INTERNATIONAL MONETARY FUND

Review of the Fund's Financing Role in Member Countries
Background Paper on Proposals for a Rapid Access Line, a Financial Stability Line, and Rapid Liquidity Line

Prepared by the Strategy, Policy, and Review Department

In consultation with other departments

Approved by Reza Moghadam

September 10, 2008

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I. Introduction

1. **There is long-standing interest to create a contingent liquidity instrument in the Fund to help members strengthen their defenses against capital account shocks.** The Executive Board has discussed the potential design of such an instrument on several occasions since the Contingent Credit Lines (CCL) expired in late 2003. Most Executive Directors, though not all, agree that a well-designed liquidity instrument, by reducing the risk of crisis, would benefit members and the financial system as a whole, and would allow members to rely less on costly self-insurance.[1]

2. **There is also broad agreement on key design aspects of such an instrument.** Executive Directors have emphasized the following features: To provide meaningful protection against capital account shocks, the instrument should reinforce strong policies and offer substantial financing that can be drawn immediately in the event of a crisis. To be attractive to potential users, the instrument should be designed to minimize the risk of negative signals. To limit the risks to the Fund, the instrument should be available only to members that meet a strong qualification framework so that the use of the instrument would be limited to members with sound fundamentals and policies, including policies that will reduce remaining vulnerability to capital account crisis.

3. **Progress toward agreeing on a new instrument has been slow, however, for a number of reasons.** There is concern about creating an instrument that might go unused (as was the case with the CCL), and potential users have not yet rallied around a particular design. In informal discussions over the past year some members have indicated potential interest in using a new liquidity instrument. These members' interests were prompted by various concerns, including about potential spillover from the global financial turmoil or from regional instability, domestic political risks, and vulnerabilities related to capital account liberalization. In the end, however, these discussions did not go very far, mainly because of first mover concerns, the perceived political risk of engaging with the Fund, the uncertainty over the final design of the instrument, and unease over certain design aspects, including the terms.

4. **This Supplement presents a factual summary of three design proposals for a new liquidity instrument: the Rapid Access Line (RAL), the Financial Stability Line (FSL), and the Rapid Liquidity Line (RLL).** The RAL, developed by Fund staff, draws on the

[1] See, Further Consideration of a New Liquidity Instrument for Market Access Countries—Design Issues, February 13, 2007; Consideration of a New Liquidity Instrument for Market Access Countries, August 3, 2006; Crisis Prevention and Precautionary Arrangements—Status Report, September 3, 2004; Completion of the Review of Contingent Credit Lines and Consideration of Some Possible Alternatives, November 12, 2003; Adapting Precautionary Arrangements for Crisis Prevention, June 11, 2003; and Review of Contingent Credit Lines, February 11, 2003.

2006 and 2007 Board discussions.[2] The FSL has been proposed more recently by Executive Directors Bakker and Warjiyo. The RLL has been proposed even more recently by Executive Director Nogueira-Batista and Senior Advisor to the Executive Director Mori. The RAL is described in Section II, the FSL in Section III, and the RLL in Section IV. The paper concludes with a brief factual comparison of the proposals (Section V).

II. Rapid Access Line

A. Objectives

5. **The RAL would be intended to help members with access to capital markets reduce the risk of being hit by a capital account shock.** Such a shock could stem from contagion, existing balance sheet or other vulnerabilities that the member is seeking to reduce, or from vulnerabilities that arise as the member becomes more deeply integrated into world financial markets. The RAL would reduce the risk of capital account crisis by (i) reinforcing the member's own strong policies to maintain macroeconomic stability and reduce vulnerability to crisis, (ii) providing a strong endorsement of the member's policies (and hence send a powerful signal to markets), and (iii) making substantial access available up front to reduce incentives for investors to run for the exit at the first signs of problems.

