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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 84/134

10:00 a.m., September 5, 1984

J. de Larosière, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	w. B. Tshishimbi
J. de Groote	H. G. Schneider
B. de Maulde	X. Blandin
	M. Teijeiro
	M. K. Bush
M. Finaish	
H. Fujino	T. Yamashita
G. Grosche	
J. E. Ismael	Jaafar A.
R. K. Joyce	L. Leonard
A. Kafka	
G. Lovato	N. Coumbis
R. N. Malhotra	
Y. A. Nimatallah	
	T. de Vries
	K. G. Morrell
G. Salehkhou	
F. Sangare	
M. A. Senior	
	K. A. Hansen, Temporary
	T. A. Clark
Zhang Z.	

L. Van Houtven, Secretary
K. S. Friedman, Assistant

Also Present

Asian Department: J. H. Felman. Exchange and Trade Relations Department: C. D. Finch, Director; W. A. Beveridge, Deputy Director; S. Mookerjee, Deputy Director; E. H. Brau, L. H. Duran-Downing, H. W. Gerhard, M. R. Kelly, S. Kanesa-Thasan, P. Neuhaus. External Relations Department: C. S. Gardner, Deputy Director; H. P. Puentes. Legal Department: G. P. Nicoletopoulos, Director; Ph. Lachman, S. A. Silard. Middle Eastern Department: F. Drees. Research Department: W. C. Hood, Economic Counsellor and Director; R. R. Rhomberg, K.-Y. Chu, E. A. Milne, T. K. Morrison, A. Muttardy. Secretary's Department: A. P. Bhagwat. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; D. Williams, Deputy Treasurer; D. S. Cutler, D. Gupta, Q. M. Hafiz, T. B. C. Leddy, D. V. Pritchett, O. Roncesvalles, G. Wittich. Western Hemisphere Department: E. Wiesner, Director. Personal Assistant to the Managing Director: S. P. Collins. Advisors to the Executive Directors: E. A. Ajayi, H. A. Arias, S. E. Conrado, W. Moerke, G. E. L. Nguyen, I. R. Panday, A. Steinberg, D. C. Templeman, A. Vasudevan. Assistants to Executive Directors: E. M. Ainley, H. Alaoui-Abdallaoui, I. Angeloni, J. Bulloch, M. B. Chatah, Chen J., L. E. J. M. Coene, G. Ercel, V. Govindarajan, D. Hammann, A. K. Juusela, H. Kobayashi, E. Landis, K. Murakami, G. W. K. Pickering, T. Ramtoolah, M. Rasyid, J. Reddy, C. A. Salinas, A. A. Scholten, S. Sornyanyontr, A. J. Tregilgas, M. A. Weitz, A. Yasseri.

1. ACCESS LIMITS FOR 1985; AND LIQUIDITY POSITION AND FINANCING NEEDS

The Executive Directors considered staff papers on preliminary policy considerations on access limits for 1985 (EBS/84/168, 8/8/84), preliminary financial considerations on access limits for 1985 (EBS/84/170, 8/8/84), and access limits for special facilities in 1985 (EBS/84/169, 8/8/84; and Cor. 1, 8/31/84), together with a staff paper on the Fund's liquidity and financing needs (EBS/84/171, 8/8/84).

Mr. Joyce remarked that the discussion was a preliminary one; the access limits for 1985 were to be examined by the Interim Committee during its coming meeting.

One of the main conclusions in EBS/84/168 was that it was premature to consider eliminating enlarged access at present, Mr. Joyce remarked. He fully agreed with the staff that returning suddenly to the traditional access limit of 100 percent of quota would be inappropriate.

His authorities were divided on the staff conclusion that the access limits should not be reduced for 1985, Mr. Joyce continued. His Irish authorities believed that it was imperative to avoid creating any impression that the Fund was reducing its financing role, and they had stressed that the implementation of the enlarged access limits for 1984 had been fairly restrictive. His Irish and Caribbean authorities felt that the present access limits should be maintained in 1985. His Canadian authorities had stressed that the enlarged access policy was a temporary response to an emergency and that it would no longer be needed when conditions returned to normal. In their view, it was important to ensure that the temporary nature of the policy was clearly understood, and while that had been accomplished to some extent through the annual reviews of the policy, a further indication should be given. At the same time, the Fund must remain in a position to meet member countries' financing needs in 1985, when members' circumstances were likely to continue to be exceptionally difficult. His Canadian authorities agreed with the staff that the Fund's liquidity position was not a reason for reducing the access limits for 1985, and they believed that account should be taken of the fact that the annual access limits had not been exceeded in 1984; indeed, the access of most member countries had been well below the limits. Hence, they felt that several options were available: both the individual annual access limits and the cumulative limits could be reduced; the annual limits could be reduced somewhat while the cumulative limits were kept intact; or the ranges of access could be eliminated.

The present world economic situation was highly uncertain, and the Fund would need the flexibility to deal with any unforeseen developments, but it was important to send a signal to debtors and creditors indicating the temporary nature of the enlarged access policy, Mr. Joyce went on. His Canadian authorities were prepared to consider a modest reduction in the upper annual access limit, provided that the provision for access above the limit in exceptional circumstances was maintained. Eliminating the present band of 102-125 percent of quota would have the advantage of making the enlarged access policy more understandable outside the Fund. If the upper annual access limit was reduced somewhat, the cumulative access limit should remain at 500 percent of quota. That solution would have the additional advantages of moving the Fund back toward its traditional reliance on its own resources, emphasizing the importance of adjustment by borrowing member countries, and continuing to enable the Fund to support the adjustment efforts of member countries already heavily indebted to it.

As to the Fund's liquidity position, it had improved considerably and was fairly comfortable, and the main concern was the commitment gap of about SDR 1 billion projected for late 1985, Mr. Joyce considered. There was obviously no need to examine forthwith proposals to undertake additional borrowing to cover the gap, but it might be helpful to consider whether a new mix of borrowed and ordinary resources would provide a stronger financial base for maintaining the present access limits and avoid the accumulation by the Fund of an unnecessarily large volume of unused ordinary resources that could encourage proposals for new facilities; it was best to devote those resources to supporting the present access limits. Finally, the present access limits for the special facilities should be maintained at least until the review of the decision on compensatory financing of fluctuations in the cost of cereal imports scheduled for the spring of 1985.

Mr. Lovato considered that the staff's liquidity assumptions and projections were reasonable. The Fund's liquidity had strengthened substantially for the reasons the staff had mentioned, and should remain comfortable through at least the first half of 1985. There was no reason at present to be concerned about it, but given the many uncertainties regarding the prospective use of Fund resources, the evolution of the Fund's liquidity should be carefully monitored in coming months.

In principle, the Fund should avoid financing gaps, even on a commitment basis, Mr. Lovato noted, but he agreed with the staff that the Executive Board could postpone any decision on how to finance the commitment gap projected for the second half of 1985 until the next semiannual review of the Fund's liquidity position. If additional borrowing were necessary, his authorities seriously doubted whether the Fund should resort to private capital markets.

The enlarged access policy was designed to meet the particularly large financing needs of member countries prepared to adjust their economies, and it was therefore consistent with the Fund's main function, namely, to promote adjustment, Mr. Lovato said. It had clearly been helpful; since its adoption, the international economic situation had improved. However, the conditions in many non-oil developing countries were still unsettled: adjustment had occurred, but mainly through import compression; and highly indebted countries still had difficulty in servicing their debt, partly because of continued protection and the slow recovery of world trade. Those countries would have to make further adjustments that would require additional financial support. The prospects for official flows were not encouraging, and heavily indebted non-oil developing countries were unlikely to regain access to markets quickly. The Fund should stand ready to provide financial assistance within the present access limits to member countries prepared to make necessary adjustments.

The Fund's liquidity position had been the main factor in the decision on the access limits for 1984, Mr. Lovato recalled, but it had improved in recent months and need not limit the Fund's effort to support members' adjustment efforts in 1985. The revolving character of Fund resources and the practice of providing resources on the basis of balance of payments need and adjustment effort should be maintained, but because the enlarged access policy would be needed in 1985, the present access limits should be maintained. Although most requests for Fund financial assistance in 1984 had been well below the access limits, maximum access might well be required by some member countries in 1985. The access limits were not targets, and the Executive Board would continue to decide the precise access for each member country; in that context, the experience in 1984 had been encouraging, as it had proved that the present flexible system enabled the Fund to provide financial assistance to member countries in need while maintaining a satisfactory liquidity position. The enlarged access policy was admittedly temporary, but it would be inappropriate to reduce the access limits before the economic and financial conditions that had prompted the adoption of that policy had improved. Reducing the access limits at the present stage would send the wrong signal to the international banking community, thereby requiring the Fund to give up its catalytic financing role.

