel B).

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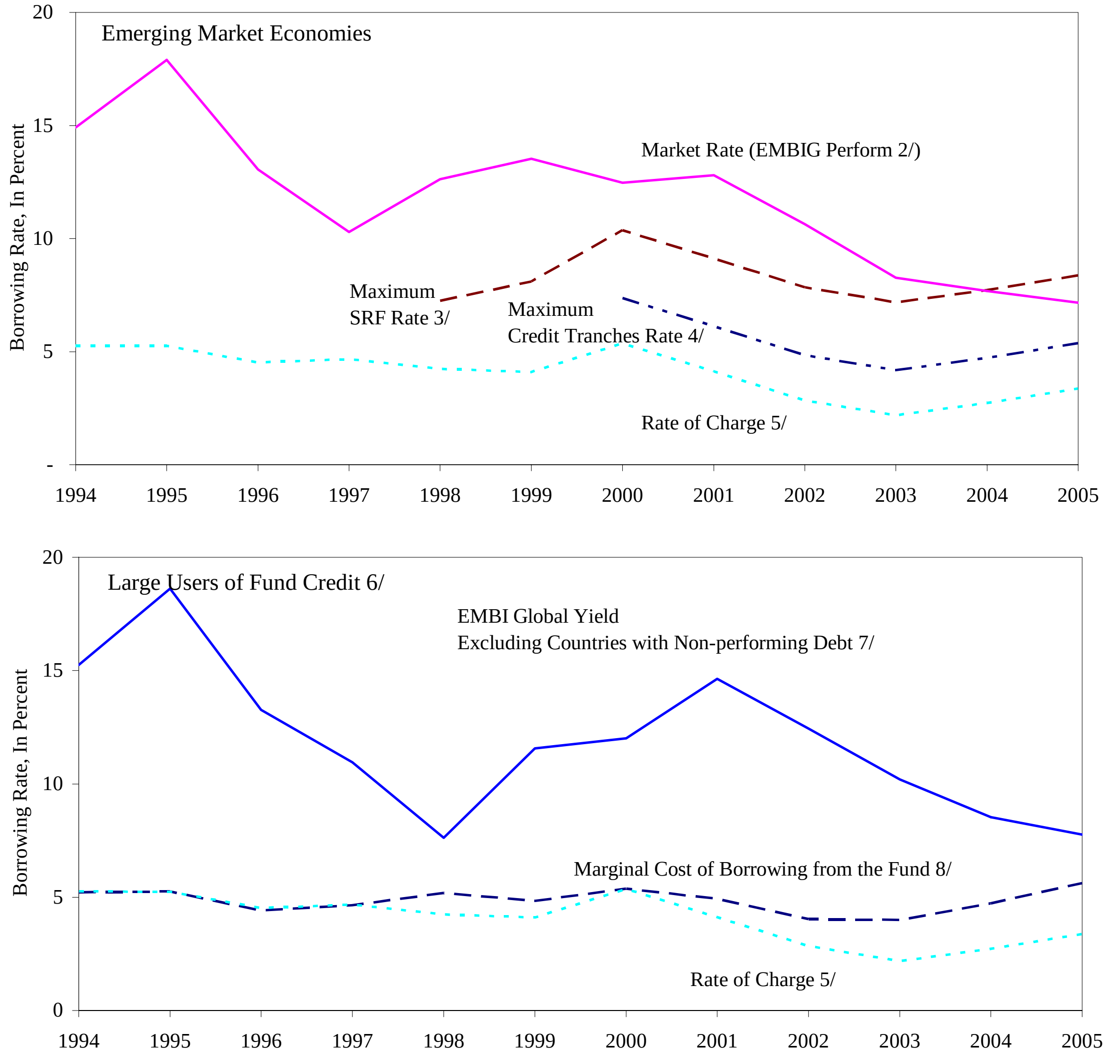
[13] The market yield (yield to maturity) for the overall emerging market group is measured by the EMBI Perform Yield. The J.P. Morgan Emerging Market Bond Yield covers performing U.S. dollar denominated instruments issued by major emerging market sovereigns. Its yield approximates the average interest rate that would be paid by emerging market sovereigns tapping the market.

[14] The maximum cost of credit under the SRF exceeded market rates at end–2004. As noted in the April 2005 "Global Financial Stability Report," with liquidity abundant, investor appetite for new issues from emerging market borrowers has permitted a high level of issuance at low cost. However, underlying interest rates are set to rise and credit spreads are more likely to widen than narrow.

Figure 2. Cost of Credit: Markets and the Fund, 1994-2005 1/



Source: IFS, J.P. Morgan and staff estimates.

1/ Data for 2005 are as of end-March. The cost of borrowing from the markets is approximated by the EMBIG Perform yield to maturity, and the cost of Fund credit is based on the rate of charge (adjusted for burden-sharing) and Fund surcharges.
2/ Stripped EMBIG Perform is a subindex of the EMBI Global (EMBIG) that takes only the performing debt instruments into account and is stripped of collateralized debt. Annual average for the yields are shown.
3/ The maximum rate of charge for a member with credit under the SRF.
4/ The maximum rate of charge for a member with credit under the credit tranches and/or the EFF.
5/ Annual average of the basic rate of charge adjusted for burden-sharing.
6/ Top 20 users of Fund credit, based on average annual credit outstanding in the GRA.
7/ Credit outstanding weighted average for the top 20 users of Fund credit with available EMBIG yields. Excludes countries with some form of domestic or external non-performing public debt (Russia between 1999-2000, and Argentina from 2002 onwards).
8/ The marginal cost of Fund credit is a weighted average of marginal costs across Fund members and facilities, using average annual credit outstanding as weights. A member's marginal cost is defined as the highest surcharge rate applicable under the relevant facility plus the adjusted rate of charge.

Box 4. Comparison of Fund and Market Rates

The comparison of Fund charges and market rates is not straightforward for several reasons:

The underlying bases of the rates differ:

- While EMBIG covers only U.S. dollar denominated instruments, Fund financing is denominated in SDRs and charges are determined on the base of the SDR rate, which includes a basket of the major currencies. In addition, instruments included in the EMBIG tend to be of longer maturity and include securities with fixed rates. These distinctions need to be considered when making comparisons.
- The Fund charges and surcharges are unified for all members while market rates are country specific, so the incentives created by a specific surcharge will vary across members. While comparisons based on an average market rate for all emerging markets are appropriate in this context, it is also important to consider the potentially wide variations of market rates across members.
- While variations in Fund rates depend only on movements in the short-term SDR rate, the application of burden sharing, and steps in the application of fixed surcharges, variations in market rates arise from a broader range of factors. These include country specific developments, variations in lending terms, and supply and demand factors affecting spreads, as well as developments in the yield curves that underlie the "risk-free" rates at specific maturities. For these reasons, the differential between Fund and market rates will vary over time suggesting that point comparisons can be misleading. This can be controlled to some extent by utilizing an average rate over a longer time period in analyzing these differentials.

Also, Fund charges need not be equivalent to market rates to establish strong incentives against large or prolonged use, given that members recognize the Fund's preferred creditor status. As Fund claims on sovereigns are treated as senior to private instruments and Fund lending decisions are governed by its policies, observing lower nominal interest rates (charges) in Fund lending does not necessarily imply that members would have arbitrage opportunities and would seek or be able to substitute private with official lending.

[1/] Argentina, Brazil, Korea, Russia, Turkey, and Uruguay.

[2/] The applicable rate of charge is defined as the adjusted basic rate of charge plus the applicable surcharge. For exceptional access under the credit tranches and EFF, the marginal applicable rate of charge, or the rate of charge at levels where the surcharge applies, is examined.

[3/] EMBIG (J.P. Morgan's Global Emerging Market Bond Index) covers sovereign U.S. dollar denominated Brady bonds, Eurobonds, traded loans, and local market debt instruments issued by major emerging market sovereign and quasi-sovereign entities, with a minimum current face value outstanding of US$500 million and at least 2.5 years to maturity. This paper uses the EMBIG index stripped of collateralized debt.

14. **Considerable variation exists in borrowing cost differentials across large borrowers at the time of a new arrangement** (Figure 3).[15] At the time when the Fund commits new resources under an arrangement, there may be a substantial differential between market rates and Fund rates of charge, and market access may be very limited or non-existent. The cost differential has varied from about 300 basis points (Thailand, 1997) to about 2,300 basis points (Brazil, 2002) for the credit tranches and from 300 basis points (Argentina, 2001) to 2,100 basis points (Brazil, 2002) for the SRF. Over time, as these members regain access to capital markets on improving terms, the differential narrows under both the time-based structure of the SRF and the level-based structure of other GRA surcharges. Twelve months after the initiation or augmentation of an arrangement, cost differentials varied from 400 basis points (Korea, 1997) to 1,100 basis points (Mexico, 1994) for the credit tranches, and from 100 basis points (Korea, 1997) to 500 basis points (Brazil, 2002) for the SRF. Members have taken different borrowing and early repayment decisions in light of these differentials, along with balance of payments needs, differences in market access conditions (including the level of market access in comparison to the scale of obligations to the Fund and other creditors), and a range of other factors.

15. **Where early and advance repurchases have occurred, they have often been associated with a narrowing to relatively low levels of the differential between market rates and Fund charges** (Table 3 and Annex II).[16] It is not possible to isolate the effect of charges in members' decisions to repurchase on the expectation schedule or more generally to make repurchases to the Fund. However, an examination of cases where members made repurchases ahead of schedule may provide some insights.[17] Korea, for example, saw a rapid improvement in market conditions, and cost differentials with market rates were below 50 basis points when it made advance repurchases to the Fund; this differential was below 200 basis points on a latter occasion when Korea made advance repurchases. Similarly, Thailand regained market access relatively quickly, and this differential was about

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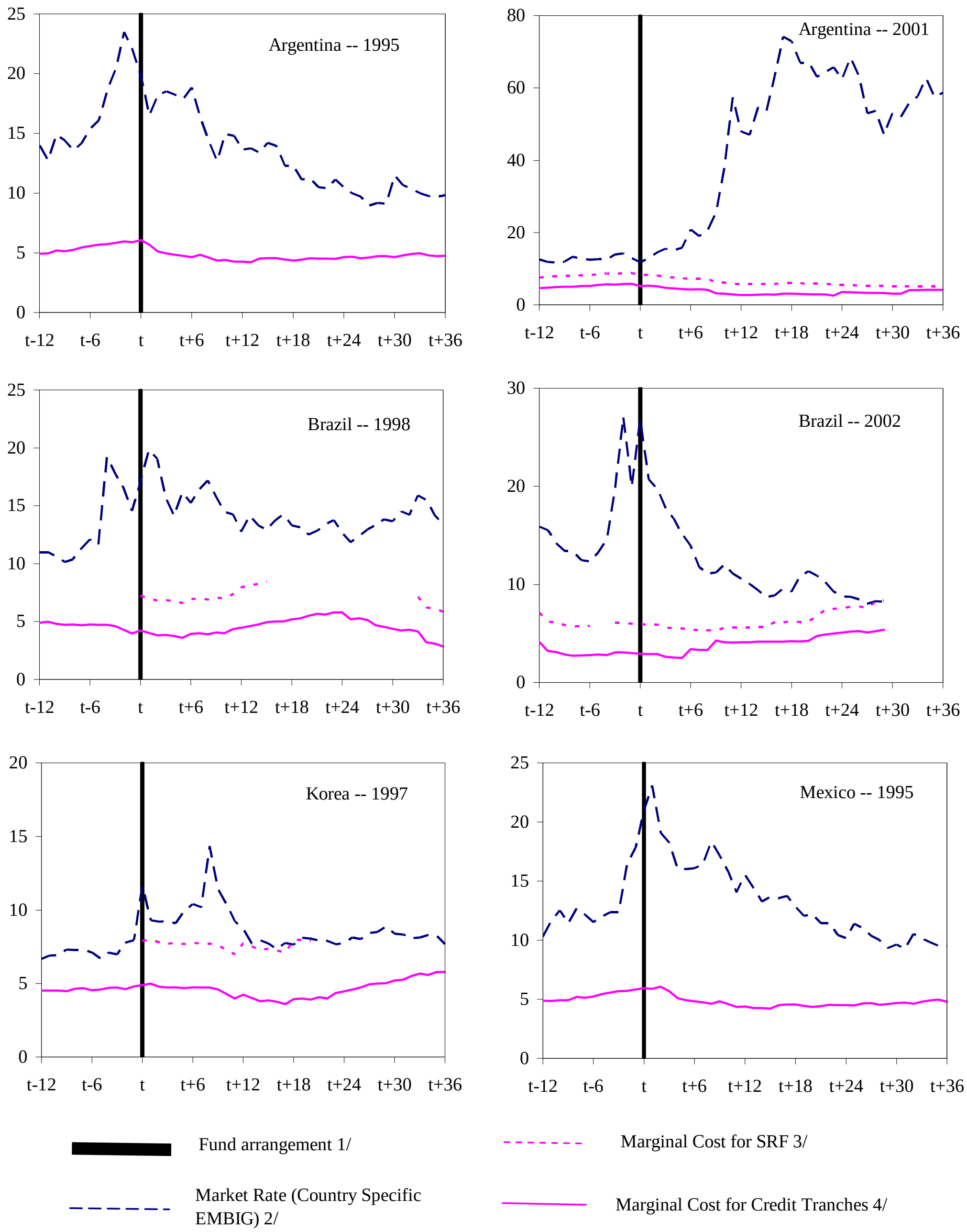
[15] The analysis in this paragraph and in Figure 3 compares rates in the period before and after approval of a new Fund arrangement or augmentation/extension of an existing arrangement (see "IMF-Supported Programs in Capital Account Crises—Design and Experience," (SM/01/245, 8/3/01)).

[16] Early repurchases are payment expectations that arise under the Fund's early repurchase policy, and are determined by a decision of the Board. Advance repurchases refer to voluntary payments made by the member ahead of the applicable schedule for repayment.

[17] In this analysis, only repayments made ahead of the expectations schedule under the SRF are considered. For other GRA facilities, only repurchases ahead of expectations since the 2000 reforms became effective and ahead of obligations prior are reviewed —hence, repurchases made on expectations basis are not included.