6. **The RAL would be relevant for market access members, a broad term that covers members that are well integrated or in the process of becoming more integrated into global capital markets.** With substantial access available upfront, the RAL would be meaningful to members that are exposed to (but unlikely to experience) a sudden loss of market access that would give rise to exceptional balance of payments need. Members can be in different stages of integration into global capital markets and have such exposure. Members who already are highly integrated might find the RAL useful as they seek to reduce balance sheet or other vulnerabilities or as they seek to fortify their defenses against contagion. Members at an earlier stage of integration might find the RAL useful to mitigate emerging risks as they open up their economies further.

B. Design

Qualification framework

[2] The name was changed from the Reserve Augmentation Line used in the 2006 and 2007 papers in order to capture better a key aspect of the new instrument.

7. **To qualify for the RAL a member would have to meet the four criteria in Box 1.** In the 2007 Executive Board discussion there was broad support for these qualification criteria, and as elaborated in the staff paper. The member's request for a RAL would also need to be justified in light of the exceptional access criteria.

8. **The assessment of these criteria would be informed by quantitative analysis but would inevitably have to involve judgment.** The assessment would rely on the judgment of staff, management, and the Executive Board, and it would be informed by the findings of bilateral and multilateral surveillance, and the Fund's vulnerability exercise.

Box 1. The Four Qualification Criteria under the RAL

1—No balance of payments need. At the time of approval, the member is not expected to need to use Fund resources. Members using other exceptional balance of payments financing would not qualify.

2—Good policies. The member has pursued and remains committed to strong macroeconomic management and to policies directed at reducing remaining vulnerabilities, as needed, including as they relate to balance sheets and the financial sector, giving confidence that the member will react appropriately in the event of crisis. These policies are described in a forward-looking economic and financial program prepared by the member that would include a quantified framework for the period covered by the RAL.

3—Sustainable debt. A rigorous debt sustainability analysis should indicate a high probability that the debt will remain sustainable. This analysis would cover both the evolution of the level of debt and the rollover and financing requirements under various scenarios and stress tests, and would need to provide reasonable assurances that the debt will remain sustainable even in the event of a crisis of the sort that could lead to a drawing under the RAL.

4—Transparency. The member has demonstrated a commitment to transparent reporting of economic data. The member should have subscribed to the Special Data Dissemination Standard (SDDS) or, in cases where the member has not subscribed, should be judged to be making satisfactory progress toward observing the SDDS requirements. The member should also be working to meet the standards set by the codes of transparency in the areas of fiscal and monetary and financial policies. Finally, the member should also have indicated its intention to publish promptly all related staff reports, along with its forward-looking economic and financial program.

9. **The Fund would undertake a qualification assessment only at the request of the member.** A member can make such a request at any time, including during the Article IV consultation. There would be no automatic qualification assessment in the context of Article IV, but the consultation would provide one low-key opportunity to discuss a RAL.

10. **The process for requesting a RAL arrangement would be designed to reduce the risk of transmitting negative signals.** Once an initial, confidential, expression of interest is received from the member, staff would make a preliminary assessment of the four qualification criteria and the member's policy plan. If management decides there is a basis for

moving forward, it would consult promptly with the Executive Directors in an informal meeting, as required under the exceptional access procedures. Staff would provide Executive Directors with a short note setting out as fully as possible the case for a RAL. Formal Board consideration of the member's request would be based on a forward-looking policy document from the authorities and a staff report that assesses the member's qualification. The authorities' policy document, would be an elaboration of policies already in place or well underway. It would set out the objectives of maintaining macroeconomic stability, debt sustainability, and reducing vulnerability to capital account crisis, along with a policy plan and targets to achieve them.

Monitoring framework

11. **Under the RAL, monitoring would be mainly in the form of scheduled six-monthly Board reviews.** The RAL would not include performance criteria (except the standard criteria on exchange and trade restrictions). Instead, six-monthly reviews would assess if the member is implementing its program successfully and adjusting policies appropriately to significant economic changes, with a sharp focus on the objectives of macroeconomic stability, debt sustainability, and reduction in vulnerabilities. The authorities' policy document would include a focused set of quantitative indicators and, in some cases, structural milestones, to guide the reviews. Reviews would be completed absent a material deterioration in policies or circumstances that would require a change in policies beyond what the authorities are undertaking or have concrete plans to undertake.