Mr. de Groote broadly agreed with the staff that at present it would be premature either to terminate the enlarged access policy or to consider reducing the access limits in 1985. Such moves would send the wrong signal to the international community, negatively affecting the willingness of banks, and particularly smaller regional banks, to provide new financing to debtor countries. In its most recent World Economic Outlook report, the staff had strongly stressed that increased financing would be needed in coming years if the adjustment process were to continue successfully. It would be wrong to assume that the required financing could be generated solely by private and national public sources, and that the Fund would be able to retreat gradually from its involvement in financing members' adjustment efforts. As the staff had also stressed, further Fund involvement in some member countries was still required to initiate or strengthen adjustment. It was hoped that Nigeria, the Philippines, and Argentina would soon negotiate Fund-supported programs; non-Fund financing of other member countries' ongoing programs would be jeopardized if Fund assistance were not at least maintained at its present level in 1985. For instance, recent conversations with bankers and treasury officials in creditor countries suggested that the successful financing of Hungary's program depended on the Fund maintaining or, perhaps, even increasing its assistance.

There was no need at present to change the access policy, and its implementation in 1985 should be less restrictive than in 1984, Mr. de Groote continued. The interpretation of the guidelines on access in 1984 had been very restrictive compared with earlier periods. Before 1984, 60 percent of the arrangements with member countries had involved access in the upper half of the range of quota limits, but the comparable figure for 1984 was just 20 percent. He doubted whether there was any economic justification for the decline in 1984, and he was confident that the Fund's liquidity position need not constrain the access limits for 1985, as it had the 1984 limits, and that the Fund would not need to increase its total debt in 1985 and 1986. The staff projections indicated that, even if the present access limits were maintained in 1985 and 1986, outstanding Fund credit to members would decline slightly in 1986. It would be unwise to accentuate that decline by reducing the access limits, particularly in the light of some members' debt repayment hump in 1987. For the time being, there was no need to consider further borrowing arrangements; the present estimates of likely drawings were tentative, and the Fund might well have no borrowing requirement in 1985. It was also too early to consider using ordinary resources instead of borrowed funds in 1985. Those issues should be further examined during the next semiannual review of the Fund's liquidity position, in the spring of 1985.

The staff recommendations concerning the special facilities were acceptable, Mr. de Groote stated. The present limits on access to those facilities should be retained in 1985.

The Fund's comfortable liquidity position was due mainly to the quota increase and the new borrowing arrangements, Mr. de Groote continued. But it was due partly to a worrisome development--namely, the continuing sizable decline in the expected use of Fund resources. The latest estimate of new commitments of Fund resources for developing countries in 1984 of SDR 5.3 billion was one third the estimate given six months previously, and the staff felt that the actual figure might be even smaller. That change could not be attributed entirely to the improved underlying economic conditions, and the staff should provide a more detailed explanation. The staff discussion on one of the factors involved--the reduced probability that additional arrangements with members would be concluded in the final five months of 1984--was vague; the staff could have usefully estimated the extent to which its estimate was based on either the exclusion of members from the list of likely users of Fund resources, or a shortening of the expected duration of the need for those resources.

He had been struck by the composition of new commitments in 1985 shown in Table 2 of EBS/84/171, Mr. de Groote remarked. The unusually large share of borrowed resources in total commitments in 1985 compared with 1984 seemed to indicate that few programs would require relatively large amounts of Fund resources in 1985. He asked the staff to elaborate further on that point. The possibility of revising the mix of ordinary and borrowed resources should be examined during the next review of the Fund's liquidity position. Conditionality seemed more effective, and the role of the Fund enhanced, when the cost of using Fund resources reflected the institution's cooperative character.

He wondered whether it was possible to regularly provide updated versions of certain tables in staff papers on the Fund's liquidity and financing needs, Mr. de Groote said; Table 2 was particularly important. Moreover, all the tables could have usefully included data for 1983, as well as for 1984 and 1985. Additional information on disbursements would also have been helpful.

He was pleased that the Fund's liquidity position was expected to remain comfortable, at least until the end of 1985, even if the present access limits were maintained, Mr. de Groote concluded. That conclusion should lead the banking community to increase its contribution to the financing of programs initiated or maintained under the Fund's guidance.

Mr. Hansen said that he was pleased that the need for Fund financing appeared somewhat smaller than had been anticipated, while the number of currencies that could be included in the operational budget had increased.

The Fund's strained liquidity position had been a major factor in the determination of the access limit for 1984, Mr. Hansen recalled. As its liquidity had improved in recent months, the Fund should be able to maintain a more flexible approach to financing member countries' making major adjustment efforts. There had been a shift toward lower access in 1984, but several member countries might require financial assistance in excess of 102 percent of quota in 1985. Continued Fund involvement in certain countries could contribute to the prolonged use of Fund resources, but he agreed with the staff that that problem could best be solved by introducing measures to strengthen surveillance and monitoring procedures, thereby ensuring efficient program implementation. Reducing the access limits for 1985 could be seen as a signal that the Fund was not prepared to maintain the present level of balance of payments financing; hence, it might undermine the willingness of other sources of finance to provide needed assistance. Great caution should therefore be observed with regard to sending such a signal. After all, there was great uncertainty about the projections for the world economy on which the assessment of the Fund's financing needs was based.

He agreed with the staff that the access limits, including those for the special facilities, should remain unchanged in 1985, Mr. Hansen concluded. However, it was important to stress that the enlarged access policy was temporary, and that the Fund must continue to balance its lending against the availability of ordinary resources.

Mr. Grosche remarked that the present discussion should help to give participants in the coming meeting of the Interim Committee a clear picture of the issues. The Interim Committee discussion would in turn guide the Executive Board in its review.

The staff had made a convincing case for maintaining the enlarged access policy in 1985, when a large number of member countries were likely to require Fund financing, Mr. Grosche considered. Given the uncertainties about likely developments in the world economy in 1985, the Fund ought to be equipped to help member countries to adjust their economies and eliminate reserve shortages. To that end, conditional balance of payments support would be most appropriate. In any event, sudden cancellation of the enlarged access policy could send the wrong signal to international capital markets, which were still somewhat unstable.

The staff's argument in favor of maintaining the present access limits in 1985 was not fully convincing, Mr. Grosche continued. Although a large number of member countries still faced payments problems, the world economic situation had improved substantially. The enlarged access policy was meant to be a temporary response to what had been an exceptionally difficult situation. Starting now to phase down the access limits would demonstrate the Fund's confidence in a further strengthening of the economic recovery in 1985, and the scope available for such a reduction should be carefully explored. In making that assessment, the improved world economic conditions should be balanced against the Fund's ability to provide financing in support of member countries' adjustment efforts. A relatively modest reduction in the access limits--say, 20 percent--would not wrongly give the impression that the Fund might be considering a substantial cut in its financing role. Rather, it would simply demonstrate that the world economy was evolving in the right direction, due in part to the forceful role the Fund had played during the previous two years. In any event, whatever access limits were agreed for 1985, they should not be regarded as targets or entitlements.

He fully agreed with the staff that in determining access for individual member countries, the Fund should adhere to the relevant established criteria in order to safeguard the proper use and revolving character of its resources, Mr. Grosche commented. The staff statement on page 5 of EBS/84/168 that in the near future arrangements might be negotiated with access at or close to the limit was therefore a cause for concern. Each request for financial assistance should be carefully scrutinized to ensure that the established criteria were adhered to in a uniform way.

He also fully agreed with the staff that the enlarged access policy should not result in prolonged use of Fund resources, Mr. Grosche said. Great caution--perhaps more than hitherto--should be exercised in dealing with countries where a sustainable balance of payments position had not been achieved despite successive Fund-supported programs. In such cases the bulk of the required balance of payments assistance should be provided by institutions that were more developmental in character than the Fund.

