

FUND SUPPORT FOR TRADE-RELATED BALANCE OF PAYMENTS ADJUSTMENTS

Addendum

IMF Press Release No. 04/73

The following IMF Press Release on the Trade Integration Mechanism (TIM) is being circulated for the information of Members.

IMF EXECUTIVE BOARD APPROVES TRADE INTEGRATION MECHANISM

The Executive Board of the International Monetary Fund (IMF) has approved the Trade Integration Mechanism (TIM), which will allow the IMF to stand ready to provide resources, as necessary, to assist member countries in meeting balance of payments shortfalls that might result from multilateral trade liberalization. The TIM is not a new lending facility, but rather a policy aimed at making Fund resources more predictably available to qualifying member countries under existing IMF facilities.

The TIM is designed to mitigate concerns among some developing countries that their balance of payments positions could suffer, albeit temporarily, as multilateral liberalization changes their competitive position in world markets. Chief among these concerns is that broad-based tariff liberalization might erode the value of their preferential access to important export markets; that the phasing-out of quotas in world textiles trade at the end of 2004 would expose them to greater competition; or that the reduction in agricultural subsidies might result in adverse changes in their food terms of trade. Balance of payments shortfalls are unlikely to be large for most countries, and would eventually be dominated by the positive impact of more open trade. Nevertheless, they could be significant in the short run for some countries.

A qualifying member country may request consideration under the TIM if it expects a net balance of payments shortfall as a result of measures implemented by other countries that lead to more open and non-discriminatory market access for goods and services. The TIM does not cover balance of payments needs arising from reforms to a country's own trade regime. Domestic reforms and the supporting policy framework have been a standard part of Fund-supported programs and the IMF will continue to assist its member countries in this area, including through financing under the IMF's previously established policies.

Under the Trade Integration Mechanism, the IMF would:

- stand ready to discuss with qualifying countries facing such balance of payments shortfalls, new arrangements in the upper credit tranches, the Extended Fund Facility, or the Poverty Reduction and Growth Facility;

- in reaching understandings with authorities on these new arrangements or in the context of scheduled program reviews, give consideration to the appropriate size of access, including any need for augmentation, by taking into account the anticipated impact of trade adjustment on the member's balance of payments (*baseline feature*); and
- be prepared to consider augmentations under arrangements subject to simplified procedures, if the actual balance of payments effect envisioned under the program turns out to be larger than anticipated under the baseline projection (*deviation feature*);

Under the deviation feature, augmentations will be capped at 10 percent of a country's quota for the life of the arrangement. However, if deviations from the baseline projection are even larger, the entire program supported by the underlying IMF arrangement may need to be re-evaluated in order to recalibrate the level of Fund support.

Following the Executive Board's discussion of [Fund Support for Trade-Related Balance of Payments Adjustments](#) on April 2, 2004, Anne Krueger, Acting Managing Director and Chair, stated:

"Directors welcomed the opportunity to discuss ways in which the Fund can give its member countries additional confidence to pursue ambitious trade liberalization under the Doha Round trade negotiations. They reiterated that a successful conclusion of the Doha Round will bring significant benefits to the world economy. The transition to a more liberal trade environment, however, also involves economic adjustments, which for several developing countries may raise added policy challenges. Directors underscored the important role that the Fund is already playing-in accordance with its mandate-in advocating the benefits of open trade in the context of its surveillance across the membership, and promoting trade-related reforms through the provision of technical assistance and program support. They stressed the importance of continued efforts to communicate clearly the Fund's role in supporting trade liberalization.

"While some Directors felt that the Fund's readiness to make its existing instruments available for supporting trade liberalization should give sufficient confidence to members, most Directors saw considerable merit in a more tailored approach to address the balance of payments impact of trade adjustment resulting from the Doha Round. Directors, accordingly, supported the establishment of a Trade Integration Mechanism within the Fund's existing lending facilities to clarify further how the Fund will stand ready to help its members mitigate short-term balance of payments pressures stemming from trade liberalization.