12. **The six-monthly reviews could be conducted in a low-key way**. Since the reviews are scheduled and hence known they would not be a surprise to the public and markets. And the reviews would not necessarily involve additional visits by Fund staff—many countries already receive two Fund missions a year.

13. **To give additional protection to the Fund in between the reviews, the RAL arrangement could include a safeguards-clause for the event of important political changes.** This "political change"-clause, a deviation from the Fund's general approach, could be justified by the RAL's high access that is available upfront and less intensive monitoring. Although a change in government does not inevitably or quickly lead to a major redirection of economic policy, it is nonetheless true that elections, or political change, can create uncertainty about the future direction of policies that can be destabilizing. For this reason, some members might find a RAL arrangement especially helpful during possible political transitions. Under this clause, in the event of a change in government, the member would be required to provide a written communication to the Managing Director expressing its commitment to the RAL-arrangement's objectives and policies. (Traditionally, the Fund receives such confirmation of commitment to the program at the time of a program review.)

Access

14. **The July 2007 staff note proposed access of 500 percent of quota, all of which could be drawn (in one purchase) so long as the program is on track.** This proposed access is higher than the 300 percent discussed in March 2007. The increase is an attempt to make the RAL, with adequate safeguards to the Fund, more relevant to members' potential needs in light of the relative decline in members' quotas. Still, the proposed access is likely to be less than the balance of payments need in an actual crisis. In any case, as with all Fund financing, a member's drawing of RAL resources could not exceed its actual balance of payments need.

15. **The level of access could be predetermined (500 percent of quota) for all RAL arrangements, or decided on a case-by-case basis within a range (say 300-500 percent).** There are good arguments for either structure. A fixed amount of access for all users, as opposed to a range, avoids the difficulty of justifying different access levels on the basis of elusive estimates of potential balance of payments need. It also avoids the risk of unclear signals. For instance, higher access within the range could be seen as a sign of larger balance of payments vulnerability or as a stronger signal of support from the Fund. On the other hand, a range would be less rigid than a one-size-fits all level of access, and it could be awkward to deny a member's request for a lower level of access.

16. **The member could only make a purchase in the event of a capital account crisis that gives rise to an exceptional balance of payments need.** Specifically, the member would have to experience 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. This is the same type of balance of payments need currently covered by the Supplemental Reserve Facility (SRF).

17. **If the member draws, the RAL arrangement would expire, even if the member draws less than the full amount available.** Any further financial support would have to be requested under a new arrangement.

Terms

18. **RAL resources would be subject to the commitment fee that is applied to all arrangements using general resources.** The fee is 25 basis points a year on the first 100 percent of quota in access and 10 basis points on amounts above this level. For a RAL with 500 percent of quota the fee would therefore be 13 basis points a year.

19. **Purchases under the RAL would be subject to charges, surcharges and short repurchase periods.** The terms should be consistent with the type of balance of payments need a qualifying member would be expected to experience and that access would be exceptional. Previous staff papers considered that the RAL could be established to draw resources through the SRF, but the RAL could also be separate if the SRF were abolished.

Other design issues

20. **A RAL arrangement could be between one and two years long.** The flexibility in the length would facilitate aligning the arrangement period with the member's budget year or other relevant periods. RAL arrangements less than two years could be extended up to a maximum of two years. Successor RALs would not be discouraged.

21. **A drawing under the RAL would prompt a post-drawing informal Board meeting** The emphasis is on having the meeting quickly after the purchase to discuss the circumstances of the purchase and the authorities' policy response; a staff visit to the country would not be expected to have taken place. As the meeting would be informal, no Board decision would be adopted and there would not be a summing up.

C. Concluding Comments

22. **The design of a new contingent instrument involves an irreducible tradeoff between being attractive to potential users and providing adequate safeguards to the Fund.** In the end, the RAL can only be a successful instrument if there is a good deal of trust between the Fund and the member. It is not possible to codify all possible contingencies, and a design loaded with provisions and clauses would make the RAL unattractive and thus ineffective. Rather, the Fund needs to trust that the qualifying member will implement its program and be confident that, if a crisis hits, the member will take appropriate policy measures. This trust would be based on the assessment of the strength of the qualifying member's policies and its past record in adopting and implementing appropriate policy changes. The member for its part needs to trust the Fund that it will make financing available and not shift goal posts at the time of reviews. This trust would be enhanced by the proposed design of the monitoring framework.