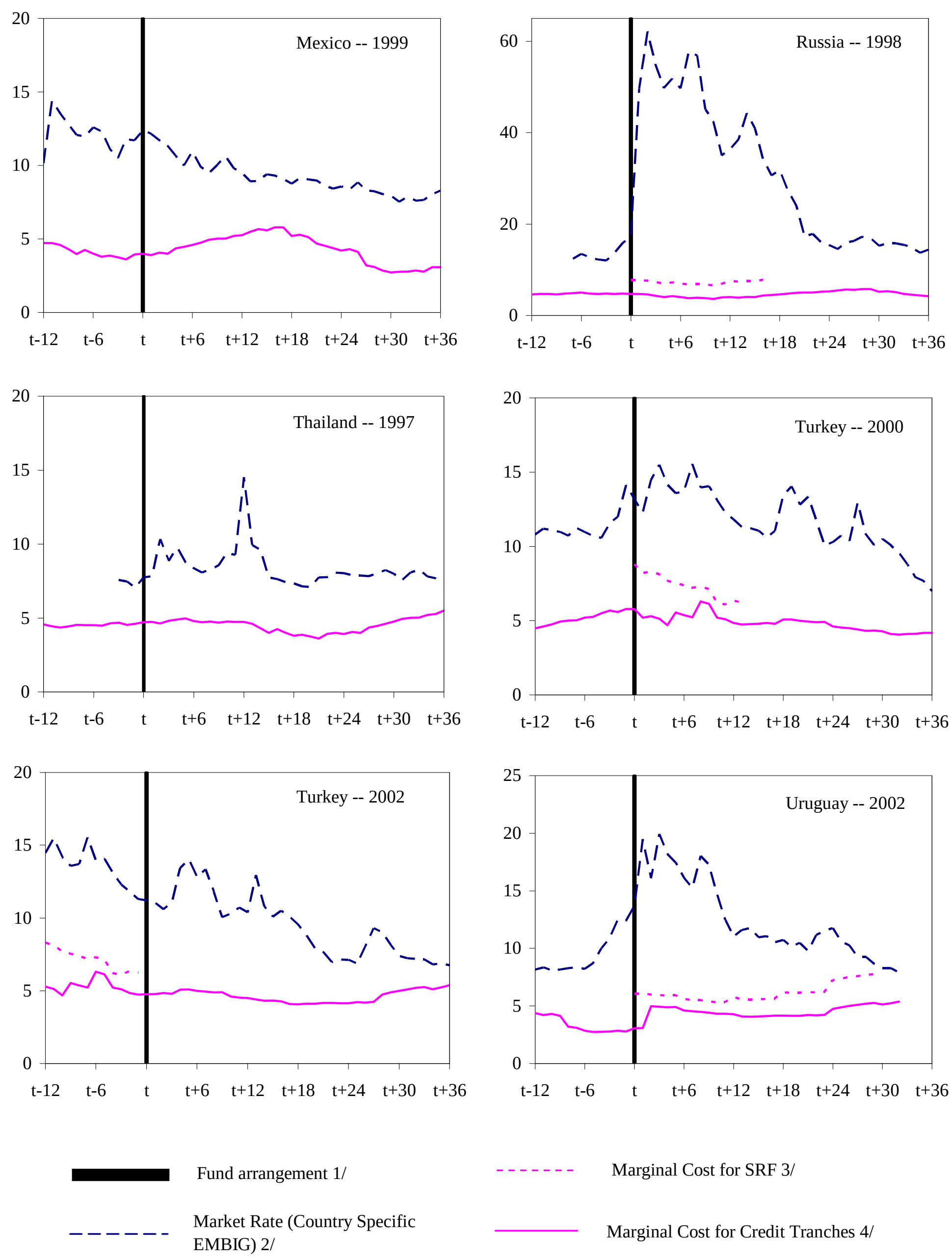
Figure 3. Cost of Credit: Markets and the Fund Around Fund Arrangements 1/
(In percent)



Source: J. P. Morgan, Finance Department, and staff estimates.

1/ Data are reported for 12 months prior to, and 36 months after the month t. Time t corresponds to the approval of new Fund arrangement or augmentation/extension of an existing arrangement.
2/ J. P. Morgan's EMBI Global yield to maturity, stripped of collateralized debt, is reported.
3/ Defined as the actual rate at which outstanding SRF resources are being serviced. Reported only for periods with outstanding SRF resources.
4/ Defined as the highest level-based surcharge rate applicable plus the adjusted rate of charge.

Figure 3 (*continued*). Cost of Credit: Markets and the Fund Around Fund Arrangements 1/
(In percent)



Source: J. P. Morgan, Finance Department, and staff estimates.

1/ / Data are reported for 12 months prior to, and 36 months after the month t. Time t corresponds to the approval of new Fund arrangement or augmentation/extension of an existing arrangement.
2/ J. P. Morgan's EMBI Global yield to maturity, stripped of collateralized debt, is reported.
3/Defined as the actual rate at which outstanding SRF resources are being serviced. Reported only for periods with outstanding SRF resources.
4/ Defined as the highest level-based surcharge rate applicable plus the adjusted rate of charge.

Table 3. Experience with Advance and Early Repurchases for Large Users of Fund Credit (January 1996-March 2005) 1/

Country	Year of Arrangement	Date of Advance/Early Repurchase(s)	Instrument	Credit Outstanding Prior to Repurchase(s) 2/	Advance and Early Repurchase(s)	Credit Outstanding Following Repurchase(s) 3/	Differential Fund charge to Market Yields 2/	Surcharge Rate 2/
				SDR millions	SDR millions	SDR millions	Basis Points	Basis points
Brazil	1998	Apr 2000	SRF 4/	5,074	3,256	0	445	350
		...	SBA 5/	1,357	0	1,357	795	0
Brazil	2000	Apr 2002	SRF 6/	3,317	3,317	0	655	300
		...	SBA 5/	3,249	0	3,249	955	0
Korea	1996	Apr-Aug 1999	SRF 7/	6,400	5,650	0	35	350
		...	SBA	4,100	0	4463	385	0
		Jan-Aug 2001	SBA 8/	4,463	4,463	0	189	0
Mexico	1989, 1995	Aug 1996-Apr 1997	SBA, EFF 9/	10,265	2,604	7,094	919	0
	1989, 1995, 1999	Aug 2000	SBA, EFF 10/	2,431	2,293	0	423	0
Russia	1996	Jan 2005	EFF	2,294	2,188	0	335	0
	1997	Dec 1999	SRF 11/	338	338	0	2,632	350
		...	SBA 5/	11,237	0	11,102	2,982	0
	1998	Sep-Nov 2001	CCFF 12/	2,157	1,887	0	920	0
Thailand	`	Feb-Jul 2003	SBA 13/	275	269	0	138	0
Turkey	1998	Feb 2002	SRF 14/	4,916	4,483	0	507	350
		...	SBA 5/	6,316	0	13,643	657	200
Uruguay	2002	Jul 2004	SRF 15/	64	27	37	452	450
		...	SBA 5/	1,590	0	1,590	702	200
	2002	Dec 2004	SRF 15/	37	37	0	90	450
	2002	Dec 2004-Mar 2005	SBA	1,730	374	1,636	340	200

Source: Finance Department.

1/ Early repurchases are payment expectations arising under the Fund's early repurchase policy, which may only be imposed by a decision of the Board. Advance repayments refer to voluntary payments made by the member ahead of the effective schedule for repayment. Korea is the only country that made early repurchases during January 1996-March 2005.
2/ Based on the end-month data prior to the first advance repurchase.
3/ "Credit Outstanding Following Repurchase(s)" plus "Advance and Early Repurchase(s)" do not add up to the value of "Credit Outstanding Prior to Repurchase(s)" when part of the repurchases are paid on schedule, or there are new disbursements.
4/ SDR 1,818 million were paid on schedule.
5/ At the time of advance repurchase of SRF resources.
6/ Drawings totalling SDR 7.7 billion were made in June 2002. New arrangement of SDR 22.8 billion (of which SDR 7.6 billion under SRF) was approved in September 2002.
7/ SDR 750 million paid on schedule.
8/ Includes early repurchases of SDR 1,924 million made in May-August 2001.
9/ Includes advance repurchases of SDR 255 million under EFF. SDR 566 million were paid on schedule.
10/ Includes advance repurchases of SDR 78 million under EFF. SDR 138 million were paid on schedule.
11/ No purchases of Fund resources have been made by Russia since July 1999.
12/ SDR 270 million paid on schedule. The total GRA credit for Russia after advance repayment of CCFF resources was SDR 5,973 million.
13/ Thailand has participated in the Financial Transaction Plan from Sep. 2003.
14/ New SBA arrangement of SDR 12.8 billion was approved in Feb. 2002, of which SDR 7.6 billion were drawn in Feb. 2002.
15/ This amount was paid in advance of the obligation, after initial extension from expectations to obligations.

150 basis points when Thailand began making advance repurchases to the Fund.[18] In January 2005, Russia made advance repurchases with differentials at approximately 350 basis points.[19] Mexico, however, made advance repurchases in 1996 and 1997 despite differentials that remained above 900 basis points and in 2000, with differentials above 400 basis points.[20] The return of spreads to pre-crisis levels has not necessarily spurred advance repurchases, including where these levels were relatively high. Brazil and Turkey maintained exceptional access in the credit tranches for some time after cost differentials returned to pre-crisis levels of 990 basis points and 520 basis points, respectively.[21] Further, Brazil and Turkey requested shifts in repurchases from an expectations to an obligations basis after their cost differentials returned to pre-crisis levels.

16. **In cases where members have had credit outstanding under both the SRF and credit tranches or the EFF, members have favored advance repurchases of SRF resources.** Member countries that saw a rapid improvement in market conditions (e.g., Brazil in 2000, and Korea in 1999) repaid SRF resources on or in advance of the expectations schedule, while retaining non-SRF resources.[22] Russia also repaid SRF resources ahead of, or on, the expectations schedule, while CCFF resources remained outstanding until 2001 and EFF resources until early 2005. The higher surcharges on the SRF may have been a factor in these cases, although the longer maturity of credit tranches and the EFF resources may also have been relevant.[23]

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[18] The timing of Thailand's advance repurchases also reflected a policy of building up reserves to a level sufficient to repay other elements of the 1997 financing package at the same time as it repaid the Fund.

[19] Russia also made advance repurchases of CCFF obligations in 2001 when the differential remained quite high. The large build-up in reserves is an important consideration.

[20] In the case of Mexico, borrowing under medium-term bilateral swap lines provided by the United States was repaid early and in advance of Fund resources.

[21] For this analysis, the pre-crisis level is defined as the average of the three months preceding the crisis period. The crisis period is defined as the time at which the three-month moving average spread increases by 25 percent or more.

[22] Korea did make early and advance repurchases of SBA resources later in 2001.

[23] Brazil is currently the only member with outstanding Fund credit under the SRF, with associated repurchase expectations of SDR 4.6 billion and SDR 0.8 billion arising in 2005 and 2006, respectively. Brazil has not requested an extension of its SRF expectations, but the Board has approved an extension of some SDR 8.1 billion of SBA repurchase expectations arising in the same two years.

17. **In cases where market access remains constrained, members with outstanding access under the SRF have sought successor arrangements.** Members with credit outstanding under the SRF facing constrained access and persistently high market rates (relative to pre-crisis levels) have sought successor arrangements using both credit tranche and SRF resources (Brazil, 2002) or solely in the credit tranches (Turkey, 2002). Market rates in Brazil and Turkey exceeded SRF charges by 1,395 and 507 basis points, respectively at the time of approval of the successor arrangement.

18. **Other countries have continued to use Fund resources even after regaining or improving market access.** Uruguay, Turkey, and Brazil have accessed markets at increasingly favorable rates. EMBIG rates as of end–March 2005 for Uruguay, Turkey, and Brazil were 882, 754, and 902 basis points, respectively, while the marginal cost of borrowing from the Fund was 548 basis points for exceptional access under the credit tranches and between 648 and 848 basis points for the SRF. In the first two cases, there remains a balance of payments need. In the case of Brazil, a potential need justified augmentation and extension of the stand-by arrangement in late 2003, but the authorities have recently decided not to request further financial support from the Fund as their SBA expired.

B. Time-Based Repurchase Expectations

SRF Repurchase Expectations

19. **Six members had SRF repurchase expectations arising in the period January 1998-March 2005, for a total of SDR 41.9 billion** (Tables 4 and 5). The experience with SRF repurchase expectations was as follows:

- **The SRF repurchase expectations arising in 1998–2001 (involving Brazil, Korea, Russia, and Turkey) were all met on, or in advance of, the expectations schedule with only limited concomitant access to additional Fund financing.** Early repayment minus new Fund financing amounted to 86 percent of arising SRF expectations during this period.

- **Of the SRF repurchase expectations arising in January 2002–March 2005, almost 75 percent were met; however, early repayments less new Fund financing amounted to about 25 percent of arising SRF repurchase expectations.** Brazil and Turkey met their SRF repurchase expectations, sometimes ahead of schedule, while making new purchases under successor arrangements in the credit tranches. In addition, SDR 6 billion in repurchase expectations arising were extended (Argentina and Uruguay). This record of repayments of SRF resources reflects the longer time needed to resolve recent capital account crises compared with that envisaged when the SRF was introduced in 1997 and modified in 2003.[24]

Table 4. Summary of Repurchases of SRF Resources, January 1998-March 2005

	1998-2001		2002-Mar. 2005		1998-Mar. 2005	
	Billions of SDRs	Percent of Arising	Billions of SDRs	Percent of Arising	Billions of SDRs	Percent of Arising
Repurchase expectations arising	18.0	100.0	23.9	100.0	41.9	100.0
Repurchase expectations extended	-	-	6.0	25.1	6.0	14.3
Gross early repurchases	18.0	100.0	17.9	74.9	35.9	85.7
Repurchase made on the expectations date	8.8	48.7	10.1	42.3	18.9	45.0
Repurchase made ahead of the expectations date	9.2	51.3	7.8	32.6	17.0	40.7
Early repurchases less new Fund financing 1/	15.5	86.0	5.8	24.2	21.3	50.8

Source: Fund staff estimates.

1/ See footnote 1 of Table 5 for a detailed description of the methodology used.

