INTERNATIONAL MONETARY FUND

Seminar on Regional Financial Safety Nets—Background Information on Participating RFAs

Friday, October 8, 2010, 12 noon to 2:15 p.m.

I. Arab Monetary Fund (AMF)

Establishment: The AMF was established in 1976

Purpose: Correct balance-of-payments disequilibria, support the implementation of structural reforms in the financial and banking sector as well as in public finance sector, promote exchange rate stability, eliminate trade restrictions, promote the development of capital markets, and develop policy coordination.

Members: Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, West Bank and Gaza, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, UAE, Yemen

Resources: The paid-up capital of the AMF is $2.7bn. The AMF may borrow from member countries, Arab and foreign monetary and financial institutions and markets and can issue securities.

Lending instruments: The AMF has six lending facilities. The automatic loan is an unconditional facility with access up to 75 percent of the member's paid-in capital in convertible currencies. The Ordinary Loan offers pashed access up to 100 percent of paid-in capital and must be accompanied by an IMF program. The Extended Loan is provided to countries suffering chronic balance-of-payments deficits arising from structural imbalances (access up to 175 percent of paid-in capital). The Compensatory Loan is designed for unanticipated balance-of-payments needs resulting from a shortfall in exports or an increase in the value of agricultural imports (access up to 50 percent of paid-in capital). The Structural Adjustment Facility supports structural reforms in the financial sector and public finance sector (access up to 175 percent of paid-in capital for each sector). The short-term liquidity facility aims at assisting members with a good track record of structural reforms that face temporary shortfall in liquidity due to developments in the international financial markets. Access to this facility is up to 100 percent of the member's quota.

Recent activity; The AMF extended five loans in 2009. Three structural loans were granted to Jordan, Morocco, and Mauritania with a combined value of $314mn. An automatic loan and a compensatory loan were extended to Jordan and Morocco respectively (combined value of $134mn.

IMF role: The AMF's institutional set up does not envisage an explicit role for the IMF.

Governance: The Executive Board is composed of the chairman and eight members elected by the Board of Governors. A two-third majority is required for a quorum.

II. The Chiang-Mai Initiative (CMI)

Establishment. The ASEAN+3 Finance Ministers agreed to launch the CMI in May 2000. The CMI initially consisted of a network of bilateral swap arrangements subject to a common basic framework of terms and conditions. With a view to facilitating prompt transactions by establishing a common decision-making process, the ASEAN+3. Finance Ministers and Central Bank Governors and the Monetary Authority of Hong Kong SAR announced, on December 28, 2009, that they had signed a single contract called the CMI Multilateralisation Agreement. The agreement has become effective on March 24, 2010.

Purpose. The CMI aims to address short-term liquidity and balance of payments difficulties in the region and to supplement the existing multilateral financial arrangements.

Members. Brunei Darussalam, Cambodia, China, Indonesia, Japan, Republic of Korea, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

Resources. The aggregate gross amount of commitments is US$120 billion. Members commit to provide financial support within the agreed amount of contribution. Funds are transferred from the central banks/monetary authorities only when a request for drawing is made.

Lending instruments. Members are entitled to swap their local currencies with US dollars up to a multiple of their contributions to the scheme. The 90-day swaps can be renewed up to seven times (approximately two years).

Recent activity. No drawing has been made.

IMF role in lending operations. The first 20 percent of the amount disbursable to each member does not require an IMF supported program, while the drawing of remaining 80 percent is conditional on the existence of an IMF-supported program.

Governance. Decisions on drawings will be made by a two-third majority at the Executive Level Decision-Making Body consisting of deputy level representatives of the ASEAN+3 Finance Ministries and Central Banks and the Monetary Authority of Hong Kong SAR. The voting power is distributed to members according to the amount of contribution, supplemented by basic votes allocated equally[1]. Two countries (one from the ASEAN countries and the other from China, Japan, and Korea) will be appointed to coordinate the activation process when a request for drawing is made.

[1] Fundamental issues, such as the total size, the amount of contribution from each party, are decided by unanimity of the ASEAN+3 Finance Ministers.

III. European Union (EU)

There are three main formal vehicles for channeling financial assistance to EU countries: the Balance of Payments Assistance Facility; the European Financial Stabilisation Mechanism (EFSM) and the European Financial Stability Facility (EFSF). In addition, Eurozone members have recently provided bilateral financial assistance to Greece jointly with the IMF.