Commenting on EBS/84/169, Mr. Grosche said that his authorities did not favor excessive recourse to broadly unconditional Fund financing but could accept some of the staff arguments in favor of maintaining the present access limits for the special facilities in 1985. Experience with those limits had been limited, and the conditions in individual member countries might require the Fund to react flexibly. He was therefore prepared to consider maintaining the present limits for the time being on the understanding that the cooperation requirement would continue to be interpreted quite narrowly.

The Fund's liquidity position was comfortable and the near-term prospects for it were favorable, Mr. Grosche noted. However, the staff had mentioned a number of developments that could cause the liquidity position to tighten, and the Fund should continue to exercise caution in committing its resources.

Since a commitment gap was not projected to appear until the end of 1985, and since the Executive Board had not yet agreed on the access limits for that year, it would be premature to discuss possible ways of financing the gap, Mr. Grosche remarked. He agreed with the staff that the matter should be discussed during the next semiannual review of the Fund's liquidity position, in early 1985. In maintaining the enlarged access policy it should be clearly understood that the commitment of funds under the policy hinged on the availability of borrowed resources. Accordingly, new commitment gaps should be avoided; any new commitments under the enlarged access policy should be financed with funds available under existing borrowing arrangements. His authorities would not accept the various possibilities for borrowing mentioned by the staff on page 5 of EBS/84/170, including a central bank investment facility, a new BIS arrangement, or private market borrowing.

Mr. Ismael agreed with the staff analysis and conclusions, particularly that it would be premature to consider any reduction in the access limits for 1985. At the Southeast Asian Group Meeting in August 1984, Governors from eight member countries had expressed their concern that even though the absolute maximum access limits under the enlarged access policy had been maintained in accordance with the agreement reached in the Interim Committee in September 1983, actual access given to members had been considerably reduced. The average size of Fund commitments under stand-by arrangements had declined from SDR 250 million in November 1982 to SDR 186 million in June 1984 and, even more important, the average size of pending stand-by arrangement requests had fallen from SDR 1,326 million to SDR 65 million in the same period. The staff had explained away the downward shift in access by stating that actual access was kept low when balance of payments adjustment was not likely to be completed quickly and that, in any event, the Fund's catalytic role was more important in those cases than in others. In his view, the uncertain prospects for the world economic recovery, the slow progress in reducing protectionism in industrial countries, the high international interest rates, and the reduced access of many countries to private capital markets, suggested that access to Fund resources under the enlarged access policy should have risen. If the Fund were to give the banking community the confidence it needed to continue to play an active role in the present circumstances, it should provide more realistic access than in the recent past. If actual access were to fall consistently below the maximum limits, they could come to be considered by the banking community and others as lacking any practical significance, an impression that should certainly be avoided.

He generally agreed with the staff analysis and conclusions concerning access limits for special facilities, Mr. Ismael continued. The present access limits for those facilities should be maintained in 1985.

Despite the economic recovery in several industrial countries, the demand for the exports of certain groups of developing countries had not increased, Mr. Ismael noted. Exports of African countries in general and of its sugar-producing countries in particular had shown no signs of recovering, as was also true of countries in the Caribbean region and the Pacific area; indeed, the exports of some of those countries had declined substantially. Maintaining the present access limits could play a useful role in meeting the needs of those countries. He hoped that the world economic recovery would become more broadly based so that the need for member countries to use the special facilities could be further reduced or eliminated.

Total purchases under the compensatory financing facility in 1984 were expected to be less than half those in 1983, and they were projected to decline further in the coming two years, Mr. Ismael continued. Indeed, substantial net repurchases of compensatory financing facility resources were expected. At the same time, the test of cooperation for compensatory financing had been tightened: each of the seven countries using the facility in 1984 had had to meet the stricter test by adopting stabilization programs. There had been no request to use the lower tranche of the compensatory financing facility in 1984. The Fund might have overstepped itself in imposing conditions on the use of compensatory financing; in the future it should adhere to the more flexible and traditional view of compensatory financing as a rapidly available means of meeting export shortfalls caused by factors largely beyond the control of a member country. The tighter application of the test of cooperation discouraged member countries from using even the lower tranche of the compensatory financing facility, particularly if the country's policies seemed inappropriate to the staff. It should be fully understood by the staff and member countries that any country facing balance of payments problems due to export shortfalls attributable to factors beyond the control of the country should be encouraged to use the lower tranche of the compensatory financing facility; and it should be presumed that each member country met the test of cooperation for such drawings unless there were good reasons to conclude otherwise. Otherwise, the Fund's role in providing short-term balance of payments assistance would be diminished.

The outlook for the Fund's liquidity was much better than during the previous discussion on it, when a commitment gap had been projected for end-1984, Mr. Ismael remarked. At present, a gap was not expected to occur until late 1985. The changed projection reflected the difficulty in making reliable estimates, the improvements in the world economy, the tightening of conditionality that had discouraged many member countries from approaching the Fund for financing assistance, and the shift to lower access. Recent developments in the world economy and the shift to lower access suggested that the Fund's liquidity would remain strong in the coming several years. A small commitment gap in 1985 need not be a cause for concern, as it could be easily financed by ordinary resources; repurchases would rise substantially in coming years, exceeding SDR 8 billion starting in 1987 and providing substantial liquidity for recycling. The Fund's present and prospective liquidity position justified a more liberal policy on access--particularly to the special facilities--than in the recent past.

Mr. de Maulde said that there were two main reasons why he strongly supported the staff conclusion that the present access limits should be maintained in 1985. First, the improvement in the international economic environment was fragile. As a result, imagination and pragmatism would be needed to deal with the debt problems in the coming two years; the debt service burden was expected to rise by 16 percent in 1985. In the circumstances, depriving the Fund of its means of intervening would obviously have substantial adverse effects. The Fund would have to continue encouraging other creditors--particularly commercial banks--to participate in financing packages to support realistic adjustment programs. Reducing potential access would send a signal that the markets might misread at a time when a restoration of confidence was still sorely needed.

Second, since the adoption of the present access limits, the Fund had clearly shown its natural tendency to manage its resources prudently, indeed, excessively so in some instances, Mr. de Maulde went on. Experience showed that sufficiently high access limits provided adequate room for maneuver and were compatible with careful management of the Fund's resources. The Fund's present liquidity position did not warrant a reduction in the upper access limits; and the prospects for the Fund's liquidity through 1985 were excellent. Reducing the access limits would be neither consistent with the agreement reached by the Interim Committee at its meeting in September 1983, nor necessary to reinforce the monetary character of Fund operations, nor compatible with the need to consolidate the successful adjustment in many developing countries. He attached considerable importance to the implementation of the enlarged access policy; its implementation in recent months had effectively nearly denied access to member countries that had most needed it. Any signals given at the time of the 1984 Annual Meeting should confirm the Fund's willingness to continue to play a central role in dealing with the present crisis and should show that the Fund would have the means to do so.

The arguments in favor of at least maintaining the access limits for the special facilities in 1985 were even more convincing than the arguments for maintaining the limits on access to the Fund's regular resources, Mr. de Maulde stated. Table 2 in EBS/84/169 clearly showed that the volume of repurchases under those facilities in 1986 would be more than twice the amount of purchases. The compensatory financing facility obviously no longer posed a threat to the Fund's liquidity--on the contrary. The decision on access adopted in January 1984 had been excessively conservative, as it had prevented several member countries, particularly African countries--whose exports had not yet recovered--from using the compensatory financing facility. As to the buffer stock financing facility, its use had nearly ceased; there had been only one purchase under the facility in 1984, and the outstanding level of purchases during the coming two years would be sharply reduced by repurchases. The facility should be reviewed with a view to better adapting it to the needs of member countries.

The outlook for the Fund's liquidity was more favorable than at the time of the previous review, Mr. de Maulde observed. He agreed with the staff that it seemed reasonable to delay any decision on the financing of an emerging commitment gap until the next half-yearly liquidity review, early in 1985, when firmer estimates on the use of Fund resources in 1985 and 1986 would be available.

Mr. Nimatallah considered that the staff papers were balanced and thorough. He agreed with the main conclusions.