III. Financial Stability Line

(Provided by Executive Directors Bakker and Warjiyo on May 22, 2008)

Developing a Proposal for Establishing a Financial Stability Line

Introduction

In the Executive Board meeting on the Work program in December 2007 we asked the Managing Director to consider the establishment of a Financial Stability Line. Due to the heavy workload the issue has till now not been brought forward. However, the IMFC has given a strong impetus to bring forward a crisis prevention mechanism.

It is our understanding that the original proposal for a RAL has not attracted the sufficient interest of the membership as it carried the negative stigma that only vulnerable countries would ask for the RAL. This in turn might send a negative signal to markets and would discourage other members to use the RAL facility. Another weak point mentioned during the discussion of RAL design was the unaddressed problem of the first mover.

Our proposal takes a different approach by suggesting an insurance line to protect against financial disturbance, the Financial Stability Line, for countries which follow sound macroeconomic policies and which are in the process of integrating in the international financial markets and/or strengthening their regulatory and supervisory frameworks. The facility will be open to all economies that are opening up their capital accounts and/or developing their domestic financial markets, thus limiting the scope for misinterpretation by the markets of the prospects for new users based on the performance of the previous users of the facility. Moreover, the facility could provide some assurance for market participants against unwarranted policy reversals in capital account liberalization.

In this memorandum we will describe the main design features of the Financial Stability Line.

Objective

The FSL is a crisis prevention instrument, which seeks to complement the existing mechanisms of Fund financing to members and maintain the relevance of the Fund to the new challenges of the global financial system. All members integrating in the international financial system would be eligible to qualify for the FSL, no matter whether they are a developing, emerging or advanced economy.

The FSL (i) reinforces strong macroeconomic policies; (ii) encourages further development of financial institutions and markets and their regulation and supervision; (iii) facilitates the liberalization and integration of members' financial sector into the global financial system; and (iv) reduces the need for self-insurance or regional pooling of resources, thereby complementing regional arrangements while underscoring the multilateral spirit of the Fund. To that end, the FSL is designed to provide short-term financing to members in the event of a short-term

liquidity need arising from financial stability crises, triggered by adverse developments in international financial markets beyond their control.

Proposed Design Features

Qualification Framework

- The qualification criteria for the FSL are as follows:

  (1) A track record of sound and prudent macroeconomic policies, supported by a satisfactory level of transparency in reporting economic data and a commitment to publish Article IV reports. The macroeconomic policy mix would need to be consistent with the exchange rate regime chosen by the country. A debt sustainability analysis would indicate that the country would be able to use the FSL.

  (2) A sequenced roadmap, either already in place or well underway, of strengthening the regulatory and supervisory framework, developing domestic financial markets and gradually liberalizing the capital accounts. An integral part of the road map will be that an FSAP will be carried out, and, if already finalized, that there is a concrete follow-up to its recommendations.

Mechanism

- At the end of each Article IV Consultation, subject to the agreement of the authorities, staff will include a statement that based on their assessment, the country would qualify for FSL if it wishes to avail itself of the credit line. If a country does not qualify, this would not be mentioned in the Article IV Consultation report, i.e. this is a positive-list approach.

- The credit line would be automatically available for all countries which have indicated at the conclusion of the Article IV Consultation that they wish to be eligible for the FSL. Such eligibility will become effective after conclusion of the article IV Consultation in the Executive Board and will remain valid for a period of 12 months or up to the conclusion of the next Article IV Consultation, whichever is the shorter period.