Balance-of-Payments (BoP) Assistance Facility

Establishment. The BoP assistance facility was introduced by Council Regulation (EC) No. 332/2002 of 18 February 2002, replacing an earlier single facility providing medium-term financial assistance for Member States´ balance of payments established in 1988.[2]

Purpose. The facility aims at providing mutual assistance to a member state in difficulties or seriously threatened with difficulties as regards its balance of payments.

Members. Access under the facility is restricted to EU member states that have not adopted the euro: Bulgaria, Czech Republic, Denmark, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Sweden, and the United Kingdom.

Resources. The total outstanding amount of loans is limited to €50 billion in principal. The funds are raised by the European Commission (EC) on behalf of the EU on international capital markets.

Lending instruments. Amount, average duration (normally about five years), and disbursement terms of a loan or appropriate financing facility are decided by the Council, including based on funding conditions. The terms of the loan as well as the economic program, identifying the economic policy conditions aiming to re-establish a sustainable balance of payments situation, are presented in a Memorandum of Understanding (MoU) and Loan Agreement.

Recent activity. Three joint EU/IMF-supported programs, in Hungary, Latvia, and Romania, have been approved to date for a total financial assistance of €47.5 billion, of which €14.6 under the BoP facility.

Country	Total assistance / of which EU	Period covered by EU assistance	Status of the program (as of June 2010)
Hungary	€ 20.0 bn / € 6.5 bn	Until November 2010	Quasi-precautionary (the authorities decide on a case by case basis whether to draw)
Latvia	€ 7.5 bn / € 3.1 bn	Until January 2012	Active (disbursements continue), although part of bilateral funding will be treated as credit lines
Romania	€ 20.0 bn / € 5.0 bn	Until May 2012	Active (disbursements continue)

IMF role in lending operations. Although the BoP facility framework allows providing loans solely by the EU, recent assistance has been extended in close co-operation with the IMF and other international institutions or countries. In particular, the EU has been developing guidelines on its cooperation with the IMF (ECFIN/G/C ARES(2009) 365646 (REV)), to ensure consistent policy advice in the context of joint EU/IMF-supported programs, via extensive exchange of views and information as well as synchronization of program reviews and disbursements.

[2] Council Regulation (EEC) No. 1969/88, merging medium-term financial assistance (set up in 1972, Decision 71/143/EEC) and a Community loan mechanism (set up in 1981, Regulation (EEC) No 682/81) into a single facility for medium-term financial support.

European Financial Stabilization Mechanism ***(EFSM)***

Establishment. The EFSM was established on May 10, 2010 by the Ecofin Council, and will be reviewed every six months.

Purpose. The EFSM aims to provide external financial assistance to a member state experiencing, or seriously threatened with, a severe economic and financial disturbance caused by exceptional circumstances beyond such member states' control.

Members. All EU members: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom.

Resources. Funding is obtained by issuing own instruments in euro. The maximum financing capacity of the EFSM is €60 billion and is backed by an EU budget guarantee.

Lending instruments. Amount, average duration (normally about five years), and disbursement terms of a loan or credit line are decided by the Council, based on funding conditions. The terms of the loan as well as the economic program, identifying the economic policy conditions attached to the medium-term financial assistance with a view to re-establishing a sound economic or financial situation in the beneficiary Member State and to restoring its capacity to finance itself on the financial markets, are presented in the Memorandum of Understanding (MoU) and the Loan Agreement.

Recent activity. There has been no activity to date.

IMF role in lending operations. While legally the EFSM allows financing solely by the EU, the ECOFIN Council has explicitly stated that activation would only be in the context of a joint EU/IMF program.

Governance. Financial assistance will be granted by a decision by the Council, acting by a qualified majority on a proposal from the Commission. Policy conditionality will be defined by the Commission in consultation with the European Central Bank (ECB) and spelled out in a MoU. The Commission is delegated the authority to monitor the program and approve disbursements.

European Financial Stability Facility ***(EFSF)***

Establishment. The EFSF framework was established on June 7, 2010 following a decision of the 16 euro area Member States on May 10, and became fully operational on August 4, 2010. The EFSF is a temporary facility that can engage in new support programs until June 30th 2013. In case of a financial operation, the EFSF would continue to exist until its last financial obligation has been fully repaid.