As the staff had stated, it would be premature to terminate the enlarged access policy at the present stage, Mr. Nimatallah continued. His authorities had fully supported the policy because it had been extremely valuable, enabling the Fund to play its role effectively. Many member countries still faced large payments imbalances and would need the Fund's direct and indirect support in the coming period.

Commenting on the access limits for 1985, Mr. Nimatallah said that it was true that the world economy had significantly improved, the overall prospects for 1985 were reasonably encouraging, and the demand for Fund resources had apparently fallen from its peak in 1982-83. However, as the staff had noted, there were uncertainties about the world economic outlook, and many member countries' access to international capital markets remained limited. The Fund would therefore have to be in a position--and be seen to be in a position--to support member countries' adjustment efforts on an adequate scale. In particular, it must have the flexibility to respond to the needs of member countries facing large payments imbalances.

It was important to remember that the present access limits were ceilings, not targets, Mr. Nimatallah said. The Fund had applied the limits prudently--according to the needs and circumstances of individual countries--and should continue to do so, so that its limited resources could be used in the most effective possible way. Equally important, any reduction in access limits at present could send the wrong signal to the international financial community and would be inappropriate at a time when the Fund was asking banks and other creditors not to reduce their lending to countries in difficulty. In addition, the present level of Fund resources seemed sufficient for the continued application of the current access limits. He hoped that the Fund would not have to borrow further to finance access at those limits.

The same arguments could be made in support of the access limits for special facilities, Mr. Nimatallah commented. As the staff had noted, the experience with those limits was limited, but it seemed prudent to maintain the same limits for 1985 in the event some member countries experienced sizable export shortfalls. More important, it was essential to preserve the compensatory financing facility's basic function of providing valuable bridge financing for members. In sum, maintaining all the present access limits in 1985 would help to ensure that the Fund could continue to play its role effectively.

The staff report showed that the Fund's liquidity--both ordinary and borrowed resources--had improved significantly in recent months, a very encouraging development, Mr. Nimatallah said. That the Fund was well placed to respond to member countries' potential needs should give confidence to the international financial community in the coming period. The Fund should not have to borrow further in 1984 or in the first part of 1985, and he agreed with the staff that there was no need at present to address the question of new borrowing.

According to the staff projections, the Fund's liquidity could come under pressure again in the second half of 1985, Mr. Nimatallah noted. However, as he had stated on previous occasions, pressure on the Fund's liquidity could be alleviated if the world economic recovery were sustained and if world trade continued to expand. In his view, the recovery in the United States was likely to remain strong, strengthening the recovery in other countries in 1985, in which event the commitment gap might not materialize. He hoped that the Executive Board would not have to discuss new borrowing even in March 1985.

However, Mr. Nimatallah continued, if a commitment gap seemed likely, the Executive Board would have to consider the options mentioned by the staff. Depending on the circumstances--including whether or not the recent improvement in the Fund's ordinary resources was maintained--it might be appropriate to start now to consider the substitution of ordinary or borrowed resources in financing new arrangements. The Fund should begin forthwith to prepare to phase out borrowing and to rely on its own resources. Early 1985 could perhaps be an appropriate time actually to initiate that process.

Commenting on the medium-term prospects for the Fund's liquidity, Mr. Nimatallah said that it should be considerably strengthened by the substantial repurchases due in the period after 1985. However, in EBS/84/170, the staff appeared to doubt whether it was realistic to expect that all the repurchases would be made on schedule, a worrying conclusion. The Fund's operations were based on the revolving character of its resources, and member countries should clearly understand that failure to repay the Fund on schedule would seriously weaken the Fund's liquidity and impair its effectiveness. If repurchases were not made on time, he strongly doubted whether the Fund would be able to arrange new borrowing. Indeed, he was worried that delays in repurchases could hinder the completion of the next general review of quotas. Hence, he hoped that on future occasions the staff would not assume that there would be delays in making scheduled repurchases.

He was pleased with the improved presentation and more comprehensive treatment of the various ratios in Appendix 1 of EBS/84/171, Mr. Nimatallah said. As he had stated on previous occasions, the ratios were important tools in assessing the Fund's liquidity. The new format in the present paper made it much easier to tell at a glance the Fund's current liquidity position and likely developments in the near future. However, there was still room for improvement: future papers could provide more analysis and explanations of the various components of the asset ratio. That information would be particularly helpful in view of the importance in the longer run of maintaining an appropriate balance between the Fund's liabilities and the assets effectively available to meet those liabilities.

Mr. Fujino stated that enlarged access was one of the most important policy issues facing the Fund and should be thoroughly examined in the light of all the relevant factors. It was encouraging to note that the current account deficit of the non-oil developing countries was expected to decline in 1985, and that the aggregate financing need of member countries was expected to fall in line with the successful adjustment efforts of a number of them. At the same time, however, a word of caution was warranted, as there were uncertainties--for instance, the likely course of interest rates--about the assumptions underlying those estimates. In the circumstances, it would be important for the Fund to continue to support a large number of member countries in 1985, including those with Fund-supported adjustment programs, although prolonged use of Fund resources should be avoided. In passing, he said that he attached importance to examining the problem of prolonged use in a longer-term perspective.

In considering the enlarged access policy, Executive Directors should remember that it was a temporary measure to cope with the difficulties due to the large external imbalances after the two major oil price increases, Mr. Fujino said. It was inherent in the policy that the access limits should be phased out as the external imbalances of member countries improved.

The access limits would have a decisive bearing on the Fund's future liquidity position, Mr. Fujino commented. Assuming unchanged access, the staff had forecast a commitment gap for 1985 that would rise to about SDR 1 billion by the end of the year and would be much larger thereafter. At the time of the adoption of the enlarged access policy, it had been assumed that there would be sufficient financing to cover prospective demands under the policy, but at present it appeared that there might not be sufficient borrowed resources in 1985 and beyond. A fundamental principle of the Fund was that quotas should remain the primary source of its financing. Accordingly, prolonged recourse to borrowed resources should be avoided to the extent possible, and in future Fund resources should be supplied by quota increases, rather than by further borrowing. In the light of the future need for Fund financing and of the Fund's liquidity position, he could go along with the proposal to extend the enlarged access policy in 1985, but the access limits should be considerably reduced in that year.

The enlarged access policy should be reviewed in a longer-term perspective, with a view to phasing it out in 1988, when the Ninth General Review of Quotas should be completed, Mr. Fujino continued. Accordingly, annual equiproportional reductions in the access limits could be made over the coming four years, while maintaining two-tier access limits to meet the need of certain countries. Under that approach, in 1985 the annual access limit would be 90 percent of quota, and the cumulative access limit 350 percent of quota. He asked the staff to comment further on the impact of phasing out the enlarged access policy in the long run; he fully understood the difficulties in dealing with that matter because of the many uncertainties about developments in coming years. The staff should also evaluate the problems that might be caused by a reduction in the cumulative access limit; in his view, most member countries would not be adversely affected.

He agreed with the staff that it was preferable to wait until the next semiannual review of the Fund's liquidity position to consider possible means of financing the projected financing gap, Mr. Fujino said. However, his authorities continued to feel that, given the Fund's basic cooperative character, the institution should not borrow in the private markets.

EBS/84/171 contained helpful estimates of the use of Fund resources in the period up to end-1985, and rough estimates for 1986, Mr. Fujino noted. Assuming that the access limits would remain unchanged, the estimates seemed broadly reasonable. The staff had noted that given that usable currencies were limited basically to the currencies of a few relaively large industrial countries, the amount of those currencies available to the Fund would fall should the balance of payments and reserve positions of those countries deteriorate. Moreover, any use of Fund resources by industrial countries might have a significant effect on the Fund's liquidity. Hence, close attention should be paid to the future development of the Fund's liquidity position.

A commitment gap for borrowed resources was expected to arise again in the second half of 1985, Mr. Fujino remarked. He agreed with the staff that the question of how to finance the gap should be considered at the next liquidity review, early in 1985. The overall debt situation of heavily indebted developing countries was expected to improve, and new commitments by the Fund in 1984, 1985, and 1986 were expected to be SDR 5.3 billion, SDR 5.1 billion, and SDR 3.2 billion, respectively, compared with the annual average of SDR 10.8 billion in 1981-83. Under the circumstances, phasing down the enlarged access limits seemed to be all the more warranted.

He asked the staff to prepare a paper on the implications for the Fund's liquidity position of various schedules for phasing down the access limits in 1985 and 1986.