20. **The "policy test" for extensions of SRF repurchase expectations has been interpreted with flexibility.** In January 2002, when Argentina—as the first member—made a request to extend an SRF repurchase expectation, the test was considered to be met on the basis of the authorities' commitment to work closely with the Fund and develop a comprehensive strategy to strengthen its balance of payments. Board-approved press statements for extensions of Argentina's SRF expectations throughout 2002 included a standard sentence that "an extension can be granted if repayment would cause undue hardship, and provided the borrower is taking actions to strengthen its balance of payments."[25] However, in November 2002, Argentina's request for extension of SRF repurchase expectations was granted even though "Directors were concerned that it had not been possible so far to reach an agreement on an economic program that could be supported

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[24] For an analysis of balance of payment adjustments in recent exceptional access cases, see "Review of Exceptional Access Policy," (SM/04/99, 3/23/04).

[25] "The Chairman's Summary of Key Points, Argentina—Request for Extension of Repurchase Expectation Under the Supplemental Reserve Facility," (BUFF/02/5, 1/16/02). However, several Directors advanced the view that only the criterion for approving extensions of repurchase expectations related to whether the member's external position was sufficiently strong for it to repay early without undue hardship or risk should apply.

Table 5. Summary of Repurchases of SRF Resources, January 1998-March 2005

(In SDR billion, unless otherwise indicated)

	1998-2001	2002-Mar. 2005	1998-Mar. 2005
Repurchase expectations arising	**18.0**	**23.9**	**41.9**
Argentina	-	5.9	5.9
Brazil 2/	6.5	13.0	19.5
Korea	10.0	-	10.0
Russia	0.7	-	0.7
Turkey	0.9	4.9	5.8
Uruguay	-	0.1	0.1
Repurchase expectations extended	-	**6.0**	**6.0**
Gross early repurchases	**18.0**	**17.9**	**35.9**
Repurchase made on the expectations date	*8.8*	*10.1*	*18.9*
Argentina	-	-	-
Brazil 2/	3.3	9.7	12.9
Korea	4.3	-	4.3
Russia	0.3	-	0.3
Turkey	0.9	0.4	1.3
Uruguay	-	-	-
Repurchase made ahead of the expectations date	*9.2*	*7.8*	*17.0*
Argentina	-	-	-
Brazil 2/	3.3	3.3	6.6
Korea	5.7	-	5.7
Russia	0.3	-	0.3
Turkey	-	4.5	4.5
Uruguay	-	-	-
Early repurchases less new Fund financing 1/	**15.5**	**5.8**	**21.3**
Argentina	-	-	-
Brazil	5.7 3/	5.8	11.5
Korea	9.6	-	9.6
Russia	0.2	-	0.2
Turkey	-	-	-
Uruguay	-	-	-
Memorandum items (in percent of all arising expectations)			
Extended repurchases	-	25.1	14.3
Gross early repurchases	100.0	74.9	85.7
Early repurchases less new Fund financing 2/	86.0	24.2	50.8

Source: Fund staff estimates.

1/ Equals early repurchases less purchases made after the twelve-month period covered by SRF disbursements expired. Purchases made in excess of met repurchase expectations are excluded.

2/ SDR 1.7 billion of repurchases arising in 2002 were entirely made ahead of the expectations date by Brazil. Therefore, a more exact break-up of the review period for Brazil would have been 1998-2002 on the one hand, and January 2003-March 2005 on the other.

3/ In arriving at the net amount in this case, the June 2001 SBA purchase of SDR 1.6 billion was not subtracted, because it took place more than a year after the last preceding SRF repurchase.

by the Fund" and "regretted Argentina's [recent] decision to fall into arrears with the World Bank."[26] The policy test was met in all subsequent requests to extend SRF repurchase expectations made in 2003 by Argentina and Uruguay, which were made in the context of Fund-supported programs.

Time-Based Repurchase Expectations Policy for Purchases in the Credit Tranches, and under the CFF and the EFF.

21. **The experience with the policy on time-based repurchase expectations for GRA resources other than the SRF is limited to purchases in the credit tranches under SBAs made between late 2000 and end-2002.**[27] These purchases were made by fourteen members and gave rise, starting 2¼ years later, to SDR 15.9 billion of credit tranche repurchase expectations in 2003–March 2005 (Table 6).[28]

Table 6. SBA Repurchase Expectations, January 2003-March 2005

	Billions of SDRs	Percent of Arising Expectations
Repurchase Expecations:		
Arising	15.9	100.0
Extended	8.9	56.0
Met	7.1	44.6
Of which : Expectations met without new Fund financing 1/	4.4	27.8

Source: Fund staff estimates.

1/ See footnote 3 of Table 7 for a detailed description of the methodology used.

[26] See Press Releases Nos. 02/33 of July 15, 2002; 02/2 of January 16, 2002; 02/39 of September 5, 2002; 02/51 of November 20, 2002, as well as "Argentina—Request for Extension of a Repurchase Expectation Under the Supplemental Reserve Facility," (EBS/02/4, 1/11/02); (EBS/02/83, 5/15/02); (EBS/02/125, 7/9/02); and (EBS/02/190, 11/18/02).

[27] Repurchase expectations under the EFF will start arising in May 2005, precluding the analysis of such expectations in the current paper. In addition, no purchases have been made under the CFF since the time-based repurchase expectation policy was introduced in late 2000.

[28] The first repurchase expectation in the credit tranches arose in February 2003, for Pakistan.

22. **About half of the amount of credit tranche repurchase expectations arising during the review period was met** (Table 6). Five members (Bosnia and Herzegovina, Bulgaria, Jordan, Pakistan and Romania) met their repurchase expectations in full. Repurchase expectations were met in part by another eight members (Argentina, Brazil, Ecuador, Papua New Guinea, Serbia Montenegro, Sri Lanka, Turkey, and Uruguay) and extended in full for Dominica (Table 7). [29]

23. **At the same time, six members that met repurchase expectations (in part or in full) in the credit tranches did so while making purchases under new arrangements.** Credit tranche repurchases made on the expectations schedule, net of the new Fund financing, amounted to 27.8 percent of credit tranche expectations arising from January 2003 to March 2005 (see Table 6 and 7). Some of this new Fund financing while the member was meeting credit tranche repurchase expectations was provided under the EFF or the PRGF allowing members to smooth or reduce their debt-service profile (or both).

24. **The recent experience with time-based repurchase expectations suggests that contrary to earlier experience, the duration of balance of payments need has only occasionally been shorter than programmed.** During most of the 1990s, many members saw their balance of payments improve more quickly during and following an arrangement than projected in the program. However, for members with credit tranche repurchase expectations arising during the period covered by the present review, the duration of the balance of payments need has turned out to be shorter than programmed in only three arrangements (Bosnia, Jordan, and Ecuador) out of nineteen, while in more than half of the arrangements it was either as projected or indeterminate (Table 8). No repurchase expectations have yet arisen from purchases under the EFF. Most of the members either had limited access to international capital markets, or were facing capital account crises which took longer to resolve than initially envisaged.[30] The small number of arrangements examined in the present analysis makes it difficult to draw firm conclusions. However, given the experience so far and the fact that in most cases the policy requires members to meet

[29] Ecuador's request for an extension was approved on May 19, 2004 shortly after it had met one repurchase expectation. During the period December 2004-February 2005, Uruguay repurchased SDR 232 million ahead of arising expectations under the credit tranches.

[30] See "Review of Exceptional Access Policy," (SM/04/99, 3/23/04).

Table 7. SBA Repurchase Expectations Extended and Met, and Purchases Made While Meeting Such Expectations - January 2003-March 2005 1/

(In SDR million, unless otherwise indicated)

	Repurchase Expectations					Purchases Made Under New Non-Precautionary Arrangement					Repurchase expectations Met Without New Fund Financing 2/, 3/
	Arising	Extended	Met								
			Total	Outside New Arrangement 2/ (a)	Under New Arrangement 2/ (b)	SRF	SBA	EFF	PRGF	Total (c)	
Argentina	3,594.7	3,403.5	191.1	-	191.1	-	-	-	-	-	191.1 4/
Bosnia and Herzegovina	33.3	-	33.3	20.2	13.1	-	36.0	-	-	36.0	20.2
Brazil	2,501.7	664.8	1,836.9	1,636.7	200.2	5,328.0	7,307.8	-	-	12,635.8	1,636.7
Bulgaria	29.0	-	29.0	29.0	-	-	-	-	-	-	29.0
Dominica	0.5	0.5	-	-	-	-	-	-	-	-	-
Ecuador	70.9	47.2	23.6	23.6	-	-	-	-	-	-	23.6
Jordan	2.7	-	2.7	2.7	-	-	-	-	-	-	2.7
Pakistan	412.5	-	412.5	65.6	346.9	-	-	-	516.8	516.8	65.6
Papua New Guinea	47.2	26.0	21.2	21.2	-	-	-	-	-	-	21.2
Romania	53.2	-	53.2	53.2	-	-	-	-	-	-	53.2
Serbia	125.0	18.8	106.3	-	106.3	-	-	162.5	-	162.5	-
Sri Lanka	120.6	76.7	44.0	44.0	-	-	-	-	-	-	44.0
Turkey	8,522.2	4,422.4	4,099.8	527.9	3,571.9	-	1,984.8	-	-	1,984.8	2,115.0
Uruguay	368.3	226.6	232.3 5/	213.6	18.8	-	1,016.6	-	-	1,016.6	213.6
Total	**15,881.7**	**8,886.4**	**7,085.9**	**2,637.7**	**4,448.2**	**5,328.0**	**10,345.2**	**162.5**	**516.8**	**16,352.5**	**4,415.9** 6/
In percent of arising	100.0	56.0	44.6								27.8

Source: Fund staff estimates

1/ No EFF or CFF repurchase expectations arose in the period.

2/ While treated as non-precautionary.

3/ Equal to (a) repurchase expectations met outside a new non-precautionary arrangement plus (b) repurchase expectations met while under a new non-precautionary arrangement less (c) purchases made under a new non-precautionary arrangement during the period covered by the review. The calculation includes purchases made by a member during a non precautionary arrangement, but before meeting its first arising repurchase expectation, because it would seem arbitrary to exclude such purchases made shortly before meeting a repurchase expectation. The calculation however excludes purchases made in excess of met repurchase expectations, as such Fund financing would have likely been granted even in the absence of arising repurchase expectations. That is, for each member, the estimated amount is equal to [a + (b - c)] when b > c; and to [a] otherwise.

4/ In arriving at the net amount in this case, the SDR 6.35 billion of purchases made in 2003 and 2004 were not counted as they all occurred almost one year prior to the repurchase expectation met by Argentina on February 22, 2005.

5/ Repurchase expectations met and extended by Uruguay exceed repurchase expectations arising because of some of advance repurchases made in the period December 2004-February 2005.

6/ Vertical sum only, computed based on the methodology described in footnote 3 above.

repurchase expectations only if their balance of payments has improved faster than programmed, it is not surprising that only a few members have met repurchase expectations in full without having recourse to purchases under new arrangements.

25. **Most extensions were granted in the context of an existing or requested arrangement.**[31] This is consistent with the presumption that a member's request for a new arrangement would generally be preceded or accompanied by a request for an extension of repurchase expectations on outstanding Fund credit.[32]

26. **In a few cases, the decision on extensions relied on a direct assessment of the strength of the member's external position.** In the case of Papua New Guinea, where a Fund arrangement had expired two years earlier, the request for an extension of repurchase expectations in June 2003 was justified on the basis that the external position had not improved more than originally programmed. In May 2004, Ecuador's request for extension was justified mainly with reference to the government's difficult liquidity position, as dollarization has de-linked balance of payments developments from the foreign exchange position of the central bank.

27. **The number of repurchases and the period covered by the extension decisions have varied considerably** (Table 9). The number of repurchases covered by the extension decisions ranged from one (Argentina on September 16, 2003, and the Dominican Republic) to 32 (Brazil). In the covered period, only four decisions (Argentina on September 20, 2003, Dominica, Papua New Guinea, and Sri Lanka on January 13, 2005) extended repurchase expectations falling due over a period of one year, as presumed under the policy.[33] Most periods covered by extension decisions were much shorter, ranging from one repurchase expectation to nine months of repurchases (Sri Lanka, April 2003). These relatively short extension periods either covered all the repurchase expectations arising during an arrangement (for example, Ecuador, March 2003) or were justified by the perceived difficulties of assessing the likely strength of the member's external position over a one-year horizon (for example, Argentina, September 2004).

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[31] Including under the PRGF (Dominica) or under a PRGF/EFF blend (Sri Lanka).

[32] See "Guidance Note on Programming with Repurchase Expectations," in "Review of Fund Facilities—Proposed Decisions and Implementation Guidelines," Annex II (EBS/00/216, 11/3/00).

[33] On May 18, 2005 the Executive Board also approved Argentina's request for a one-year extension of repayment expectations arising between May 20, 2005 and April 28, 2006 in a total amount equivalent to SDR 1.68 billion.

Table 8. Duration of Programmed and Actual Balance of Payment Need
for Members with SBA Repurchase Expectations Arising in 2003-04 1/

(in years)

		Arrangement		BoP Need Duration	
		Start	End	Prog.	Actual
Argentina		Mar-00	Mar-03	3	5+
Bosnia and Herzegovina		May-98	May-01	4+	5
		Aug-02	Feb-04	1	0
Brazil		Dec-98	Sep-01	1	1
		Sep-01	Sep-02	1	1
		Sep-02	Mar-05	1	1
Bulgaria		Apr-97	Jun-98	4	7
		Feb-02	Feb-04	3	3
Dominica		Aug-02	Jan-04	4+	1+
Ecuador		Apr-00	Dec-01	5+	4
Jordan		Jul-02	Jul-04	4+	3
Pakistan		Nov-00	Sep-01	4+	4+
Papua New Guinea		Mar-00	Sep-01	3	3+
Romania		Aug-99	Feb-01	1	4
		Oct-01	Apr-03	2	2
Serbia and Montenegro		Jun-01	May-02	2+	4+
Sri Lanka		Apr-01	Sep-02	5+	3+
Turkey		Dec-99	Feb-02	4+	5+
Uruguay		Apr-02	Mar-04	5+	6+
Memorandum items					
Number of arrangements	19				
Of which : with actual BOP need duration:					
Shorter than programmed	3				
About the same as programmed	8				
Longer than programmed	5				
Indertiminate due to insufficient data	3				

Source: Relevant Fund staff reports.