Monitoring Framework

- Monitoring would be conducted in the context of regular surveillance during Article IV Consultations and staff visits. Staff would make an assessment whether the member is, or continues to be, eligible for the FSL. The judgment whether the member is adjusting policies appropriately without recourse to exchange, trade and capital account restrictions in response to changing circumstances is expected to be made by the Board in the context of the Article IV discussion. For members that have qualified, there would be a presumption that a positive review would be prepared unless there has been

a material deterioration in policies or circumstances. In case of a flagrant departure from sound macroeconomic policies and the road map, the Board could reverse the qualification in between Article IV cycles.

Phasing

- Access would be automatic and front loaded. Members would have the right to draw on the FSL in case of vulnerability to a financial stability crisis. A drawing under the FSL would prompt an immediate post-drawing review. Any additional financing would be provided under the SRF or a SBA in the credit tranches, with phased drawings and a conditionality structure similar to that under existing arrangements. Failure to repay the Fund within the obligation schedule would require the member to sign up to a Fund program. As the eligibility for the FSL is based on completion of the road map, there would be no rolling-over in case of failure to follow the road map. If the member needs continued support, this would be under a Fund program.

Access Limits

- Access would be up to 500 percent of quota with no previous activation review by the Board. The Board would subsequently discuss the nature of the crisis and the policy responses taken. Terms of access (maturities, charges) should discourage excessive and/or prolonged use and should be cost-neutral for the Fund. In the same vein, the insurance provided by the FSL needs to be affordable: commitment fees should be kept at minimum, cost-recovering levels.

Conclusion

The basic idea of the FSL is that the IMF combines its policy advise on financial stability issues with a commitment to put liquidity at the disposal of members in case things would turn out wrong, for example caused by sudden volatility in global financial markets. The establishment of the FSL would foster the refocusing effort of the Fund, aimed at strengthening the Fund's involvement in promoting financial stability, by adding a liquidity instrument to its financing arrangements. Bringing the FSL under the Article IV/FSAP framework has the advantage of transparency and cost-effectiveness, while at the same time promoting an integrated surveillance of macro-economic and financial stability developments. The difference with regular arrangements would be threefold: it would have an insurance character, it would be specifically focused at countries that are integrating in the international financial markets, and it would be intended for countries which do not have balance-of-payments problems. As such the FSL would be available to a wider range of countries than the RAL.

IV. Rapid Liquidity Line

(Provided by Executive Director Nogueira Batista and Senior Advisor to Executive Director Mori on September 8, 2008)

New liquidity instrument: the Rapid Liquidity Line (RLL)
2nd Version, – September 7, 2008

We propose a new instrument to address the problem of capital outflows from member countries as a result of turbulences in global capital markets. The instrument, called the Rapid Liquidity Line (RLL), would be directed to countries integrated in international financial markets that follow basically sound economic policies. It would be a new credit line in the toolkit through which the Fund provides liquidity to countries in a situation of systemic crisis of a global or regional nature. The new line would provide large financing, more quickly and with no performance criteria, but policy actions, if necessary. The RLL builds on other ideas proposed in the past but tries to avoid some incentive problems implicit in them. This second version reflects, as well, conversations with and/or written comments from Board members, Staff and Management.

The qualification of member countries would be based on their track record in sound policy implementation, past response to crises and, for those that borrowed from the Fund, program compliance and repurchase on or before schedule. Bilateral (Article IV consultations and staff visits, for instance) and multilateral surveillance (World Economic Outlook and Global Financial Stability Reports, for instance) would be the key elements in the eligibility assessment. This requires a strengthening of current surveillance practices.

When creating the RLL, the IMF would define as precisely as possible the main elements of what would be considered a basically sound economic policy and macroeconomic framework, including fiscal discipline, adequate monetary and financial policies, control over inflation and the balance of payments, and sustainable external and public sector debts. The intention would be to allow the Fund to engage quickly with members pursuing adequate policies that no longer require the conditionality of traditional IMF arrangements.

The RLL differs from other proposals, as there would be no list of qualified countries. In this way, the problems of signaling stigma and moral hazard can be avoided. Only when a country is hit by a crisis may it seek the Fund's financial support under the RLL. The instrument would have no limit of access, with the Fund providing the needed resources to expedite the restoring of market access by the country. The RLL will serve to complement the existing web of crisis management frameworks among advanced economies.