Mr. Sangare broadly supported the staff conclusions on the access limits for 1985. At present, it would be premature either to terminate the enlarged access policy or to consider reducing the access limits. He strongly agreed with the staff that the Fund must be in a position, and be clearly seen to have the ability, to intervene on a substantial scale in support of member countries' adjustment efforts.

As he had stressed on previous occasions, Mr. Sangare continued, he strongly believed that the present, grossly inadequate limits on access to its general resources did not enable the Fund to play its expected financing role, particularly with respect to member countries with small quotas. Access by individual countries in 1984 had sometimes been as low as 35 percent of quota, far from adequate to prevent disorderly adjustment, encourage needed external confidence, and allow rapid elimination of the obstacles to sustainable domestic and external payments positions. On page 3 of EBS/84/168, the staff had noted that "as a proportion of the total financing need, the amount of Fund financing has been kept to moderate amounts varying between 10 percent and 30 percent." Not only should the present access limits be increased in 1985, but the use of the limits in individual cases should be approached in a much more positive way than in recent months.

EBS/84/170 showed that liquidity considerations did not provide a compelling basis for reducing access limits in 1985, Mr. Sangare remarked. In addition, in his view, the Fund's liquidity position was not a significant constraint on increasing the access limits, especially as the staff had envisaged the possibility of using ordinary in place of borrowed resources to finance enlarged access in 1985.

The Fund's liquidity had benefited from the quota increases under the Eighth General Review, Mr. Sangare remarked, and the short-term outlook appeared comfortable. The staff no longer projected a commitment gap for 1984, partly because of the downward revision of the projected overall demand for Fund resources, and partly because of the restrictive access policy since the effective date of the quota increases.

The present comfortable liquidity position should not mask the long-term need for, and the potential pressure on, Fund resources because of the inherent problems that continued to plague many developing economies, Mr. Sangare said. The projected decline in the demand for Fund resources was due to some extent to the apparent pickup in the world economy, but caution was called for because the revival in economic activity was neither widespread nor firmly based. Moreover, the protection, large budget deficits, and high interest rates in industrial countries, which had caused the continued heavy debt burden on developing countries, could undermine the durability of the economic recovery.

The present estimates of new commitments for developing countries in 1984 as a whole were smaller than those presented in March 1984, because of, inter alia, the reduced probability of concluding new arrangements in the remainder of the year, Mr. Sangare observed. Indeed, the staff estimated that no new arrangements for small developing countries would be concluded. A further comment on that conclusion would be helpful.

He agreed with the staff that, at present, estimates of the use of Fund resources in 1985 and 1986 were necessarily tentative, Mr. Sangare remarked. Accordingly, any decision on the financing of the projected commitment gap in the second half of 1985 could be delayed until the next scheduled review of the Fund's liquidity position, in early 1985.

Mr. Kafka stated that he wished to associate himself with the comments of Mr. Ismael. In addition, the suggestions Mr. de Groote had made were useful, and he looked forward to hearing the answers to the questions Mr. de Groote had posed.

Mr. Salehkhou said that he regretted that the staff's narrow interpretation of the requirement to review the access policies had led it to limit its discussion to a possible further reduction in the access limits for 1984. However, the staff had adequately analyzed most of the issues concerning access and had made a solid case for at least maintaining the present limits in 1985.

The narrow scope was particularly surprising because the satisfactory development of the Fund's liquidity in 1984 and the good prospects for 1985 clearly indicated that the concerns expressed when the decision was taken to reduce the access limits in 1984 had proved to be essentially unfounded, Mr. Salehkhou continued. Moreover, the staff had stressed that the further decline in the combined current account deficit of non-oil developing countries in 1984 was a reflection of the limited external financing available, and not of a reduced need for assistance by those countries. The staff presentation would have been more comprehensive if it had included an assessment of the possible impact of the current access limits on the non-oil developing countries' adjustment efforts and the extent to which they might have resulted in increased contributions from non-Fund sources or in accelerated adjustment. That analysis was warranted by recent experience with many Fund-supported programs under which financing gaps had forced further reductions in imports with little consideration for either the adequacy of the new level of supply or the medium-term sustainability of the progress the authorities had hoped to achieve. The latest data showed that non-oil developing countries had suffered a 10 percent decline in imports in the first quarter of 1984, and that sizable declines had been recorded by countries in Asia, Europe, and the Western Hemisphere.

Commenting on EBS/84/170, Mr. Salehkhou said that the welcome improvement in the Fund's liquidity in 1984 was due not only to the strong measures in 1983--including the completion of the Eighth General

Review of Quotas and the conclusion of short-term borrowing arrangements--but also to the improved prospects in a number of member countries that had enabled the Fund to make sizable additions to its operational budget. The lower than projected use of Fund resources had also played a role in the improved liquidity position. While the staff had indicated that, the liquidity position would remain strong in 1985 and 1986 assuming unchanged access limits, it had also projected that a commitment gap on borrowed resources would emerge toward the end of 1985. He agreed with the staff that there were a number of reasons to believe that financing the gap was not an urgent matter at present and could be safely addressed at the next review of the Fund's financing needs.

The projected commitment gap was moderate, and the possible ways of financing it mentioned by the staff would not pose major difficulties, particularly in view of the large loan repayments to be made in 1985 and 1986 and of the existence of the enlarged GAB, Mr. Salehkhou continued. However, he continued to oppose any kind of borrowing in the private markets. Ordinary resources could be used to cover the prospective commitment gap, but only on a temporary basis. The suggestion to establish a broader central bank investment facility was appealing, as it might eliminate all the legislative difficulties associated with lending to the Fund, including those in developing countries with strong balance of payments positions. New consideration of the proposal for a central bank investment facility--which was first set out in SM/81/109, Supplement 4 (11/9/81)--would be welcome, provided that the need for simplification and the other suggestions and concerns expressed by Executive Directors at an earlier meeting (EBM/81/151, 12/17/81) were taken into account.

It was important to note that the reasonably comfortable medium-term liquidity position projected by the staff was based largely on the substantial flow of repurchases expected in 1985-88 and on the contraction of Fund credit to non-oil developing countries, Mr. Salehkhou commented. The projected improvement in the external current and capital account positions of non-oil countries might be warranted by their progress in making needed adjustment, but it was based largely on assumptions concerning a number of factors beyond the control of the developing countries, including growth in the major industrial countries, international interest rates, and protectionism. Given the uncertainty about those factors and the prospects for a long process of external debt rescheduling, it was essential to both maintain Fund assistance to the developing countries and restore the previous access limits in order to reach an orderly solution to the present difficulties. Enhancing Fund assistance would sustain the progress developing countries had recently achieved through strong demand management policies and would help those countries to make the transition to the implementation of more growth-oriented initiatives.

Maintaining the present access limits in the medium term was the minimum required to meet the objectives he had mentioned, Mr. Salehkhou went on. More important, the access limits should be used. Table 2 of EBS/84/168 showed that while 60 percent of the arrangements adopted in 1982/83 were for amounts in the higher tranches of access--above

90 percent of previous quotas, a degree which corresponded to approximately 62 percent of present quotas--only 19 percent of the 1984 arrangements had been of similar importance, and none had reached the lower limit of 102 percent. Hence, member countries' access to Fund resources apparently had actually been curtailed through the shift to lower limits and through a stricter interpretation of the access criteria than the Executive Board had envisaged. In that connection, there had been excessive reliance on the so-called catalyst role of the Fund, which had kept Fund assistance at low levels despite the reluctance of traditional lenders to increase their exposure in developing countries.

There was an urgent need at least to raise the current access limits and to implement the related guidelines in the spirit that had led to their adoption, Mr. Salehkhou said. The range of 102-125 percent of quota was not a target, but it should be considered the real access limit for countries whose balance of payments need and adjustment effort warranted such assistance.

Five of the seven purchases under the compensatory financing facility in 1984 had been constrained by the access limits, and for a number of reasons several member countries experiencing export shortfalls had been unable to receive compensatory financing in 1984, Mr. Salehkhou said. Developing countries' exports were projected to recover in 1984 and in the medium term, but it was important to note that the recovery was far from uniform among individual countries and that a number of countries were likely to continue to face trade difficulties, particularly because of the expanding protection.