1/ The BoP need definition is the one used in EBS/00/131; i.e., the overall balance adjusted to reflect Fund repurchases and market financing, less the projected accumulation of gross international reserves. The criterion for measuring the duration of the BoP need is the same as in EBS/00/131; i.e., "one year with nonpositive need, which combined with the next year is also nonpositive, with the year of approval counted as the first calendar year only when the arrangement was approved in the first semester. A "+" sign indicates that the duration is at least as long as the number of years shown, but cannot be known exactly due to insufficient information in the relevant Fund documents.

Table 9. Period Covered by Decisions to Extend Credit Tranche Repurchase Expectations
January 2003 - March 2005

Number of months 1/	Member 2/
0	Argentina (09/03), Dominican Republic (01/05) 3/
3	Serbia and Montenegro (07/03)
4	Argentina (09/04)
6	Argentina (1/03), Ecuador (03/03)
7	Ecuador (05/04), Uruguay (02/04, 11/04) 3/
9	Sri Lanka (04/03)
11	Argentina (09/03), Sri Lanka (01/05) 4/
12	Dominica (11/04), Papua New Guinea (06/03)
19	Turkey (08/03) 3/
20	Brazil (12/03) 3/

Source: Fund staff estimates

1/ Number of months between the first and the last repurchase expectation extended, rounding the months up to the nearest whole. A zero indicates that the decision extended only one repurchase expectation that was arising shortly thereafter. Other definitions could yield slightly longer estimated periods.
2/ The month and year of each decision to extend repurchase expectations appear in parenthesis.
3/ The decisions for the Dominican Republic and Uruguay (11/04) are not reflected in Table 7, which covers only repurchase expectations arising from January 2003 to March 2005.
4/ The request to extend repurchase expectations arising over a year resulted in a slightly shorter period between the first and last extended repurchase expectations.

28. **In two cases (Turkey and Brazil) the Board also extended large amounts of credit tranche repurchase expectations arising more than one year later.**[34] When completing the fifth review under Turkey's SBA in August 2003, the Board agreed to extend SDR 8.3 billion of repurchase expectations arising over an 19-month period in 2004–05.[35] Similarly, in December 2003, the Board approved Brazil's request to extend SDR 8.1 billion of credit tranche repurchase expectations arising over a 20-month period in 2005–06. These extensions were justified based upon a concern that the repurchase expectations would create humps in repayments to the Fund that could adversely affect market confidence.

29. **In sum, the amounts repurchased on an expectations basis in 2003 and through March 2005 (about half of arising expectations) compare favorably with the amounts repurchased early prior to 2000.** For the review period, the average ratio of (i) the amounts repurchased on an expectations basis (or in advance of the expectation due dates) per year to

[34] In addition, in November 2004, the Board approved Uruguay's request to extend SDR 0.4 billion of SBA repurchase expectations arising between June and December 2005.

[35] On May 11, 2005, the Board also approved a one-year extension of Turkey's repurchase expectations totaling SDR 2.52 billion arising in 2006.

(ii) Fund credit outstanding at the end of the previous year constituted 6.1 percent, noticeably higher than these statistics for the combined early and advance repurchases prior to 2000: 1.4 percent per year in 1983–90 and 1.9 percent per year in 1991–2000.[36]

30. **However, after adjusting for purchases under new arrangements, 28 percent of repurchase expectations arising in the credit tranches were met during the period under review.** Furthermore, the Board has already extended substantial amounts of repurchase expectations that would have arisen in 2005–07 including for Brazil (SDR 8.1 billion), Turkey (SDR 7.6 billion), and Uruguay (SDR 0.4 billion). Moreover, the policy is not without cost, as will be discussed later.

IV. Further Considerations and Options for Reform

31. **This section lays out key issues that have arisen in the implementation of surcharges and time-based repurchase expectations and suggests options for reform.** In assessing such options, it is important to recall the underlying objective of ensuring that members have access to financing that is appropriate to their balance of payments need and reinforcing the revolving nature of the Fund's GRA resources, including by promoting incentives for members to return or gain access to private sources of finance as soon as conditions permit. There may also be a case to consider reliance on repayment incentives based on charges rather than time limits. This could call for greater use of surcharges rather than repurchase expectations in encouraging early repayment.

A. Surcharges

32. **Should surcharges for exceptional access remain different across facilities or should they be aligned?** Currently, members drawing under the SRF face substantially higher surcharges than those making purchases in the credit tranches or under the EFF. An alignment of the surcharges would remove the effect of applying higher charges for shorter maturities. As the SRF was designed for large, short-term liquidity needs expected to be quickly reversed, it could be argued that a higher rate of charge is appropriate for the SRF versus exceptional access under the credit tranches or EFF. However, it could also be argued that long-term exceptional access poses more risks to the Fund and has more adverse consequences for the revolving nature of Fund resources. An alignment of surcharges would also remove the cost incentive for financing in the credit tranches above the access limits when the use of shorter maturity SRF resources would be more appropriate.

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[36] The amount repurchased in January–March 2005 was annualized. For 1983-2000, see "Review of Fund Facilities—Follow Up," (EBS/00/187, 8/31/00), p. 16.

33. **If an alignment were to be considered, should the rate of charge be established based on the amount of resources outstanding (level-based) or based on the period of use (time-based)?** The use of level or time-based surcharges, and design of the surcharge structure, will have implications for incentives to repurchase.

- **Level-based surcharges can provide strong incentives to repurchase in the case of large users.**[37] A level-based structure can be easily implemented and can provide a strong disincentive for excessively large use. At the same time, while surcharges may not provide a strong incentive during the initial crisis period, it is conceivable that the application of surcharges during this period may prompt members to take measures to regain market access more quickly.[38] However, such a structure could have adverse consequences during the initial crisis period, i.e., casting doubt on solvency, if a member is not well positioned to absorb the associated costs. That said, there is no evidence that surcharges have had adverse consequences to date.

- **Time-based surcharges can also provide strong incentives to repurchase and discourage unduly long use of Fund resources.**[39] The key advantage of time-based surcharges is the direct link to the objective of supporting the revolving nature of Fund resources. However, implementing an effective time-based mechanism in the context of successor arrangements would create difficult design issues.[40] In this context, there would be two basic design options: The first option would be a surcharge linked to each specific arrangement. This would be simple to administer but could—depending on the starting level—create incentives for members to seek to repay quickly while pursuing successor arrangements.[41] The second option would be time-based graduation across successive arrangements as long as resources remain

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[37] Level-based surcharges also carry a de facto time-based feature. What matters for incentives is the differential between the Fund and market rates which would be expected to decline over time as a member regains access to market resources on improving terms. See Figure 3, and Annex II.

[38] The potential value of surcharges during the initial period in terms of safeguarding Fund resources would, of course, also need to be considered.

[39] Article V, Section 8(b) allows for time-based increases in the rate of charge.

[40] Implementation issues were a key reason why staff did not favor a time-based structure of surcharges in context of the 2000 Review. These issues were not a concern during the discussions of SRF design in 1997, since follow-on arrangements were not anticipated. They are discussed in depth in Annex III, in "Review of Fund Facilities—Further Considerations," (EBS/00/131, 7/10/00).

[41] "Review of Fund Facilities—Further Considerations," pp. 19–27.

outstanding above a threshold level.[42] This system would impose a relatively high surcharge on new purchases for members that have had Fund credit outstanding for a relatively long time. This would create disincentives for prolonged use, but would impose relatively high costs on the members if they experience a new shock and have credit outstanding above the threshold up to that point.

34. **If alignment were pursued, a common threshold for surcharges would need to be established across facilities, with the possibility of one or more step increases over time or level.** Currently, for the credit tranches and the EFF, surcharges begin at 200 percent of quota, with one step increase for access above the cumulative access limit of 300 percent of quota.[43] Surcharges apply for all access under the SRF, which is only used after a member exceeds the annual access limits of 100 percent of quota or the cumulative access limit of 300 percent of quota. Use of a common threshold under both the SRF and the credit tranches and EFF would contribute to greater simplicity and clarity in the structure. The choice of a common threshold would need to take into account the implications for incentives and Fund income.

35. **Determining an appropriate level for surcharges under any structure remains an important challenge.** Surcharges are only one factor affecting repayment behavior. It is also difficult to draw definitive conclusions from experience to arrive at the "neutral" spread that would be implied by the treatment of the Fund as a senior creditor, and there is a high level of variability of market rates across time and across countries (in normal times).[44] This said, a differential between market rates and the cost of Fund borrowing below 100–200 basis points has been associated with early repurchases in a few cases. A scheme for charges, designed to prompt early repurchases, could aim to include surcharges that bring cost differentials closer to these levels rapidly after market access has been restored. Experience in recent years would suggest that surcharges of 200 basis points above the basic rate of

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[42] Under the most straightforward of several options presented in 2000 Review of Fund Facilities (all of which assumed a zero-threshold level for application of the surcharges), if a new arrangement started while there was still credit outstanding from the previous arrangement, the surcharge would continue to rise from the level it had reached under the previous arrangement, instead of starting again at zero. However, the system would create discontinuities in that the surcharge would return to zero only after the member had repaid its outstanding obligations to the Fund. Additional issues would arise with a non-zero threshold.

[43] For the SRF, time-based surcharges begin at 300 basis points and increase by 50 basis points at the end of the first year and every six months thereafter to a maximum of 500 basis points.

[44] Since 1994 the differential between market rates (based upon the EMBI Perform Yield) and the Fund rate of charge, before surcharges, has varied between 437 basis points and 1290 basis points for an average emerging market country, as shown in Figure 2.

charge may be too low to achieve this objective for a majority of countries, when measured over a range of years. Instead, surcharges within the range of 300 to 500 basis points above the basic rate of charge, currently applied only under the SRF, would move closer to achieving this objective. This can be accomplished through either a level-based or time-based structure.

B. Time-Based Repurchase Expectations

36. **The introduction of a policy on time-based repurchase expectations has resulted in higher amounts being repurchased early.** Indeed, as a share of Fund credit outstanding, amounts repurchased on an expectations basis in 2003 and through March 2005 were more than triple early and advance repurchases during the 1990s.

37. **At the same time, a case can be made for abolishing the policy because of associated costs and issues raised in its implementation.**

- **First, as mentioned, a substantial amount of the repurchases expectations were met while the member made concomitant purchases under new arrangements.** Adjusting for these purchases, 28 percent of repurchase expectations arising in the credit tranches were met.

- **Second, the application of the policy has had some important, if intangible, costs to the Fund.** The decisions to extend repurchase expectations are often presented, and may be viewed by some market participants, as a de facto rescheduling of Fund credit. Some decisions to extend repurchase expectations have generated explicit comments in the press and also by some market analysts that the Fund was “rescheduling its claims on” or “granting debt relief to” the member. Confusion about what an extension of repurchase expectations really means leads to questions about the Fund’s role in supporting members and misperceptions regarding the Fund’s policy of not rescheduling its claims and could erode the Fund’s preferred creditor status over time. Decisions on extensions could also, in some cases, be misperceived as signaling approval of a member’s policies.

- **Third, the implementation of the policy has also raised several issues.** The standard of “undue hardship” seems very stringent in view of the requirement that members meet repurchase expectations only if their external position is stronger than programmed. Furthermore, the mere existence of two payment schedules—expectations and obligations—can be confusing. This confusion is compounded when a member has outstanding purchases both in the credit tranches and under the SRF, since the repurchase expectations policies are not identical for SRF and other GRA resources, as discussed earlier. Implementation of the policy on time-based repurchase expectations has also raised questions about the appropriate benchmark against which to assess a member’s balance of payments when an extension of repurchase expectations is requested, particularly in case of follow up arrangements. There have also been issues relating to the publication policy.

38. **While the concerns noted above could justify the elimination of the policy on time-based repurchase expectations, this should only be considered if it were replaced by appropriate incentives to make early repurchases when balance of payments have improved faster than anticipated**. Proposals could include higher level- or time-based surcharges on credit tranche financing to provide financial incentives for repurchases where the external position allows. Consideration could also be given to the establishment of a non-financial framework to encourage members to make voluntary advance repurchases, perhaps through the reporting to the Board and even the publication of information regarding borrowing members' external positions in relation to their Fund credit outstanding.[45] The staff would elaborate further on such proposals if there is sufficient interest among Executive Directors.

39. **In the staff's view, more thoroughgoing reform of repurchase incentives should be considered (as above) before making minor changes to the existing system.** Nevertheless, some design issues have arisen in the current system that should be kept in mind in thinking about future directions for reform:

- **The differences between the policies applying for the SRF and those for credit tranches, the EFF, and the CFF are confusing and may not be necessary.** In particular, the programming for SRF repurchases could be done on an obligations basis (as is the case for purchases in the credit tranches and under the EFF). For consistency, this would require that the "policy test" that is expected for extensions from expectations to obligations under the SRF would have to be dropped.

- **The benchmark to assess the strength of the member's external position raises some difficulties.** Consistent with the policy, requests for extensions have compared the balance of payments position with the projections made at the time the arrangement was approved. However, referring back to those projections can be awkward in cases involving a successor arrangement. In those cases, the Board has approved access and phasing based on a balance of payments adjustment that in turn (normally) assumes that the member will meet its Fund repurchases on an obligations basis. It is awkward then, when deciding whether to grant an extension of repurchase expectations, to make comparison with the assumptions of an earlier program. Another set of difficulties involves a situation where the repurchase expectations

[45] For the early repurchase policy, see "The Fund's Early Repurchase Policy" (EBS/01/11, 2/2/01) and Decision No. 6172—(79/101), adopted June 28, 1979, as amended by Decision No. 12425-(01/141), adopted February 9, 2001. The repurchase expectation established under the SRF decision is distinct from, and in addition to, the repurchase expectation of Article V, Section 7(b) of the Fund's Articles, as explicitly stated in "Concluding Remarks by the Chairman, Supplemental Reserve Facility," (BUFF/97/125, 12/19/97).

arising during a given period correspond to purchases made during several arrangements.[46] To simplify implementation, staff reports supporting a request for extensions could stress—consistent with guidelines—that if the member has an arrangement, this is prima facie evidence that the member's balance of payments is not strong enough to support meeting repurchase expectations. For members without an arrangement in place, one option would be to use the projections included in the latest arrangement.[47] Such a change could, however, raise some complex issues which would need to be elaborated if there is sufficient interest among Executive Directors.