"Directors agreed that members will qualify for assistance under the TIM to address existing or anticipated balance of payments difficulties related to the implementation of trade liberalization measures by other countries. Qualifying measures would normally be measures introduced under a World Trade Organization agreement or measures taken outside the WTO context on a non-discriminatory basis. A balance of payments need might result, for example, from the erosion of tariff preferences in export markets as a result of liberalization agreed under the Doha Round, adverse changes in food terms of trade due to the elimination of agricultural subsidies, or the expiration, in 2005, of quotas under the WTO Agreement on Textiles and Clothing. At the same time, Directors stressed that the Fund should continue to assist members-with policy advice as well as program support-in anticipating and managing the implications of their own multilateral trade commitments.

"Directors emphasized that, to be effective, the TIM will need to be used in support of an appropriate macroeconomic and structural policy framework. It will be activated in the context of an upper credit tranche Stand-by Arrangement, an Extended Arrangement or an

arrangement under the Poverty Reduction and Growth Facility, either at the time of approval of the underlying arrangement or when completing a program review under an existing arrangement. If the balance of payments shortfalls expected to result from the trade liberalization measures occur over several years, successive arrangements with the member could involve the TIM.

"To address the difficulties involved in projecting the balance of payments consequences of a particular trade event, Directors generally supported the proposal to structure financial assistance under the TIM into a baseline feature and a deviation feature. The baseline feature will be approved as part of the decision on the underlying arrangement or program review for a member. It will address the balance of payments need anticipated to result from the relevant trade events over the course of the Fund-supported program, and the appropriate balance between the adjustment effort and the financing to be provided. The baseline impact will be identified by the staff, working closely with the authorities and other international institutions. Financing terms under the TIM will be those of the underlying facility under which access is granted.

"Most Directors concurred with the inclusion in the TIM of a deviation feature to assure a member from the outset of the Fund's readiness to consider a future augmentation in access should the balance of payments effect of the trade event turn out to be even larger than initially foreseen. Directors acknowledged the difficulties in disentangling the different contemporaneous causes of a shortfall and making a precise estimate of the deviation from the baseline. Most Directors therefore saw merit in a simple and streamlined procedure for granting augmented access under the deviation feature upon the determination that the member's adjustment program remains broadly on track and the additional financing is justified by unanticipated balance of payments difficulties of the type that the TIM is designed to address. There was broad agreement that, when necessary, such decisions could be taken outside of the regular review cycle on a lapse-of-time basis, and that a cap of 10 per cent of quota would set an appropriate limit to the augmented access under the deviation feature. A few Directors suggested that in some cases this cap may be too low. Should the unanticipated shortfall in the balance of payments exceed 10 percent of quota, Directors agreed that the mix of adjustment and financing (including access) may need to be re-assessed in the context of a program review.

"Directors agreed that the conditionality associated with access incorporating a TIM baseline feature will normally be determined by the underlying arrangement. In some cases, however, conditionality specifically related to the adjustments that the TIM is designed to support may be called for. Access augmentation under the deviation feature is not expected to be associated with a need for additional conditionality.

"Directors noted the importance of sound external trade data to underpin the effective operation of the TIM. Countries availing themselves of the TIM should be encouraged to participate in the General Data Dissemination Standards, while the Fund should stand ready to extend technical assistance to improve data quality and reporting where needed.

"Directors highlighted the importance of close cooperation with the World Bank, in particular in view of the lending initiatives that the Bank is developing to facilitate members' adjustment to trade reforms and help them strengthen their institutions and infrastructure for trade. If a member requests support from the Fund and the Bank concurrently under these new policies, the staffs will be expected to coordinate closely-in line with the established framework for Fund/Bank collaboration-to avoid duplication of work and ensure that their policy advice is tailored to effectively addressing the member's needs. The importance of avoiding cross-conditionality was highlighted in this context. Directors also called for close coordination with the WTO and donors in the trade-related assistance area, as well as for continued

technical assistance by the Fund to help members address the loss of tariff revenue resulting from trade reforms.

"Directors stressed that the TIM is designed as a temporary policy to address concerns associated with the current round of multilateral trade negotiations. They therefore expected that, at the time of the review of experience with the policy in three years, a decision will be taken on the duration of the TIM," Ms. Krueger said.