The special facilities were meant to deal with emergency situations and had proved useful to a large portion of the membership, Mr. Salehkhou went on. They were an essential part of the Fund's assistance and should be strengthened rather than merely maintained. During the previous three years, developing countries had found it increasingly difficult to use unconditional Fund resources, and the reduction in the access limits had further curtailed their potential financing. Given the improvement in the supply of the Fund's ordinary resources, the flow of those resources to developing countries should be increased, and greater use should be made of ordinary resources in place of borrowed resources to finance purchases. The likely adverse effects of such a shift should not be exaggerated. The flow of repurchases would increase in the coming several years, and the need to use ordinary resources to repay loans to the Fund would be temporary; a large portion of the repayments would be due in 1987 and 1988, and advance planning could provide for adequate means of financing them. Prudential considerations of the distant future--which was necessarily difficult to predict--should not prevent the Fund meeting the financing needs of a large portion of its membership. A substantially larger volume of purchases in the coming several years could easily be accommodated within the present financing constraints. The staff had clearly established the need to maintain the present access limits, the consistency of such a decision with both the Fund's liquidity prospects, and the need for the Fund to play an adequate role in the adjustment process. But a case could be made for restoring the access limits prevailing before 1984. Whatever access limits were chosen for 1984 and beyond, it would be essential to provide actual access up to those limits.

He agreed that the enlarged access policy was temporary, but it was important to remember that the policy had been adopted primarily as a result of the failure to increase the Fund's ordinary resources in line with the expansion of the Fund's role and responsibilities in the adjustment process and in handling debt problems, Mr. Salehkhou commented. There had been some improvement in the overall economic situation since the adoption of the enlarged access policy, but the non-oil developing countries had been adversely affected by the sharp curtailment of financial flows.

Mr. de Vries remarked that the enlarged access policy was a temporary response to the extraordinary disturbances in the international payments situation. Those disturbances had not entirely disappeared, but considerable adjustment had occurred; Fund policies had been effective, and the disturbances were clearly diminishing. The time was ripe to begin to phase down enlarged access. In 1983 the staff had estimated the current account deficit of non-oil developing countries at approximately $67.5 billion; its present estimate for the coming 12 months was $45 billion. The improvement in the financing needs of member countries had been even more dramatic. In 1981 the financing needs of developing countries had been estimated at almost six times their quotas of 1981, and the cumulative access limits had been set at 600 percent of quota. The present papers estimated the financing need at less than twice the present, larger quotas. That development did not mean that the cumulative access limit should immediately be reduced to 200 percent of quota, but there was clear evidence that the payments disturbances and the need for enlarged access were diminishing. At the same time, it should be clearly understood that in the event of a major new disturbance, the process of phasing down the enlarged access limits might have to be halted.

It had been agreed that the Fund should avoid commitment gaps in the future, Mr. de Vries said; and, in any event, the present discussion clearly suggested that there were no likely official lenders in sight and that a number of Executive Directors opposed market borrowing by the Fund. Accordingly, in the absence of major new developments, the Fund would have to make do with the present volume of borrowed and regular resources. If a gap in borrowed resources occurred, the Fund should not attempt to borrow additional funds; instead, it should change the mix of ordinary and borrowed resources. The decision establishing the present mix of resources was merely a technical one, and it was better to change that decision than to undertake additional borrowing to maintain the current mix.

The staff's economic arguments--namely, the uncertainty about the world economic situation and the possibility that individual countries might require large-scale access--in favor of maintaining the present access limits in 1985 were unconvincing, Mr. de Vries considered. Presumably, such arguments could be made nearly every year; there was always uncertainty about the outlook for the world economy, and there were often countries whose economic and financial circumstances were exceptional. The staff had also suggested that reducing the access limits could be seen by commercial banks as a signal of the Fund's partial withdrawal from the role it had played in recent years. However, the Fund should not take an inappropriate decision on its scale of operations merely to avoid a possible misunderstanding by the banks. Continuous lending to the same borrower was normal practice for banks but was clearly inappropriate for the Fund.

It seemed best to establish a plan to phase down enlarged access in the medium term, and not merely in 1985, Mr. de Vries remarked. The plan could be reviewed annually and implemented in yearly installments, the first occurring in 1985. A medium-term target for the cumulative access limits would be central to such a plan. Cumulative access, the most important of the access limits, should be consistent with the likely size of member countries' payments problems in relation to their quotas; a timetable on the attainment of a target figure for cumulative access should be agreed. Thereafter, normal annual access limits could also be agreed; they could be exceeded in exceptional cases, but should be compatible with the medium-term cumulative access target. The current 4:1 ratio of cumulative access to annual access should not necessarily be a target under the medium-term plan he favored. Any substantial reduction in the cumulative access limit would constrain the further access of some member countries, but his medium-term plan would include a transitional provision permitting member countries access even though their use of resources exceeded the reduced cumulative limit; the maximum use of resources in excess of the cumulative limit would be expressed in terms of the repurchases the member country would have to make. It could be agreed that the limit could initially be exceeded by the amount of such repurchases and that over time the excess would be gradually reduced and eventually eliminated; accordingly, the cumulative access limit would eventually be applied to all member countries.

His proposal, Mr. de Vries went on, would enable all member countries--whatever their outstanding use of Fund resources might be--to use additional resources in the initial phase of the medium-term plan and would provide a systematic way of solving the problem of prolonged use by reducing the cumulative access limit over time. During the discussion on prolonged access at EBM/84/134 and EBM/84/135 (9/5/84), some Executive Directors had expressed an interest in establishing rules to limit prolonged use, and the Executive Board should return to the matter in due course; otherwise, the Board might well eventually reduce the cumulative access limit specifically to deal with the problem of prolonged access. Establishing an effective arrangement limiting prolonged use might encourage many Executive Directors to accept a somewhat larger cumulative access limit than they might otherwise be willing to support.

He had difficulty in accepting the staff's conclusion on page 8 of EBS/84/168 that certain countries' need to continue their adjustment effort might justify their receiving net financial assistance from the Fund, Mr. de Vries commented. Access policy should continue to be defined in gross terms rather than net terms. Repurchases, like any other payments to the Fund, were not a justification for additional access; treating repurchases differently would not be consistent with the revolving character of the Fund's resources.

The Executive Directors had agreed that there should be no direct relationship between the limits on access to the regular and special facilities, Mr. de Vries remarked. The staff had made a convincing case for maintaining the present access limits for the special facilities in 1985.

He agreed with the staff that a decision on the financing of the projected commitment gap need not be taken until the next half-yearly review of the Fund's financing needs, Mr. de Vries remarked, but it was appropriate to examine at the present meeting possible ways of closing the gap. It was better to finance any gap through ordinary resources than through additional borrowing, except under the GAB in certain circumstances.

The Fund's present liquidity position was comfortable, but the medium-term outlook was less favorable for two reasons, Mr. de Vries considered. First, borrowing by the Fund would reach maturity after 1988, and second, although at present nearly all the currencies of industrial countries were usable, that had not occurred for any prolonged period in the Fund's history, and a decline in usable currencies might well occur.

Mr. de Maulde said that he strongly agreed with Mr. de Vries' remarks on the mix of ordinary and borrowed resources. That issue should be carefully reviewed.

Mr. Finaish stated that he broadly agreed with the staff analysis and conclusions regarding the maintenance of both the enlarged access policy and the present access limits. As other speakers had noted, any reduction in access limits at the present stage would send a negative signal to the markets about the Fund's commitment to its role in the present crucial period. It would also limit--and in some cases eliminate--the remaining access margins for many member countries, thus making the continuation of a Fund-monitored and supported adjustment process less certain.

As the staff had noted on page 3 of EBS/84/168 and as Table 2 in that paper clearly indicated, there had been a marked shift since December 1983 toward lower access ranges, Mr. Finaish commented. The staff had explained the shift by referring to the "concentration of arrangements among countries for which only limited access could be justified." He saw no particular reason to challenge that explanation, and it might well be that given the relatively small number of arrangements since December 1983, the shift was merely coincidental and therefore temporary. Indeed, the staff expected a partial reversal of the shift in coming months. However, given the experience of the previous ten months, some Executive Directors apparently felt that the decline in average access might also have stemmed from a shift in the interpretation of the criteria on the amounts of access in individual cases. The question whether stricter criteria were desirable, although important, was not at issue in the present debate. Rather, the main question was whether the Executive Board had agreed to such a stricter application during its previous discussion on the subject. In his view, a clarification of that matter would make it easier for the Executive Board to judge the appropriateness of the amounts of access proposed by the staff and would help the staff in applying criteria on access to individual countries.