40. **In any case, the publication requirements and practice concerning the Fund's decisions to extend repurchase expectations could be unified and clarified.** In particular, the Board could clarify that all decisions to extend repurchase expectations, regardless of the facility involved, should be publicized in the form of a press release, as has generally been the practice.[48] The press release should also include a standard statement clearly indicating that such decisions in no way should be construed as a rescheduling of the member's obligations to the Fund or as signaling approval of a member's policies. These changes should help reduce the risk of misinterpretation by some market participants, and the consequent potential undermining of the Fund's preferred creditor status.[49]

C. The SRF[50]

41. **While the SRF was intended to serve as the main vehicle for exceptional access in cases involving capital account pressures, such access has increasingly been provided in the credit tranches.** In 2003 and again in 2004, the Executive Board reinforced the presumption that all exceptional access in cases involving capital account crises be granted

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[46] For instance, four members had SBA repurchase expectations arising during the period covered by the review (January 2003–March 2005) that related to purchases made under more than one arrangement: two for Bosnia, Bulgaria, and Romania, and three arrangements for Brazil.

[47] These issues are also relevant to cases where balance of payments projections are revised substantially between the approval of a particular arrangement and subsequent reviews. The issue would then arise as to which projections should serve as benchmark to decide to extend repurchases arising from purchases made after such revisions.

[48] The Transparency Policy Decision would be amended in the context of the upcoming review to include this clarification and also permit such references in Chairman's Statements.

[49] The reporting of the decision on the IMF Web site is a formal requirement for extensions of non-SRF repurchase expectations, but not for SRF repurchase expectations.

[50] Issues related to the circumstance test for use of the SRF will be taken up in a separate paper.

on SRF terms (Box 2). Requests for exceptional access since 2003 have been provided in the credit tranches.

42. **Recent exceptional access cases have not involved the kind of circumstances the SRF was designed to cover; the relatively short SRF maturity is not appropriate in all cases of exceptional access.** As highlighted in the 2004 Review of Exceptional Access and the recent review of access policy, the expected duration of the balance of payments needs for Fund members seeking exceptional access in recent years has not been consistent with SRF terms.[51] The Board has recognized the special nature of current exceptional access cases, including Turkey, Uruguay, and Argentina, where a longer period of continued Fund engagement would be consistent with the projected balance of payments need. A key distinction in these cases has been high levels of public debt, sustained high debt-servicing requirements, and the longer time needed to reinforce solvency. In other cases, such as Korea, shorter-term liquidity needs were effectively met under the SRF.

43. **However, a further lengthening of the maturity of the SRF would not appear desirable.** Increasing further the maturity of SRF financing to that of the credit tranches is an option that could be considered, but this would eliminate a key distinction justifying the SRF, particularly if changes to the charges and repurchase expectations structure along the lines discussed above are pursued.

V. Issues for Discussion

44. **In their discussion, Directors may wish to comment on the following issues**:

- How do Directors view the experience with surcharges? Do Directors see a need to align the surcharges applied to credit under the SRF and credit tranches and the EFF? If so, do Directors have initial views on the structure (level versus time-based)? Do Directors consider that the current levels and structure of surcharges provide adequate incentives against unduly large and long use of Fund credit?

- How do Directors view the experience with time-based repurchase expectations under the SRF as well as in the credit tranches? Are there steps that could be considered ahead of a more thoroughgoing reform, to clarify some of the operational difficulties which have arisen with the application of the policy?

- Do Directors have views on the trend in use of the credit tranches for the provision of exceptional access, including in relation to the presumption of use of the SRF for

[51] "Review of Access Policy in the Credit Tranches, the Extended Fund Facility and the Poverty Reduction and Growth Facility, and Exceptional Access Policy," (EBS/05/42, 3/14/05)

cases involving capital account crises? Do Directors agree that the current maturity structure for the SRF remains appropriate?

History of Rates of Charge and Maturities in Fund Facilities

I. Rates of Charge

The rate of charge is one of many important factors that may influence members' decisions on whether and for how long to use Fund resources. The system of charges has evolved over time, along with the Fund's various credit arrangements.[52] [53] The evolution is marked by three distinct periods: from the inception of the Fund to 1974, the period 1974–81; and the period (1981-present).

From the inception of the Fund to 1974

A complex graduated system of charges was in place based on time and level of credit outstanding. Longer time and higher credit levels resulted in higher rates.[54] The system was designed so that lower-priced credit was paid off first, and members had no incentive to repay early. The system was complicated by the segmentation of Fund credit. To administer what was primarily a time-based surcharge, the Fund had to establish the size and timing of each "segment" of Fund credit arising from purchases, to which a separate schedule of charges would apply. Implementation gave rise to perverse incentives. The method of determining charges—repurchases were attributed first to the newest segments of Fund credit outstanding, which generally carried a lower rate of charge (rather than to the earlier, more costly purchases)—was complex and worked against the objective of discouraging large or long use of Fund resources.

1974–1981

The graduation of charges with the level of Fund credit outstanding was eliminated (July 1, 1974), and separate, simplified time-based graduation schedules for the rate of charge were established for different facilities. The level of the rates of charge was raised. A distinction was made between credit financed with *ordinary* and *borrowed* resources. For credit financed with *ordinary* resources, members were charged quarterly at a fixed "basic" rate with a surcharge that increased over time. For credit financed with *borrowed* resources members were charged semi-annually (up to a maximum period of seven years) at a premium rate, linked to market rates or the cost of the borrowing. A time-based surcharge was also

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[52] Detailed information on rates of charge on use of Fund resources is provided in "Review of Fund Facilities—Further Considerations—Supplementary Information on Rates of Charge," (EBS/00/131, Sup. 1, 7/18/00). See also Annex I in "Review of the Fund's Income Position for FY 2004 and FY 2005," (EBS/04/55, 4/14/04).

[53] The PRGF has a fixed, flat interest rate and is not considered in this Appendix.

[54] For details, see Table 1, page 3 in EBS/00/131.

levied on borrowed resources.[55] The time-based graduation feature was retained and applied to most facilities, resulting in a variety of highly specific schedules of charges. The calculation of charges continued to involve the division of Fund credit outstanding into "segments" and the use of an attribution method that divorced "segments" from the actual schedule of purchases and repurchases. As a result, the new system left essentially unchanged the incentive structure of the pre-1974 system.

1981–present

The structure of charges was simplified in 1981 with the introduction of a single, flat rate of charge for all Fund credit financed with ordinary resources.[56] This structure has remained unchanged, with the exception of the incorporation in 1997 of surcharges on purchases made under the SRF and the introduction of level-based surcharges on purchases in the credit tranches and the EFF in 2000.

- In 1982, the concept of annual income target was introduced, and the rate of charge was set annually to reach that target.

- Repurchase "schedules," introduced by the Second Amendment of 1978, were in effect for all stand-by and other Fund credit.

- In 1993, a *consolidated rate of charge* for all Fund credit was introduced. The distinction between credit financed by ordinary and borrowed resources was eliminated and members were billed quarterly.

- In December 1997, with the adoption of the SRF, a *time-based surcharge* was introduced to encourage prompt or early repayment, as discussed in the main paper.

- In 2000, a *level-based surcharge* was introduced on purchases in the credit tranches and the EFF to discourage unduly high access.[57] The Board agreed that these surcharges should not be changed for a period of at least four years, and that the net

[55] Surcharges were 0.125 percent (3 to 4 years), 0.25 percent (4 to 5 years with a maximum period of 7 years) for the 1974 and 1975 oil facilities, and 0.2 percent (every year up to 3 years), 0.325 percent (3 to 4 years; applied after 3½ years), 0.375 percent (4 to 5 years with a maximum period of 7 years; applied after 4½ years; reduced to 0.325 percent in 1980) for purchases financed by the Supplementary Financing Facility (SFF), under which the Fund borrowed resources.

[56] Different rates of charge continued to apply to credit financed from borrowed resources until 1993.

[57] "Summing Up by the Acting Chairman, Review of Fund Facilities—Proposed Decisions and Implementation Guidelines," (BUFF/00/175, 11/27/00).

income target should not be increased for the primary purpose of achieving an increase in the basic rate of charge.[58]

II. Maturities

Repurchase policies have evolved over time and rest on the long standing principle that members should only use Fund resources as long as there is a balance of payments need and ensure the revolving nature of Fund resources.

Inception-1978

The original Articles of Agreement did not specify fixed repurchase periods. Rather repurchases were calculated annually for each member according to a formula based on their international reserves.[59] This approach became difficult to implement, however, and it was supplemented by policies on repurchase periods.

1978-1997

The coexistence of two approaches—one based on explicit schedules and another on reserve strength—was codified under the Second Amendment to the Articles in 1978 with the establishment of fixed repurchases periods (Article V, Section 7(c)) and provision for early repurchases by members as their balance of payments and reserve position improves (Article V, Section 7(b)). Repurchases were to be made not later than five years after the date of a purchase, and the Fund was allowed to prescribe that they be made in installments *beginning three years and ending five years* after the date of purchase. The guidelines for the Fund's general policy on early repurchases under Article V, Section 7(b) were established in 1978 and their current form in 1979. Under this policy the Executive Board makes a judgment on the appropriateness of early repurchases by a member.

1997-now

A major change in repurchase policies was introduced in 1997 with the establishment of the SRF that incorporated much shorter repurchase periods, in line with the short-term nature of this type of balance of payments need, and featured repurchase expectations that are legally outside of the framework of Article V, Section 7(b). In February 2003, the maturity of the SRF were lengthened, reflecting experience with capital account crises that had shown a

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[58] The Board also reduced the commitment fee on all Fund arrangements from a uniform 25 basis points to 25 basis points on amounts of up to 100 percent of quota and 10 basis points on amounts exceeding 100 percent of quota.

[59] *Financial Organization and Operations of the IMF*, Pamphlet Series No. 45, Sixth Edition, 2001, Box II.3, p. 34.

greater variance in the duration of countries' balance of payments need than originally expected.[60]

Time-based repurchase expectations were introduced for purchases in the credit tranches and under the EFF and CFF in November 2000 in the context of a comprehensive review of Fund facilities. The introduction of repurchase expectations was to address the problem of long use. The use of repurchase expectations had the advantage that the burden of proof would be on the member rather than the Fund, in contrast to the existing early repurchase policy where the Fund had to make the determination of an early repurchase expectation.

Another issue that was addressed at the time of the Facilities Review in 2000, was to rein in the use of the Extended Fund Facility (EFF), which has the longest maturity offered by the Fund in the GRA. While directors felt that the EFF should be retained, they agreed that it was important to ensure that access to the EFF would be granted where balance of payments difficulties would be relatively long term, including because the member had limited access to private capital and there was an appropriately strong structural reform program. It was noted that the EFF would be especially appropriate for graduating PRGF and some transition countries that do not have, or do not have enough, access to capital markets.[61]

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[60] "The Acting Chair's Summing Up, Review of Access Policy Under the Credit Tranches and the Extended Fund Facility, and Access Policy in Capital Account Crises—Modifications to the Supplemental Reserve Facility and Follow-Up Issues Related to Exceptional Access Policy," (BUFF/03/28, 3/5/03).

[61] See "Summing Up by the Acting Chairman, Review of Fund Facilities—Proposed Decisions and Implementation Guidelines," (BUFF/00/175, 11/27/00).

Cost of Borrowing and Repurchase Behavior: Country Cases

Recognizing that many factors affect a member's borrowing and repayment decisions, this Annex presents information on the evolution of market cost of borrowing for major Fund borrowers in the context of their repurchase behavior.

Argentina (Figure A2)
Argentina lost access to international capital markets following the Mexico crisis in late 1994.[62] In January 1995, the Argentine government announced an economic program that included measures to reduce the fiscal deficit, and an extension of the existing EFF was approved in April 1995. Confidence improved and the government returned to international capital markets in April 1995, although spreads did not return to pre-crisis levels until 1997. From early 1997 to mid-1998 market rates remained at pre-crisis levels, though still high, with the differential between the cost of borrowing from the Fund and the market above 400 basis points. Argentina did not make any advanced repurchase in this period. Although Argentina did tap financial markets, it nevertheless faced large financing requirements. In 2002–04, the Executive Board approved requests by Argentina to extend all expectations (SRF and non-SRF resources) to the obligations schedule. Net repurchases from September 2001 (peak of access to Fund resources) to March 2005 have amounted to about 13 percent of outstanding credit at the peak, in the context of very high market rates and no new debt issues.

Brazil (Figure A3)
The worsening of the international financial environment in 1997 focused greater attention on fragilities in Brazil's fiscal and public debt situation, leading to a sharp increase in market spreads. In December 1998, the Board approved an SBA with access totaling SDR 13.0 billion, including SDR 9.1 billion under the SRF.[63] Purchases under this arrangement amounted to SDR 9.5 billion. However, market conditions did not improve as rapidly as expected, with market rates remaining above 1,200 basis points for 12 months. Market conditions did improve during 2000, and Brazil made advance repurchases of SRF resources totaling SDR 3.3 billion in April 2000, when the differential between the cost of borrowing from the market and the Fund was about 450 basis points; Brazil retained non-SRF resources outstanding for which the differential was about 700 basis points. Despite strong progress under this arrangement, renewed pressures emerged in 2001, and a new SBA was approved in September, with access totaling SDR 12.1 billion, of which SDR 9.9 billion

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[62] See "Assessing the Determinants and Prospects for the Pace of Market Access by Countries Emerging from Crises—Country Cases," (EBS/01/157, Sup. 1, 9/14/01).

[63] See "Brazil—Assessment of the Risks to the Fund and the Fund's Liquidity Position," (EBS/03/157, Sup. 1, 11/24/03.)

was on SRF terms. SRF resources under this arrangement were also repaid early in April 2002, when the differential between Fund and market rates was 650 basis points, although the repurchase was shortly followed by larger drawings under a successor arrangement approved in September 2002. Only one-third of the new access was under the SRF with the remainder on SBA terms. Brazil has subsequently regained access to international capital markets, and all three major credit ratings agencies upgraded Brazil's long-term foreign currency sovereign rating in September 2004. By end-year 2004 market rates were at pre-1999 crisis levels though cost differentials remained sizable (about 300 basis points), under credit tranche terms. Since April 2002, Brazil has made repurchases on expectations schedule, but has not made any advance repurchases.