Eligibility

The instruments to indicate whether member countries are qualified for accessing the RLL are the usual Fund surveillance exercises—bilateral and multilateral—but enhanced. Bilateral surveillance becomes the main device to assess whether a country is eligible or not for the RLL.

The assessment is made overtime, with each Article IV adding to the track record of a country. However, there would be no formal statement of eligibility during Article IV consultations.

The assessment would also take into consideration the record of countries in past programs including payments on or before scheduled time to the Fund.

All countries integrated in global financial markets would be eligible, including advanced economies that do not issue reserve currency.

The surveillance procedures have to be more rigorous than the current ones as they will be the main element for the Board, Management and Staff to decide whether a country can access or not the RLL. The current periodicity, with the annual Article IV and mid-cycle staff visits for most countries with access to capital markets, is sufficient to assess the developments in policies and in the economy of member countries.

In addition, multilateral surveillance, especially focused on major financial centers, becomes more relevant to evaluate developments in the supply side of capital flows. Multilateral surveillance has to analyze more carefully financial instabilities and their effects on capital recipient countries. This will be one of the key elements in deciding whether or not release resources from the Fund. Multilateral surveillance has, therefore, to be fully integrated with bilateral surveillance, looking at financial interrelations and channels of transmission of shocks.

When a country requests access to the RLL, staff would make an assessment and, on this basis, Management would put forward a recommendation for the Board to decide. The whole process would have to be strictly confidential.

Access

When a country is hit by a financial crisis and seeks the Fund's financial support, the access provided to an eligible country would be calculated according to its needs. This calculation would be based on the severity of the shock. Access would have no pre-determined limits. The amount provided would have to be sufficient to restore rapidly the access to markets. There would be policy adjustments if it were perceived that strengthening of domestic policies is necessary as a signaling device to restore market access.

The term of the loan will be based on past experience with similar shocks and the time necessary for the country to pay the Fund in full. The repayment period has varied between two and three years. Charges should initially be cost neutral to the Fund but, after a certain level of drawing and length of use, surcharges would be applied to discourage excessive and/or prolonged use.

Monitoring

After accessing the RLL, the country will be monitored, if needed, in a periodicity shorter than the half-yearly, in particular when some domestic policy adjustments are required in view of disequilibriums caused by the shock. There will be no performance criteria, but a simple check whether the appropriate policies have been implemented. The mid-cycle staff visits would generate a report to the Board.

Background

The way that major central banks have provided liquidity to deal with the recent turbulence in financial markets in advanced countries is an approach that can be applied in addressing future financial crises in emerging and developing countries that are integrated into international capital markets.

The advanced economies have been able to deal with the financial shock because their central banks can offer liquidity to the market. The support to the financial system as a whole or directed to some institutions has been provided by supplying liquid instruments in exchange for longer term, less liquid ones, as well as swaps in foreign exchange market to provide cross border liquidity.

Financial crises in emerging and developing countries very often have as a source cross border transactions. They are frequently the result of a reversal of capital flows triggered by events elsewhere, beyond the control of policy makers. In a globalized financial system with large cross border and highly leveraged operations, central banks in those countries face a practical constraint. They cannot act as a lender of last resort when they are exposed to a liquidity contraction in reserve currencies. The main preventive instrument available to them is the accumulation of international reserves. In a situation of severe shocks, however, such resources may be insufficient as they are limited to the level accumulated over time prior to the liquidity contraction.

In systemic or regional crises, these countries' access to external capital dries out considerably, as seen in past events, with damaging effects on the real economy. In the event of liquidity contraction of foreign currency for domestic agents or reduction of exposure by foreigners to an emerging or developing economy, the stress is felt through a reduction of foreign exchange hedging instruments in future markets, difficulties in refinancing short term debt, and falling prices of the country's external debt.