In discussing the outlook for balance of payments financing needs in the coming period in the context of the assessment of the desirability of maintaining the present access limits, the staff had correctly emphasized the sensitivity of the improved outlook to assumptions regarding interest rates, economic recovery, and protectionist policies in industrial countries, Mr. Finaish commented. However, in judging the financing needs of countries in balance of payments difficulties, particularly those with Fund-supported adjustment programs, it was important to pay adequate attention not only to the external account, but also to the levels of production in, and growth prospects of, those countries. The recent improvement in the balance of payments of many debtor countries had, unfortunately, been accompanied by severe import compression and, therefore, disappointing growth performance. A continuation of that trend would not be helpful to the efforts by those countries to deal with their financial difficulties; and a balance of payments position could not be genuinely viable without an adequate domestic economic performance. It was clear that the degree to which adjustment policies had to carry with them sharp reductions in output and employment depended partly on the adequacy of external finance--including Fund resources--during the transitional period.

Commenting on the financial aspects of the access limits for 1985, Mr. Finaish said that he agreed with the staff that the projections of the Fund's liquidity did not seem to warrant any reduction in the access limits in the coming period. He also agreed that consideration of ways and means of financing the relatively small commitment gap that might emerge at the end of 1985 would be more appropriate in the context of the review of the Fund's liquidity in early 1985, when updated projections for the year would be available.

He broadly agreed with the staff analysis of the access limits for the special facilities and supported the proposal to continue the present access limits under the compensatory financing facility in 1985, Mr. Finaish commented. However, the staff had indicated that several member countries experiencing export shortfalls in 1984 had not made purchases under that facility, owing partly to the failure of the countries concerned to meet the test of cooperation. The staff had stated that "regarding the test of cooperation, with the emergence of payments imbalances for many countries that go beyond those stemming from the reversible shortfalls, the processing of compensatory financing requests has become increasingly linked to the progress of negotiations regarding the policy response that are required to deal with the imbalances." The cooperation requirement for all the seven compensatory financing purchases made in 1984 had been met by the adoption of Fund-supported programs that had provided for purchases in the upper credit tranches, but the question naturally came to mind whether any lower tranche compensatory financing request had been denied on the basis of the cooperation requirement. The existence of a Fundsupported program was clearly not a precondition for lower tranche purchases, although the relevant Executive Board decision required the Fund to be satisfied that the member country would cooperate with the Fund to find solutions to its balance of payments difficulties. In his view, it would be inconsistent with the purpose of the compensatory financing facility to link the processing of lower tranche requests to the negotiating of a program provided, of course, that other requirements were met. Such a link would deny eligible countries a quick-disbursing source of bridging financing in a period in which policies to deal with their balance of payments difficulties were being formulated.

Mr. Senior remarked that the staff papers painted a clear picture of the situation with respect to the Fund's liquidity and the enlarged access policy. He fully supported the staff's conclusions and recommendations, which confirmed the position his chair had taken on previous occasions--namely, that the access limits should not have been reduced in 1984.

Although the world economic situation had improved somewhat during the previous 18 months, many developing countries clearly faced serious external imbalances and still had much to do to achieve the required adjustment, Mr. Senior commented. The Fund had an important role to play in that process, and it could only do so if it maintained or increased its promotion and financing of the adjustment efforts of many member countries. Continuing the enlarged access policy and at least maintaining the present access limits were essential if the Fund were to play its proper role in the coming period.

Indeed, Mr. Senior went on, the Fund's role might well be even more important in the coming months than it had been in the recent past. The member countries in greatest need had approached the institution, and the Fund could help to catalyze financing for them; its backing was essential both for concluding rescheduling agreements and for gaining new resources. As the needs of those member countries were large and the external debt of some of the countries represented a high proportion of the assets of their commercial bank creditors, the parties concerned had no choice but to reach an early agreement. At the same time, however, since commercial banks would probably be less willing than hitherto to provide new flows for member countries that approached the Fund in coming months, Fund resources would probably play an increasingly important role not only in financing or easing adjustment but also in providing an incentive to member countries to seek Fund support for their adjustment efforts. That expectation was reflected in the staff's feeling that Fund financing would represent a higher proportion of quotas in coming months than in the past few months, a conclusion that was a cause for serious concern.

Liquidity considerations need not constrain access limits in 1985 as they had in 1984 as a result of the inadequate resources available to the Fund, Mr. Senior remarked. The present access limits and the recourse to Fund financing expected in coming months should not unduly pressure the Fund's liquidity, which had been strengthened considerably in 1983. Finally, the present access limits for the special facility should be maintained in 1985, although the limits on access to compensatory financing facility had perhaps been excessively stringent.

Mr. Tshishimbi remarked that the reassuring improvement in the Fund's liquidity position should permit it to continue to play an active role in dealing with the world debt problem and the payments imbalances facing member countries during the coming several years.

The staff had noted that, following the reduction in the access limits for 1984, there had been a substantial shift toward lower access ranges, Mr. Tshishimbi said. The shift clearly reflected in part, management and staff's caution in the use of the Fund's resources under the Fund's new catalytic role; low levels of access had been applied to member countries where adjustment was expected to be slow and Fund financing was thought to be needed over a long period. The staff should comment further on the extent to which the lower access in 1984 had been due to continued concern about the Fund's liquidity position and to the automatic application of the Fund's new role as a catalyst of financing. It was true that the access ceilings were not to be seen as targets, but it was regrettable that no member country had qualified for access at or anywhere near the ceilings. Given the elimination of the constraint on the Fund's liquidity in recent months, a more liberal attitude toward the access ceilings in the coming period would be warranted.

He fully agreed with the staff that there was no reason either to eliminate the enlarged access policy in 1985 or to reduce the access limits, Mr. Tshishimbi commented. The constraint on member countries of the present low access limits to the special facilities had been clearly evident in 1984, when several member countries had been unable to use the compensatory financing facility because they had reached the access ceiling. Given the balance of payments and debt problems facing many member countries, the Fund should take advantage of the improvement in its liquidity position to change its attitude toward access policy and to adapt the compensatory financing facility to countries' needs.

Mr. Zhang considered that the staff had made a strong case for maintaining both the enlarged access policy and the present access limits in 1985. There were a number of uncertainties about the world economic situation in 1985. The improved balance of payments position of debtor countries was precarious, and unexpected abrupt changes in the international environment could adversely affect the world economy. Commercial banks still seemed reluctant to expand their lending to developing countries, and the present trend in economic activity in industrial countries suggested that the prospects for the world economy in 1986 might well be less favorable than those for 1985. The Fund should continue to be sufficiently flexible to be able to deal with difficulties that might arise.

In addition to possible unforeseen developments in the world economy, it was important to bear in mind that the successful adjustment thus far by major debtor countries had been achieved largely through drastic curtailment of imports that had undermined economic growth, Mr. Zhang went on. Such austerity could not be maintained indefinitely. In any event, an austerity program alone did not necessarily cause a permanent reduction in the financing needs of a debtor country. Indeed, the staff had forecast an increase in the demand for imports by debtor countries in 1985 that would require outside financing, including Fund resources. Moreover, there were indications that a number of non-oil developing countries would request stand-by arrangements in 1985 for amounts close to the access limits. For those reasons, reducing the access limits at the present stage would be entirely inappropriate.

The Fund's liquidity position had improved substantially in recent months, and the staff had correctly concluded that liquidity considerations need not be a factor in deciding on the access limits for 1985, Mr. Zhang commented. The problem of prolonged access could best be dealt with by improving the design of adjustment programs. As for the determination of access in individual cases, the staff had classified member countries under various categories and had arbitrarily proposed relatively low access for certain groups. It was important to liberalize the Fund's approach to the determination of the access for individual countries; to that end, the Fund's so-called catalytic role should be reviewed. Finally, he agreed with the staff that the access limits for the compensatory financing and buffer stock financing facilities should remain unchanged in 1985.