Purpose. The EFSF's objective is to preserve financial stability of Europe's monetary union by providing temporary assistance to euro-area member states in difficulties, i.e., unable to borrow on markets at acceptable rates, caused by exceptional circumstances beyond such member states' control.

Members. All euro-area member states; Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovak Republic, Slovenia, and Spain.

Resources. Funding is obtained by issuing own debt instruments or by entering into other financing arrangements with financial and monetary institutions. Guarantees by Euro-area member states to the EFSF are on a pro rata basis, in accordance with their share in the paid-up capital of the European Central Bank (ECB), and total €440 billion.

Lending instruments: Funding instruments under the EFSF are expected to have the same financial profile as the related loans but the guarantors may permit EFSF to use a degree of funding flexibility as regards the currency, timing, interest rate base and maturity of the funding instruments. A margin will be applied to each loan to provide remuneration to the member states offering the guarantee. An upfront service fee of 50 basis points is levied on borrowers. No access limits are set for loans to individual members, with access based on the member's financing need. Access under the facilities is subject to agreement on a memorandum of understanding (MoU) between the member state and the EC containing policy conditionality.

Recent activity. There has been no activity to date.

IMF role in lending operations. The framework agreement establishes that financial support by the EFSF is to be provided in conjunction with the Fund and subject to conditionality set out in a MoU negotiated in liaison with the IMF and the ECB.

Governance. Key decisions under the EFSF Framework agreement are reserved to euro-area member states and generally require unanimity, including the decision to approve loan facility agreements and disbursements under such agreements. The EFSF board of directors consists of representatives of all the shareholders with votes proportional to their contribution shares to the EFSF. The EC has delegated authority to negotiate MoUs with borrowers and to monitor implementation of policy programs.

Cooperation Framework for Greece Program

Bilateral loans to Greece, centrally pooled by the EC, for a total of €110 billion (€30 billion of which provided by the IMF) were approved on May 9, 2010.

The economic adjustment program for Greece is the result of close cooperation between the IMF, the European Commission, and the ECB, which focuses on three key areas:

Program design. Program discussions were conducted on a quadrilateral basis between the authorities and the EC, the ECB and the IMF, resulting in a unified and consistent set of macroeconomic and structural policy parameters. These are set out in the Memorandum of Economic and Financial Policies (MEFP) of the IMF and the MEFP/MoU of the EC. The MEFP focuses on macroeconomic policies and selected structural measures, while the MoU covers the full structural reform agenda agreed between the authorities and the EC.

Program monitoring. Conditionality for IMF Board reviews is based on a standard quarterly framework of performance criteria and structural benchmarks. For the EC, conditionality is based on an overall assessment of progress against the structural agenda in the MoU as well as the macroeconomic targets. The EC conducts this assessment in liaison with the ECB, and then makes a recommendation to the Euro Group committee of finance ministers, to approve disbursements. Conditionality for both the IMF and EC is set on the basis of end-quarter targets, with joint review missions consisting of IMF, EC and ECB staff.

Financing arrangements. Bilateral support is provided by the 15 other euro area member states, in ratio to their shares in the ECB capital. The loans are governed by a single loan facility agreement between Greece and euro-area member states, signed by the EC on their behalf, covering the full three years of the program. The loans have the same maturities as the IMF purchases, and will carry floating rate interest rates (3-month Euribor) plus a spread of 300 basis points, rising to 400 basis points for amounts outstanding beyond three years. Each drawing is subject to a one-off service charge of 50 basis points. Greece has undertaken to draw on the IMF and EC facilities in a constant 3:8 ratio throughout the program period.

IV. Latin American Reserve Fund (FLAR)

Establishment. The Andean Reserve Fund (FAR) was established in 1978, and in 1989 it was transformed into the Latin American Reserve Fund (FLAR) to allow membership from all Latin American countries.

Purpose. Support member countries' balance of payments through credit and guarantees. Improve the conditions of international reserve investments by members. Contribute to the harmonization of members' exchange rate, monetary, and financial policies.

Members. Bolivia, Colombia, Ecuador, Costa Rica, Peru, Uruguay, and Venezuela.

Resources. The subscribed capital is $2.34bn. As of September 2010, the paid-in capital is $1.86bn. Members can borrow up to 250 percent of their paid-in capital contribution, except for Bolivia and Ecuador that have a cap at 260 percent. FLAR has an AA Composite credit rating (Standard & Poor's, AA/A1+; and Moody's, Aa2/P1), the highest rating in Latin America.