The provision of liquidity by the Fund will help to order expectations allowing a smooth adjustment by market participants and mitigating the rush to the exit. As crises in emerging market countries have had cross border transactions as an important cause, the RLL

could be designed to replicate the measures taken by major central banks in the ongoing financial crisis. The IMF would provide liquidity to countries going through a contraction in foreign currency supply, reinforcing their level of international reserves. Of course, foreign exchange crises may result from inconsistent domestic economic policies. The RLL would be designed to shelter from exogenous capital account shocks and contagion, but not from inadequate or reckless domestic economic policies.

The instrument is not an insurance type device such as the Rapid Access Line (RAL), where countries are identified ex-ante to their participation in the scheme. The RAL and other instruments that follow similar scheme present three problems:

> (i) moral hazard: the eligibility of a country may be interpreted as a confirmation that its economic fundamentals are strong, attested by the Fund, and therefore that the country is bound to have access to exceptional financing for contingencies. This may attract large capital inflows, in excess of the level justified by fundamentals;
>
> (ii) capital reversal: an eligible country could have its fundamentals deteriorate for domestic reasons and would be therefore disqualified from the list by the Fund. This event may generate large capital outflows, as a consequence of problem (i), and may therefore be disruptive; and
>
> (iii) the signaling stigma: the decision to access such a scheme can be seen as indicating the existence of a problem not perceived by market participants.

To avoid these problems, the RLL will not have a pre-qualification scheme, or a pre-program like the RAL. It is a special credit line for countries following broadly adequate policies that are hit by turbulences in global capital markets.

In sum, the RLL would present the following features:

Access limit: None. The resources made available would depend on a calculation of the size of the shock and the amounts needed to restore confidence.
Length: two to three years.
Terms: charges should initially be cost neutral to the Fund but, after a certain level of drawing and length of use, surcharges would be applied to discourage prolonged use.
Purpose: provide flexible instrument for countries with basically strong economic fundamentals.
Qualification framework: track record of essentially sound and prudent macroeconomic policies based on assessments made during Article IV and mid-cycle staff visits. No revelation whether the country is qualified. If the country is hit by a crisis, its track record is considered to establish whether it qualifies for the RLL.
Monitoring framework post-access: monitoring would be conducted half-yearly.

V. Concluding Commentary

23. **The RAL, FSL, and RLL share several design features**. All would be for members with sound policies. And none involves traditional conditionality structures (such as performance criteria); rather, they rely on qualification assessments and monitoring as the primary safeguards to the Fund's resources.

24. **But there are also differences, not just in design but also objectives.** The RAL and FSL are contingent liquidity instruments intended to help members reduce the risk of capital account crises, while the RLL would be for countries that are hit by turbulence in global capital markets. While not all design elements have been set out in detail, some of the other key differences are:

- **Eligibility.** The RAL, FSL and RLL would all have qualification frameworks to ensure they are used only by members with sound policies and fundamentals. The RAL and RLL would be for members that have already achieved a meaningful degree of integration into capital markets. The FSL on the other hand would be available to all qualifying members that have a sequenced roadmap, either already in place or well underway, of gradually liberalizing the capital accounts.

- **Policy reforms**. A member qualifying for a RAL would be in a position where it would not be expected to undertake any major policy adjustment or reform. The FSL on the other hand would be for members undertaking reforms to strengthening the regulatory and supervisory framework, developing domestic financial markets, and opening the capital account. The RLL would include policy adjustments if necessary as a signaling device to restore market access.

- **Circumstances for drawing and contagion**. A member could draw under the RAL in the event of 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 FSL resources would be available to draw in the event of a short-term liquidity need arising from financial stability crises, triggered by adverse developments in international financial markets beyond their control. A member could draw under the RLL if it experiences exogenous capital account shocks and contagion, but not because of inadequate or reckless domestic economic policies.

- **Monitoring**. The RAL would involve monitoring through six-monthly Board reviews (plus, possibly, a political change-clause and standard criteria on exchange and trade restrictions). The FSL would involve Board monitoring in the context of annual Article IV consultations but with the provision that, in case of a flagrant departure from sound macroeconomic policies and the reform road map, the Board could reverse the qualification in between Article IV cycles. A member accessing the RLL would be monitored, if needed in a periodicity shorter than half-yearly.