Mr. Teijeiro remarked that the Fund's liquidity position had improved substantially and was clearly comfortable. He agreed with the staff that any decision on financing the commitment gap projected for late 1985 could be postponed until the next semiannual review of the Fund's financing needs. In that connection, consideration should perhaps be given to changing the mix of regular and borrowed resources.

The present access limits should be maintained in 1985, Mr. Teijeiro considered. A large number of highly indebted member countries would continue to have difficult payments positions despite the improvement in the world economic situation, and the Fund should maintain sufficient flexibility to be able to meet their needs. The Fund's liquidity position need not be a constraint on the access limits for 1985 as it had been in 1984. The prudent application of the access limits to individual member countries in recent months had been consistent with the principle that the limits were ceilings rather than targets. Moreover, any reduction in the access limits at present would send a negative signal to the financial community. Given the uncertainties about the likely evolution of the world economy, it would be unwise to plan for any medium-term reduction in enlarged access. Finally, he agreed with the staff that the access limits for the special facilities should remain unchanged in 1985.

Mr. Clark said that his approach to the issue of access was based on two main considerations. First, the enlarged access policy was a temporary response to a particular set of circumstances; as the world economic situation stabilized, the facility should be phased down and eventually eliminated. Second, financing of enlarged access depended on the availability of borrowed resources, and it could not be assumed that such resources would continue to be available when the existing credit lines began to mature. Hence, some reduction in the access limits in 1985 seemed warranted. At the same time, it was important for the Fund to have the scope to continue the role it had been playing in coping with the present world economic problems; the access policy should be consistent with that objective. Accordingly, the access limits should not be wound down in a way that would damage the Fund's capacity to assist member countries undertaking properly formulated adjustment programs. If the economic environment remained difficult, adjustment might take some time. It would be imprudent to assume that the upturn in the world economy, led by the United States, would continue with unabated--let alone increased--strength in the coming period. It was conceivable that within two or three years, the pressures felt by some countries might again intensify. For those reasons, his authorities attached special importance to the cumulative access limits.

Precisely where the balance should be struck between the various considerations he had mentioned was an open question at present, Mr. Clark continued. The enlarged access policy had been implemented in a satisfactory and prudent manner during the previous year. At the same time, the Fund would be well able to provide adequate and effective assistance to member countries within reduced access limits. There seemed no reason to maintain the second tier of access in 1985; it had not been used in 1984, and there was an adequate safeguard in the form of the provision for higher access in exceptional circumstances. As to the special facilities, he continued to believe that--within the overall resources deployed by the Fund--they had a lower priority than general access arrangements.

The question of how far the limits on the lower tier of access might be reduced should be considered further in the light of the prospects not only for 1985, but also for later years, Mr. Clark commented. The staff papers would have been more useful if they had examined more carefully the implications of adopting lower access limits rather than concentrating on the case for maintaining the present limits.

The Fund's liquidity position was relatively comfortable at present, Mr. Clark said, and the staff projections suggested that the stock of uncommitted ordinary resources would still be substantial at the end of 1986. The staff had also projected a slowdown in commitments for 1985 and an increasing inflow of resources to the Fund through scheduled repurchases. The medium to long-term objective should be to return to the position in which the Fund's operations could normally be financed from ordinary resources. However, as the staff had indicated, there were substantial uncertainties about both the future availability of usable ordinary resources and the likely demand for Fund credit. Adverse developments in the world economy, together with the heavy debt service obligations of many individual countries, could delay the projected decline in requests for Fund financing. It seemed best, at least in the short run, to maintain a flexible approach to both the sources and structure of Fund financing.

The staff had projected, on the basis of unchanged policies, a small commitment gap of SDR 1 billion by end-1985 and had suggested that any decision on closing the gap could be delayed until early 1985, after the completion of the review of the enlarged access policy, Mr. Clark commented. His chair had previously stated that it was important for the Fund not to commit resources without being reasonably assured that the necessary financing would be available. That borrowed resource constraint--modest in 1985, but more serious later on--should be kept in mind in examining both the Fund's need for additional finance and the access issue.

Mr. Morrell said that, for the reasons given by the staff, all his authorities agreed that the enlarged access policy should be continued in 1985 and should be reviewed again by the end of that year. Although the world economic outlook was much better than it had been for some time, a large number of member countries required Fund support; the debt problems facing many of them had not been solved.

His authorities had diverse preliminary views on the access limits for 1985, Mr. Morrell explained. His Australian authorities preferred to reduce the access limits; that position was consistent with their approach during the debate on the access limits for 1984 and reflected the temporary nature of the enlarged access policy. They would be interested in further development of proposals for a phased reduction of the enlarged access limits. At the same time, they had been impressed by the Fund's responsible approach to the access under individual arrangements approved in 1984 and they recognized that compromises had been made by many member countries in reaching agreement on the present access limits. His New Zealand authorities fully agreed with the staff that the present access limits should be maintained in 1985. Some of his other authorities felt that given the present uncertain economic climate, including limited access to international capital markets, increased protectionism, and many countries' reliance on import compression to achieve adjustment, the access limits were inadequate and should be increased. However, they were prepared to support a consensus in favor of maintaining the limits in 1985. As for the special facilities in particular, his Australian authorities preferred a moderate reduction in the access limits, while his other authorities were prepared to go along with the proposal to keep the present access limits through 1985.

His authorities generally endorsed the staff's conclusions on the Fund's liquidity position, Mr. Morrell said. Financial considerations apparently were not a compelling reason for reducing the access limits in 1985. They also agreed with the staff that it was preferable to wait until the next semiannual review of the Fund's liquidity to consider possible steps to deal with the projected commitment gap for borrowed resources of about SDR 1 billion by the end of 1985. His authorities continued to oppose borrowing by the Fund in private capital markets, but they were prepared to take another look at the proposal to establish a central bank investment facility. The need to avoid excessive optimism about the Fund's financial position was underscored by the fact that the level of usable resources was as high as could be expected under the present quotas; moreover, it had resulted from the improved conditions in industrial member countries.

Ms. Bush remarked that as the Interim Committee had stressed, the enlarged access policy was a temporary response to the unusual difficulties caused by the large external imbalances of many member countries. The latest World Economic Outlook discussions had shown that the world recovery was accelerating faster than had been anticipated and that the current account imbalances and corresponding financing needs of member countries had sharply declined. On previous occasions, her chair had stated that, as the world economic situation improved, it would be desirable to reduce the temporarily enlarged access limits; therefore, it would be logical to begin to do so in 1985. The Fund had exercised prudence in applying the access limits in 1984, but, as the staff had noted, certain special factors had made that task easier than might have been expected, and continued prudence in the coming period would certainly be desirable.

There was clearly a declining need for Fund credit, as the effects of adjustments programs were becoming evident; and safeguards--especially the exceptional circumstances clause--would still be available to deal with unusual problems, Ms. Bush continued. Hence, it would be unnecessary to continue the across-the-board high access limits used in 1984. Lowering the access limits in 1985 would also help to avoid prolonged use of Fund resources. That was not to say that the Fund would have no role to play in assisting member countries that had reached the access limits. Rather, Fund surveillance--with or without simultaneous Fund financing--could have an important continuing influence on member countries' use of Fund resources.

Although the liquidity problem facing the Fund was not as large at present as at end-1983, the staff had projected a commitment gap for end-1985, assuming the present access limits were maintained, Ms. Bush noted. Lowering the access limits could eliminate both the commitment gap and the need for additional Fund borrowing in 1985. Her authorities continued to have strong reservations about private market borrowing by the Fund.

Reducing the present access limits by about 20 percent in 1985 seemed appropriate, Ms. Bush considered. The upper tier of access limits could be substantially reduced, if not eliminated. Continuing the 1:4 ratio between the annual and cumulative limits was not a foregone conclusion; a relatively greater reduction in the cumulative limits might be a useful method of addressing the problem of prolonged use of Fund resources. Her position was based on several factors: the adjustments by, and improvements in, individual member countries; the world economic situation; the temporary character of the enlarged access policy; the fact that the present access limits were well above the original limits; and the continued availability of the exceptional circumstances clause to handle unusual problems.

The Executive Directors agreed to continue their discussion in the afternoon.

APPROVED: June 24, 1985

LEO VAN HOUTVEN
Secretary