Lending instruments. The FLAR has five types of lending instruments: balance of payments credit (3-year term, 1-year grace, access up to 2.5 times paid-in capital), foreign debt restructuring of central banks (3-year term, 1-year grace, access up to 1.5 times paid-in capital), liquidity credit (up to one year and 1 time the paid-in capital), contingent credit (up to six months, renewable, and twice the paid-in capital), and treasury credit (up to 30 days and twice the paid-in capital).[3] The interest rate attached to these facilities is a spread of 150-400bps over the 3-month LIBOR. Credit is not subject to specific conditionality, although countries applying for a loan are expected to explain the policies they intend to implement to correct any maladjustment.

Other services provided by FLAR comprise asset management, term deposits, short-term notes (FLARFIX), compliance and risk measurements of investment portfolios, training, and seminars. As of December 31, 2009, FLAR had deposits for $937 million; managed assets and trusts for $162 million; and provided advice, operations, risk measurement and control, and financial and legal services for $453 million.

Recent activity. $480mn balance of payments loan to Ecuador in 2009. Historically, FLAR has been relevant for its member countries, especially those of smaller relative size.

IMF role in lending operations. FLAR's institutional set up does not envisage an explicit role for the IMF.

Governance. Each member country has the same voting power (one vote) irrespective of their paid-in capital. Decisions are made by a three quarter majority.

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[3] In the case of balance of payments, foreign debt restructuring of central banks, liquidity and contingent loans, the central banks of Bolivia and Ecuador can obtain 0.1 times more than other member countries.

Illustrative Access Levels under Different RFAs

	Contribution	Maximum access	
	USD million	USD million	% IMF quota
AMF 1/	**2722**		
Algeria	353	612	32
Bahrain	42	72	35
Comoros	2	4	26
Djibouti	2	4	15
Egypt	267	463	32
Iraq	353	612	34
Jordan	45	78	30
Kuwait	267	463	22
Lebanon	42	72	24
Libya	112	195	11
Mauritania	42	72	74
Morocco	125	217	24
Oman	42	72	25
Palestine	18	0	0
Qatar	83	144	36
Saudi Arabia	403	700	7
Somalia	33	58	86
Sudan	83	144	56
Syria	60	105	24
Tunisia	58	101	23
UAE	160	278	30
CMIM	**120000**		…
Brunei	30	150	46
Cambodia	120	600	455
Indonesia	4552	11380	363
Lao PDR	30	150	188
Malaysia	4552	11380	508
Myanmar	60	300	77
Philippines	4552	11380	858
Singapore	4552	11380	875
Thailand	4552	11380	698
Vietnam	1000	5000	1007
China	34200	17100	156
Hong Kong SAR	4200	2100	…
Japan	38400	19200	96
Korea	38400	19200	435
FLAR 2/	**2344**		…
Bolivia	234	501	186
Colombia	469	964	83
Costa Rica	234	482	196
Ecuador	234	501	105
Perú	469	964	100
Uruguay	234	325	70
Venezuela	469	964	24

Illustrative Access Levels under Different RFAs

	Contribution	Maximum access	
	EUR million	EUR million	% IMF quota
European Union 3/ (EFSF)	**440000**	…	…
Belgium	15292	…	…
Germany	119390	…	…
Ireland	7002	…	…
Spain	52353	…	…
France	89657	…	…
Italy	78785	…	…
Cyrpus	863	…	…
Luxembourg	1001	…	…
Malta	398	…	…
Netherlands	25144	…	…
Austria	12241	…	…
Portugal	11035	…	…
Slovenia	2073	…	…
Slovakia	4372	…	…
Finland	7905	…	…
Greece	12388	…	…

1/ In accordance with the Board of Governors' Resolution No. (3) of 2005, a transfer from general reserve was made to cover additional subscriptions. Payment of Palestine's share was deferred by the Board of Governors' Resolution No. (7) of 1978. Capital contribution can be supplemented by borrowing. Maximum access assumes access at 1.75 times paid-in capital in convertible currencies.

2/ Capital contribution can be supplemented by borrowing. Maximum access assumes access at 2.5 times paid-in capital under the balance of payments credit facility.

3/ The nominal value of guarantees is EUR 440bn but credit capacity would be somewhat lower. No access limits have been set under the EFSF