Korea (Figure A4)
The crises in other Asian countries during 1997 highlighted weaknesses in Korea's financial system, driving a withdrawal of private capital in late 1997. Fund assistance, agreed in December, involved a large up-front package with resources in the amount of SDR 5.5 billion under the credit tranches, as well as resources in the amount of SDR 9.9 billion under the SRF. The Korean government re-entered international capital markets in April 1998, with a US$4 billion 10-year bond issue with a spread of 355 basis points over comparable U.S. treasuries. Differentials with Fund rates remained relatively high at 135 basis points over SRF resources and 435 basis points over non-SRF resources. Following the Russia crisis in mid-1998, Korea's spreads increased to 1,400 basis points over comparable U.S. Treasuries. However, market conditions improved rapidly thereafter, and by November that same year spreads had declined close to pre-crisis levels. Investment grade was restored in January 1999. Korea made early repurchases of SRF resources between January and August 1999 when cost differentials between Fund and market borrowing had come down to below 100 basis points. Non-SRF resources, on the other hand, were held for a longer period, and early repurchases took place after cost differentials fell to about 200 basis points in 2001.

Mexico (Figure A5)
Following the financial crisis in late 1994, the Executive Board approved a three-year SBA totaling SD R12.1 billion. By July 1995 the sovereign re-entered the market with a US$1 billion two-year floating rate note and a Yen-denominated Eurobond. By 1996 international market sentiment and Mexico's economic performance had improved to such an extent that the government was able to obtain a US$6 billion syndicated loan, backed by the pledge of Mexican oil export proceeds, at 200 basis points over Libor (equivalent to a spread of 466 basis points over borrowing under the credit tranches). Part of these resources were used for an early Fund repurchase totaling US$1 billion and Mexico began treating its program as precautionary in early 1996, leaving SDR 3.3 billion undrawn. By mid-1996, overall EMBIG rates had declined close to late-1994 levels, and market conditions remained favorable through 1998. Following the Russian crisis in 1998 market rates increased significantly and Mexico entered into a new arrangement totaling SDR 3.1 billion in July 1999, of which SDR 1.9 billion were drawn. In August-2000, in the context of a declining trend in market rates and a differential of about 400 basis points between the Fund

and market cost of borrowing, Mexico made an early repurchase of SDR 2.4 billion, reducing their outstanding credit to zero.

Russia (Figure A6)

Following Russia's sovereign default in August 1998, market rates remained well above 2,000 basis points until early-2000. Nonetheless, Russia made early repurchases of SRF resources during 1999, when the cost differential between the Fund and the market was about 2,900 basis points (the outstanding SRF credit was small and represented less than ten percent of the total outstanding credit). In 2000, following a restructuring of Russia's debts to private creditors with the London Club and a steady improvement in macroeconomic performance, Russia made early repurchases in the amount of SDR 1.9 billion of CCFF resources; cost differentials were about 900 basis points. Although there has been no sovereign debt issue since 1998 debt crisis, the City of Moscow accessed international capital markets by end-2001, Gazprom did so in the first quarter of 2002, and the central bank owned Sberbank issued a bond in 2003.The improvement in the international reserves position also led to a series of credit rating upgrades, with Russian sovereign debt being rated investment grade by Moody's in October 2003, by Fitch in November 2004, and by S&P in January 2005. Russia made an advance repurchase of SDR 2.2 billion in January 2005 that extinguished outstanding obligations with the Fund.

Thailand (Figure A7)

Following the turbulence leading to the abandonment of the baht peg in July 1997, a three-year SBA with access equal to SDR 2.9 billion (505 percent of quota) was approved in August. Although investor sentiment was dampened by spillovers from Indonesia and Korea during December 1997 and January 1998, a gradual return of market confidence was evident in early 1998, following improvements in the policy setting and an upturn in regional markets. Despite the turmoil caused by the Russian crisis in mid-1998, Thailand's market conditions continued to improve. Cost differentials between market and Fund borrowing fell below 400 basis points by the end of 1998 and below 300 by early 2000. Nonetheless, Thailand did not make early repurchases to the Fund until 2003 when cost differentials reached 140 basis points and Thailand joined the Financial Transactions Plan (FTP). During 1998–2001 Thailand did not issue any sovereign bonds and the government met its financing needs through official loans and domestic borrowing.

Turkey (Figure A8)

In response to heightened economic and financial pressures, Turkey's three-year SBA, approved in December 1999, was augmented under the SRF in December 2000 for a total of SDR 15 billion. At that time it was expected that Turkey would regain market access relatively quickly but subsequent slippages in key policy areas contributed to a sharp sell-off of Turkish lira assets, leading to substantial reserve loss and, ultimately, a devaluation of the exchange rate in February 2001; market rates remained at around 1,400 basis points for several months. In May 2001, the SBA was augmented again, this time using credit tranche resources, at levels that provided for a net increase in Turkey's outstanding credit with the Fund. In February 2002, with market rates still about 1,100 basis points, a new SBA was approved with access totaling SDR 12.8 billion, while SRF resources totaling SDR 4.5 billion were repaid early. Turkey began to make net repurchases in 2003–2004 with market rates at 1996 levels. In 2004, Turkey was one of the largest emerging market borrowers (in absolute terms) in international capital markets and Turkey's bond rates have recently fallen below the EMBI indices for the class of emerging market economies as a whole, reaching the lowest level since 1996. The difference between Turkey's actual cost of borrowing from the markets and from the Fund has narrowed to below 200 basis points. In May 2005, the Executive Board approved a new three-year stand-by arrangement totaling SDR 6.7 billion.

Uruguay (Figure A9)
In the context of the severe financial crisis in 2002, access under Uruguay's SBA was augmented first to SDR 594.1 million under the credit tranches, augmented by SDR 1,158.2 million (one third of which on SRF terms) in June 2002, and augmented again by SDR 376 million in August, with undrawn access under the SRF replaced by access under the credit tranches.[64] [65] Both augmentations took place in the context of high market rates. Uruguay was able to reaccess capital markets in October 2003, only seven months after having launched the debt restructuring, placing a three-year inflation-indexed bond of US$200 million in pesos.[66] Market rates fell sharply during 2003, although they remained above pre-crisis levels. By early 2004 the cost differential between borrowing from the Fund in the credit tranches and the market reached pre-crisis levels of about 600 basis points. Between December 2004 and March 2005, Uruguay made advance repurchases totaling SDR 374 million, including some payments falling due on an expectations basis during the second half of 2005 which the Executive Board had earlier agreed to extend to the obligations schedule. In the context of the substantial debt servicing requirements in coming years, Uruguay has also indicated its interest in a successor arrangement with the Fund, which is expected to be considered by the Executive Board in coming weeks.

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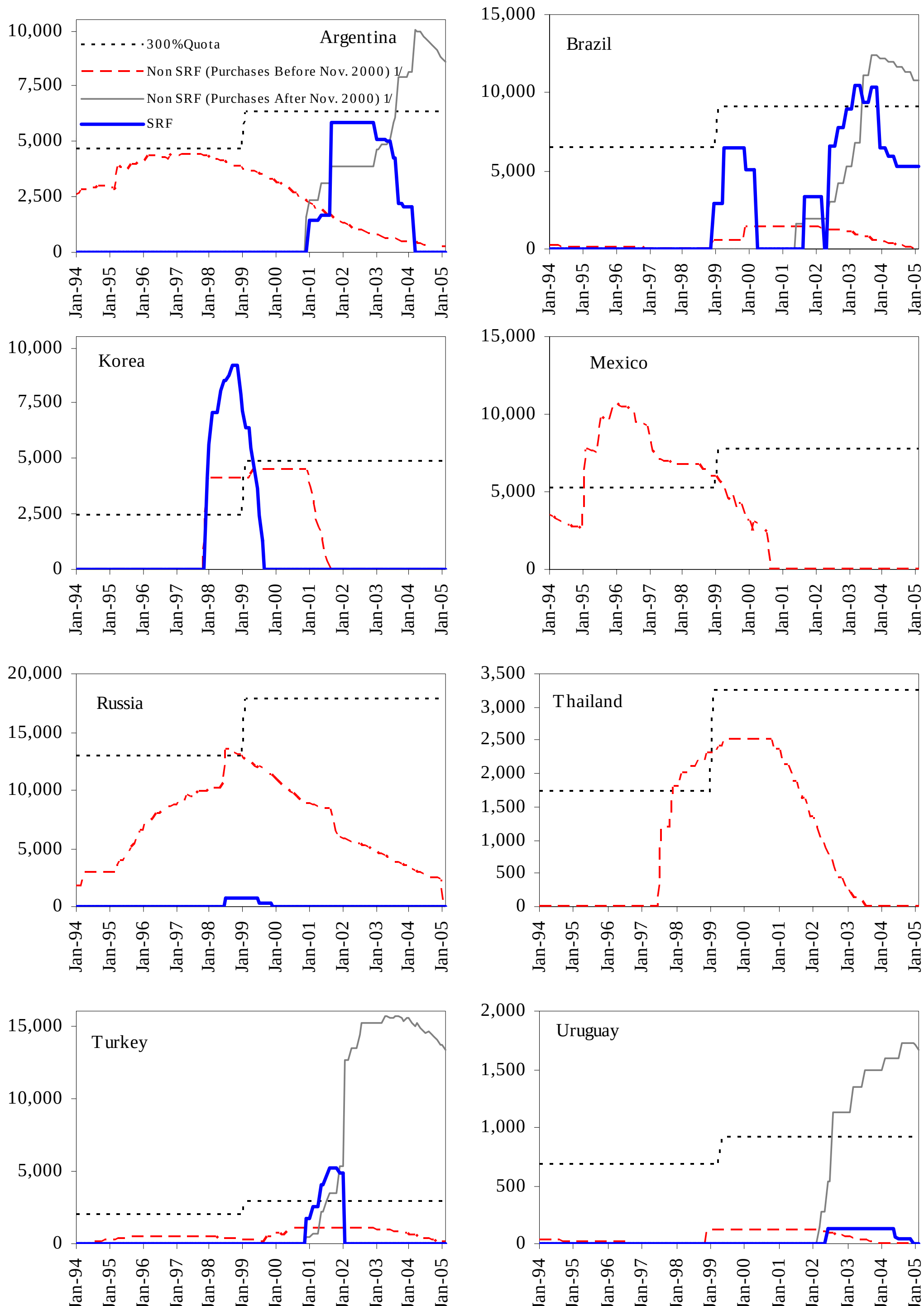
[64] In August 2002 the Board approved an augmentation in the credit tranches of SDR 633.4 million, and the cancellation of the undrawn SRF resources (SDR 257.4 million).

[65] See "Uruguay—Ex Post Assessment of Longer-Term Program Engagement," (SM/05/84, 3/7/05).

[66] See "Assessing the Determinants and Prospects for the Pace of Market Access by Countries Emerging from Crises—Further Considerations," (SM/05/76, 3/21/05).

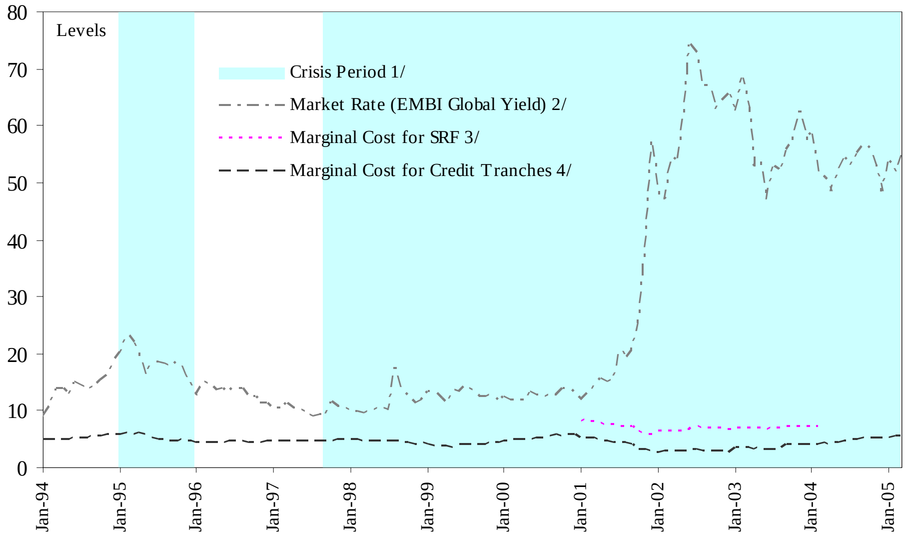
Figure A1. Composition of GRA Credit Outstanding for Major Users of Fund Credit
January 1994-February 2005
(In SDR millions)

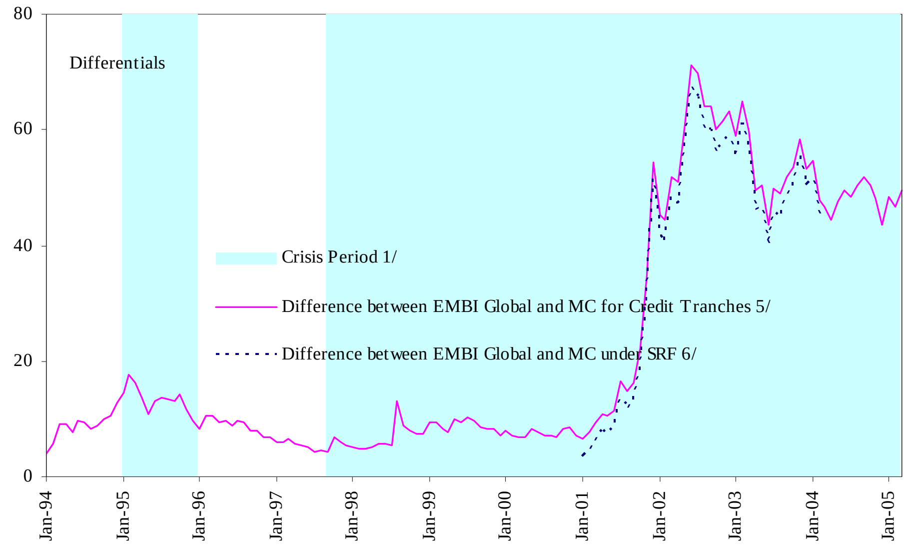


Source: Finance Department.

1/ All GRA resources excluding SRF. Before/after November 2000 refer to purchase dates. Surcharges only apply to outstanding credit above 200 percent of quota for purchases made after November 2000.

Figure A2. Argentina: Market Rate and
Marginal Cost of Fund Credit, January 1994-March 2005

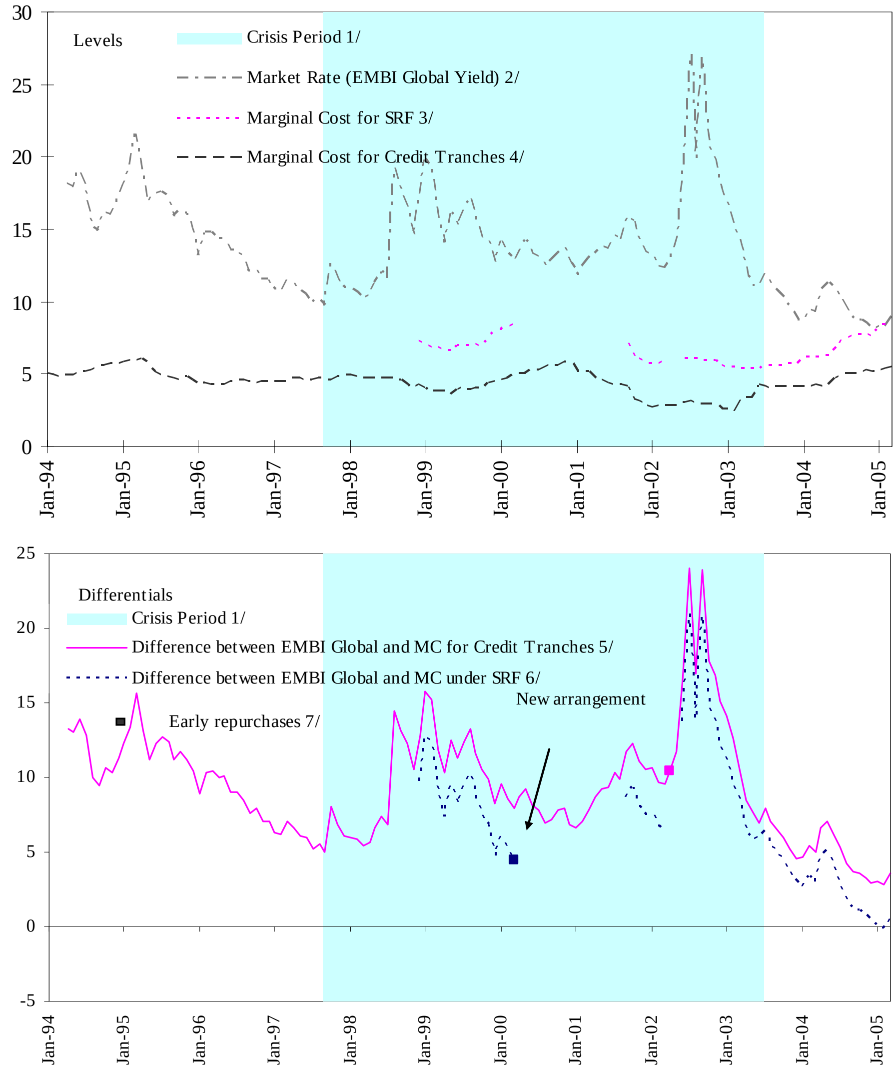




Source: J. P. Morgan, Finance Department, and staff estimates.

1/ The definition of crisis is based on the behavior of spreads. A sovereign is assumed to enter into a crisis when its 3-month moving average spread increases by 25 percent or more (shock to spreads), and to stay in a crisis until spreads return to pre-crisis levels, defined as the average of the 3-month preceding the crisis point.
2/ J. P. Morgan's EMBI Global yield to maturity, stripped of collateralized debt, is reported. For countries that defaulted on sovereign debt, EMBIG yield may not represent the cost of issuing new debt, as debt issued after a default often trades with a different discount.
3/ Defined as the actual rate at which outstanding SRF resources are being serviced. Reported only for periods with outstanding SRF resources.
4/ Defined as the highest level-based surcharge rate applicable plus the adjusted rate of charge. Access is calculated on the basis of non-SRF outstanding credit.
5/ Represents the difference between J. P. Morgan's EMBI Global yield and the marginal cost of Fund credit in the credit tranches. Marked dots indicate early repurchases.
6/ Represents the difference between J. P. Morgan's EMBI Global yield and the marginal cost of Fund credit under SRF terms. Reported only for periods with outstanding SRF resources.

Figure A3. Brazil: Market Rate and
Marginal Cost of Fund Credit, January 1994-March 2005



Source: J. P. Morgan, Finance Department, and staff estimates.

1/ The definition of crisis is based on the behavior of spreads. A sovereign is assumed to enter into a crisis when its 3-month moving average spread increases by 25 percent or more (shock to spreads), and to stay in a crisis until spreads return to pre-crisis levels, defined as the average of the 3-month preceding the crisis point.
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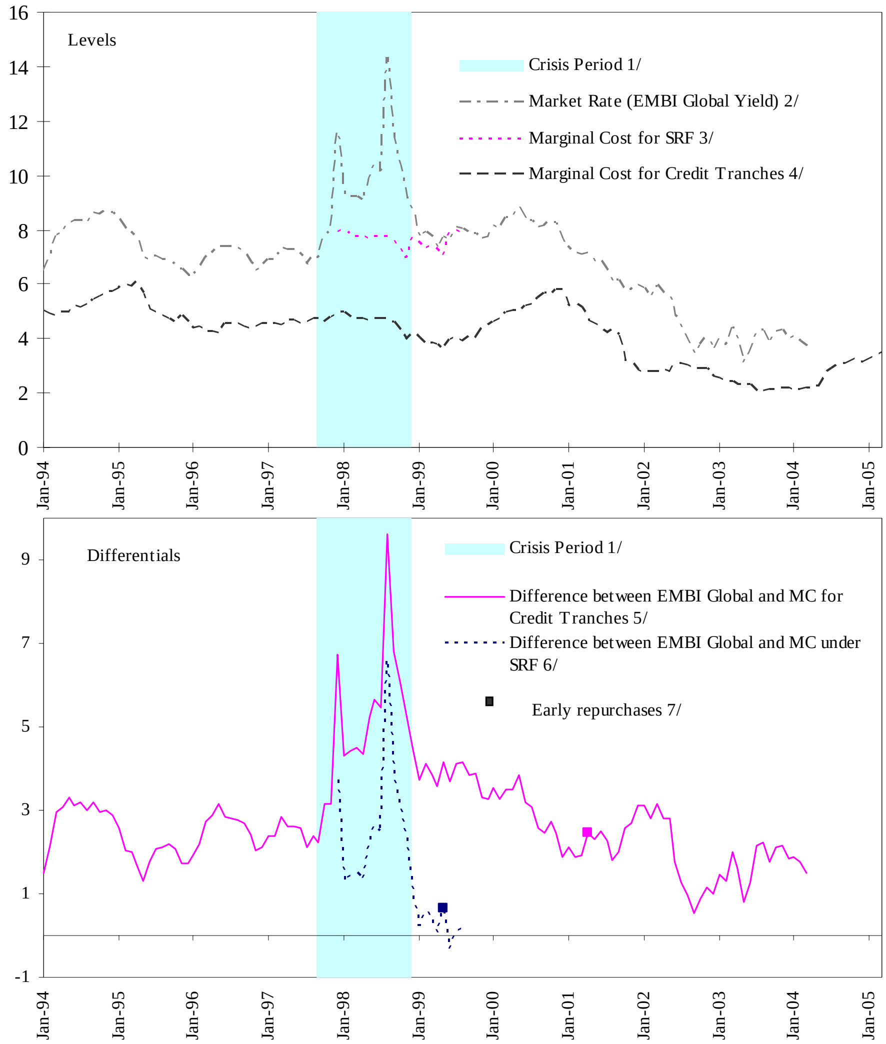
6/ Represents the difference between J. P. Morgan's EMBI Global yield and the marginal cost of Fund credit under SRF terms. Reported only for periods with outstanding SRF resources.
7/ Marked dots on the credit tranches and SRF lines indicate early repurchases of credit tranches and SRF resources, respectively.

Figure A4. Korea: Market Rate and
Marginal Cost of Fund Credit, January 1994-March 2005



Source: J. P. Morgan, Finance Department, and staff estimates.

1/ The definition of crisis is based on the behavior of spreads. A sovereign is assumed to enter into a crisis when its 3-month moving average spread increases by 25 percent or more (shock to spreads), and to stay in a crisis until spreads return to pre-crisis levels, defined as the average of the 3-month preceding the crisis point.

2/ J. P. Morgan's EMBI Global yield to maturity, stripped of collateralized debt, is reported. For countries that defaulted on sovereign debt, EMBIG yield may not represent the cost of issuing new debt, as debt issued after a default often trades with a different discount.

3/ Defined as the actual rate at which outstanding SRF resources are being serviced. Reported only for periods with outstanding SRF resources.

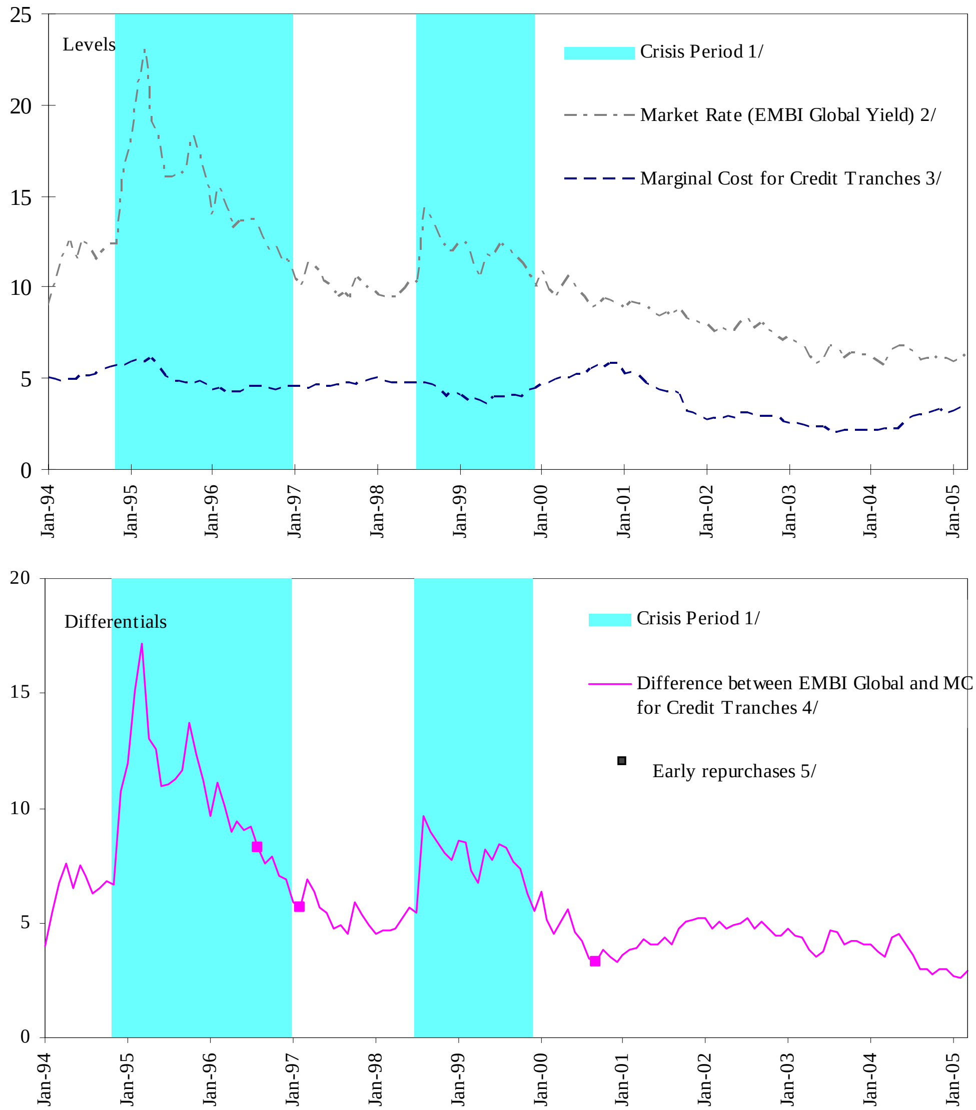
4/ Defined as the highest level-based surcharge rate applicable plus the adjusted rate of charge. Access is calculated on the basis of non-SRF outstanding credit.

5/ Represents the difference between J. P. Morgan's EMBI Global yield and the marginal cost of Fund credit in the credit tranches. Marked dots indicate early repurchases.

6/ Represents the difference between J. P. Morgan's EMBI Global yield and the marginal cost of Fund credit under SRF terms. Reported only for periods with outstanding SRF resources.

7/ Marked dots on the credit tranches and SRF lines indicate early repurchases of credit tranches and SRF resources, respectively.

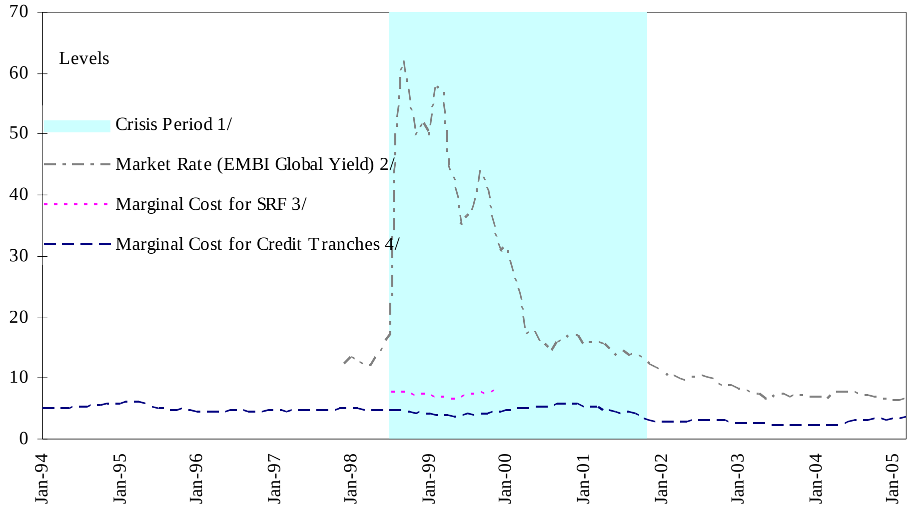
Figure A5. Mexico: Market Rate and
Marginal Cost of Fund Credit, January 1994-March 2005

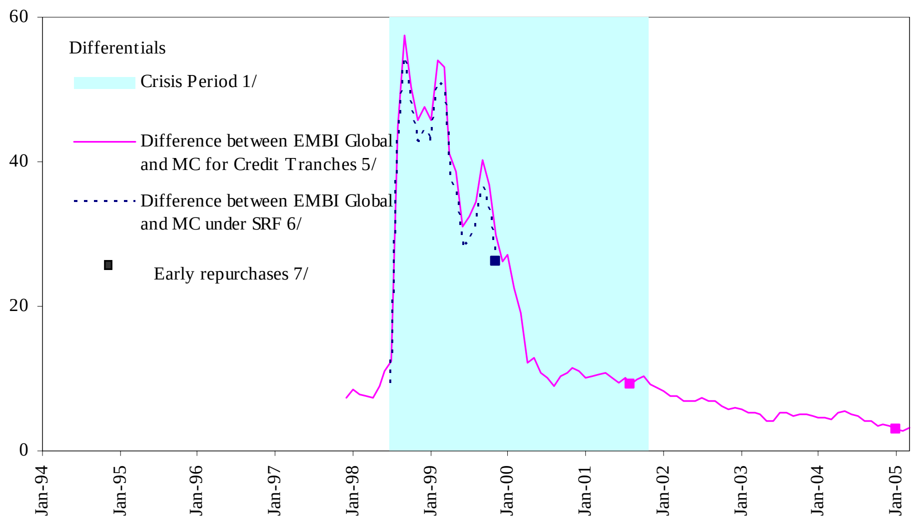


Source: J. P. Morgan, Finance Department, and staff estimates.

1/ The definition of crisis is based on the behavior of spreads. A sovereign is assumed to enter into a crisis when its 3-month moving average spread increases by 25 percent or more (shock to spreads), and to stay in a crisis until spreads return to pre-crisis levels, defined as the average of the 3-month preceding the crisis point.
2/ J. P. Morgan's EMBI Global yield to maturity, stripped of collateralized debt, is reported. For countries that defaulted on sovereign debt, EMBIG yield may not represent the cost of issuing new debt, as debt issued after a default often trades with a different discount.
3/ Defined as the highest level-based surcharge rate applicable plus the adjusted rate of charge. Access is calculated on the basis of non-SRF outstanding credit.
4/ Represents the difference between J. P. Morgan's EMBI Global yield and the marginal cost of Fund credit in the credit tranches. Marked dots indicate early repurchases.
5/ Marked dots on the credit tranches line indicate early repurchases of credit tranches resources.

Figure A6. Russia: Market Rate and
Marginal Cost of Fund Credit, January 1994-March 2005





Source: J. P. Morgan, Finance Department, and staff estimates.

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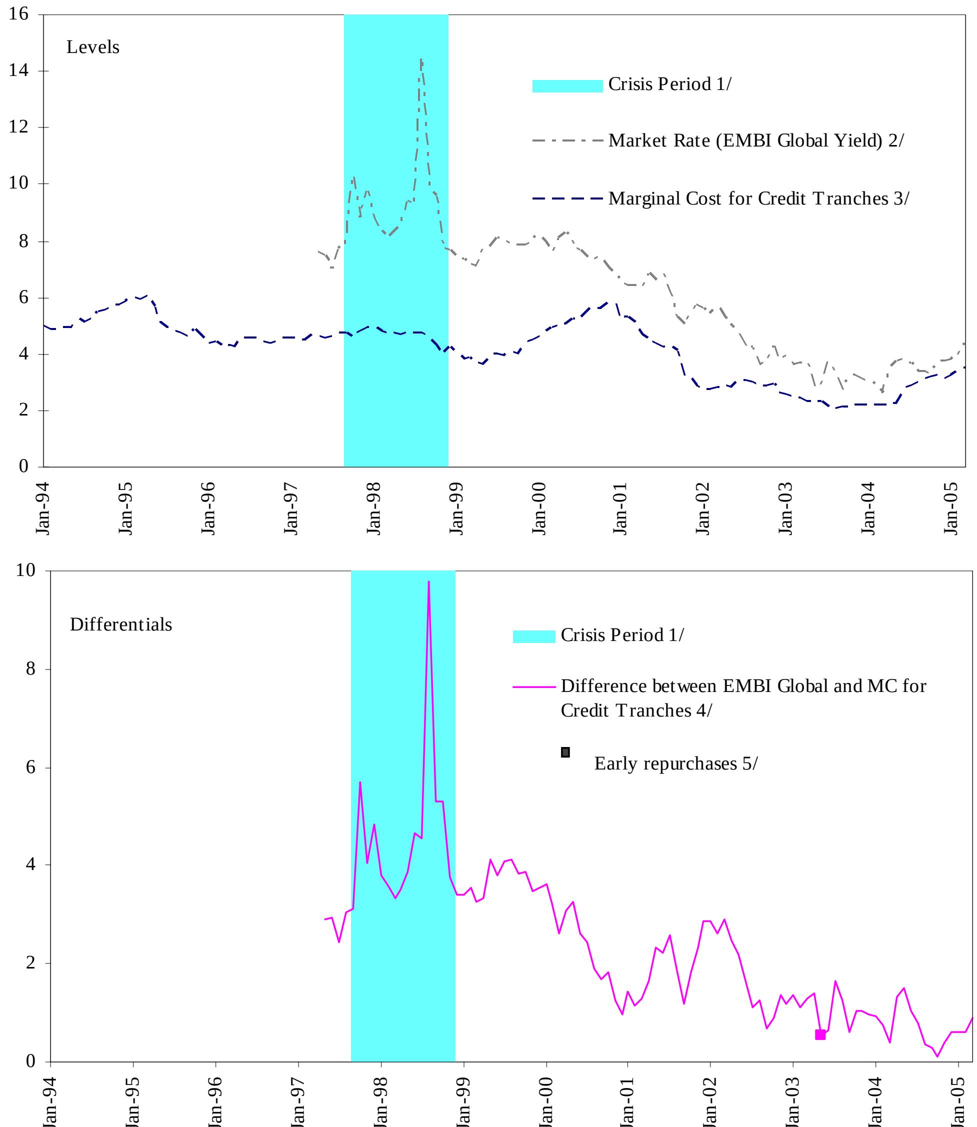
6/ Represents the difference between J. P. Morgan's EMBI Global yield and the marginal cost of Fund credit under SRF terms. Reported only for periods with outstanding SRF resources.
7/ Marked dots on the credit tranches and SRF lines indicate early repurchases of credit tranches and SRF resources, respectively.

Figure A7. Thailand: Market Rate and
Marginal Cost of Fund Credit, January 1994-March 2005



Source: J. P. Morgan, Finance Department, and staff estimates.

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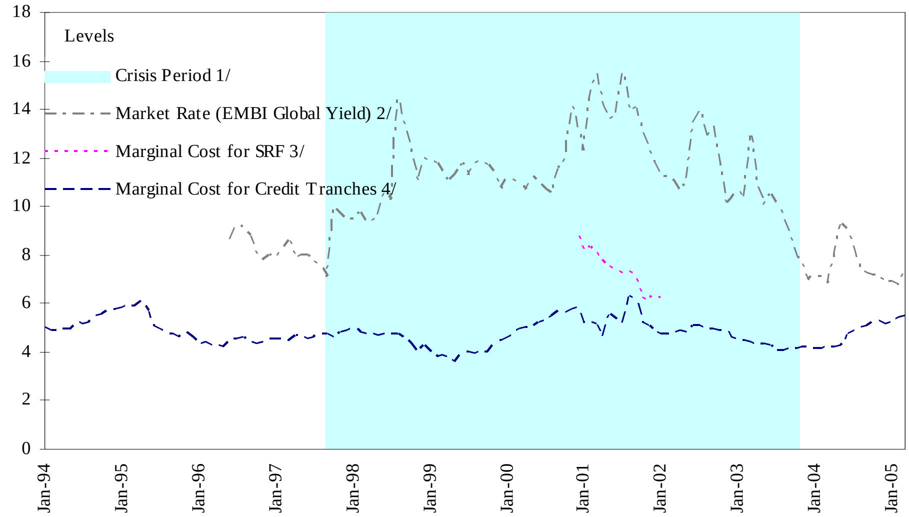
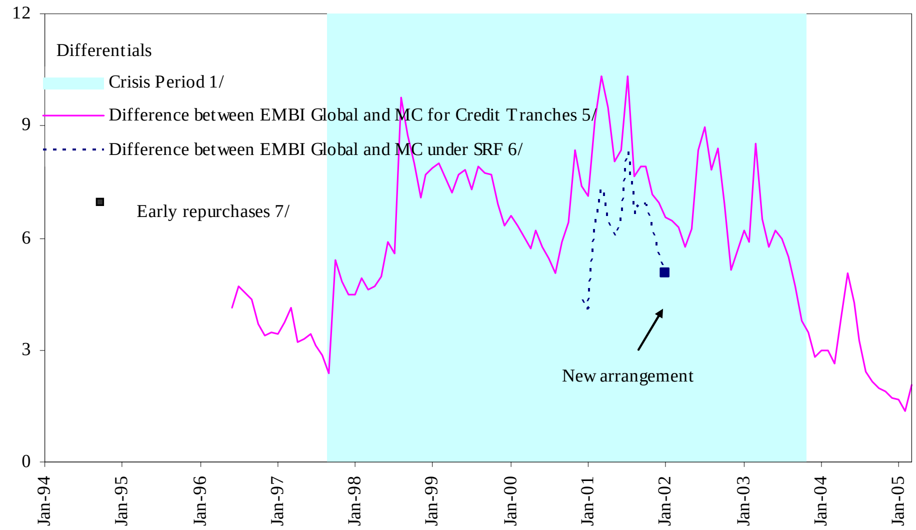
3/ Defined as the highest level-based surcharge rate applicable plus the adjusted rate of charge. Access is calculated on the basis of non-SRF outstanding credit.
4/ Represents the difference between J. P. Morgan's EMBI Global yield and the marginal cost of Fund credit in the credit tranches. Marked dots indicate early repurchases.
5/ Marked dot on the credit tranches line indicates early repurchases of credit tranches resources.

Figure A8. Turkey: Market Rate and
Marginal Cost of Fund Credit, January 1994-March 2005





Source: J. P. Morgan, Finance Department, and staff estimates.

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4/ Defined as the highest level-based surcharge rate applicable plus the adjusted rate of charge. Access is calculated on the basis of non-SRF outstanding credit.

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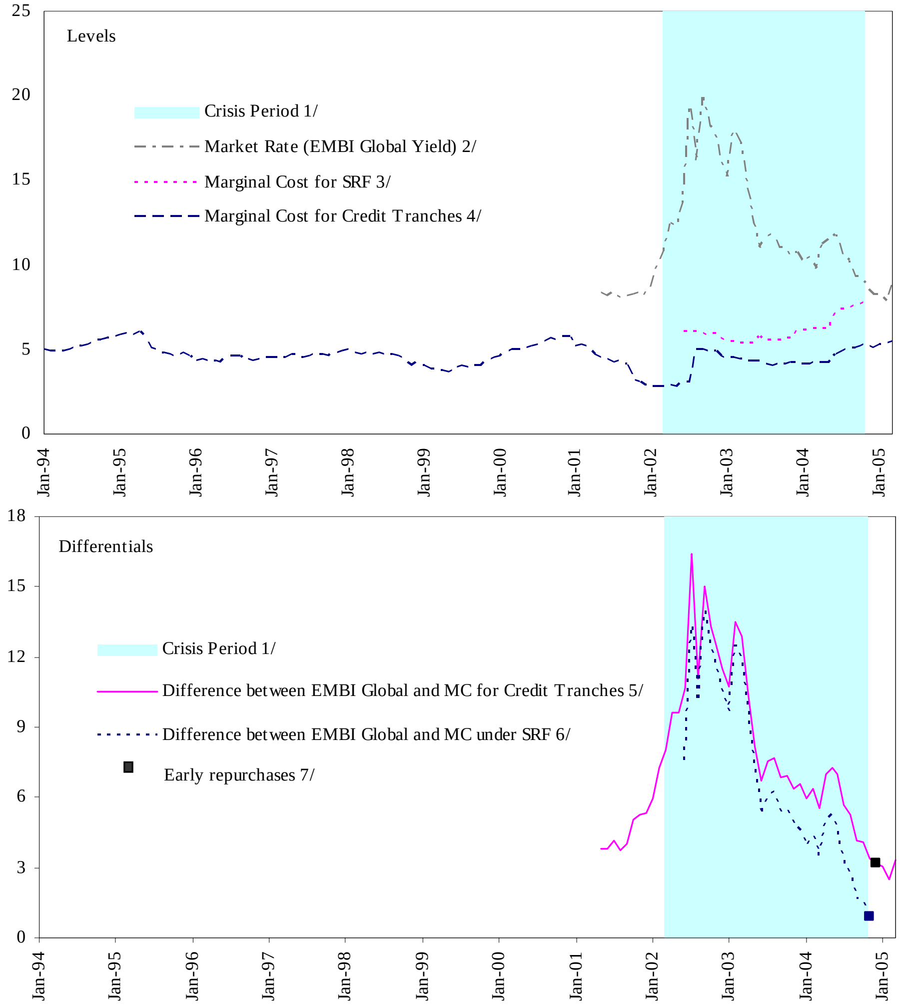
6/ Represents the difference between J. P. Morgan's EMBI Global yield and the marginal cost of Fund credit under SRF terms. Reported only for periods with outstanding SRF resources.

7/ Marked dots on the credit tranches and SRF lines indicate early repurchases of credit tranches and SRF resources, respectively.

Figure A9. Uruguay: Market Rate and
Marginal Cost of Fund Credit, January 1994-March 2005



Source: J. P. Morgan, Finance Department, and staff estimates.

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7/ Marked dots on the credit tranches and SRF lines indicate early repurchases of credit tranches and SRF resources, respectively.