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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 84/135

3:00 p.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
	G. E. L. Nguyen, Temporary
	M. Teijeiro
	M. K. Bush
M. Finaish	T. Alhaimus
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	
	S. E. Conrado, Temporary
	E. Olsen, Temporary
	T. A. Clark
Zhang Z.	

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

Also Present

African Department: O. B. Makalou, Deputy Director. Asian Department: J. H. Felman. Exchange and Trade Relations Department: C. D. Finch, Director; W. A. Beveridge, Deputy Director; S. Mookerjee, Deputy Director; L. H. Duran-Downing, H. W. Gerhard, S. Kanesa-Thasan, M. R. Kelly, P. Neuhaus. External Relations Department: C. S. Gardner, Deputy Director. Legal Department: G. P. Nicoletopoulos, Director; Ph. Lachman. Middle Eastern Department: F. Drees. Research Department: W. C. Hood, Economic Counsellor and Director; R. R. Rhomberg, Deputy Director; 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. 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 Executive Directors: E. A. Ajayi, H. A. Arias, W. Moerke, 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, A. K. Juusela, H. Kobayashi, K. Murakami, G. W. K. Pickering, T. Ramtoolah, M. Rasyid, J. Reddy, A. A. Scholten, A. J. Tregilgas, Wang C. Y., M. A. Weitz, A. Yasseri.

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

The Executive Directors continued from the previous meeting (EBM/84/134, 9/5/84) their consideration of staff papers on the 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. Malhotra agreed with the staff that the Fund's liquidity position had improved considerably and that a decision on the financing of the commitment gap projected for late 1985 could be delayed until the next semiannual review of the Fund's financing needs. The staff should further study the possibility of changing the present mix of borrowed and regular resources in order to support the enlarged access policy. At present, he was inclined to favor a change in the present mix so that borrowing by the Fund could be avoided in 1985.

It was useful to recall that at its meeting in September 1983, the Interim Committee had invited the Executive Board to note that some participants favored maintaining the then existing access limits for 1984 and that some others had stressed the need to bear in mind developments in the Fund's liquidity in setting those limits, Mr. Malhotra said. Subsequently, in its report to the Interim Committee, the Executive Board had mentioned the staff projection of a gross borrowing requirement of SDR 8 billion, SDR 13 billion, and SDR 16 billion in January 1984-April 1986 to support access limits of 102 percent, 125 percent, and 150 percent of quota, respectively. In the event, the Interim Committee had recommended alternative access limits of 102 percent and 125 percent of quota, which had then been adopted by the Board. The staff had now projected that only a small commitment gap--SDR 1 billion--would appear toward the end of 1985 and had suggested that it might have to be covered by borrowing.

Executive Directors seemed agreed on the need to continue the enlarged access policy in 1985, Mr. Malhotra commented. Some of them had stressed that the policy was temporary and should be phased out during the coming three or four years, beginning with a 20 percent reduction in the access limits for 1985. In assessing such views, it was important to bear in mind that the enlarged access policy had initially been devised mainly because of the inadequacy of Fund quotas. On page 80 of the Annual Report for 1981, it was stated that "over time, the total of Fund quotas has fallen as a proportion of world imports from 12 percent in 1965 to only about 4 percent in 1980"; and the decline in relation to the balance of payments deficits of a large number of member countries had been even greater. The Fund's quota base had been greatly eroded in real terms over the previous 15 years, and access to its resources in terms of multiples of quotas had had to be increased to ensure that members could receive adequate financing in support of their adjustment efforts. Despite the increase in quotas under the Eighth General Review, the proportion of quotas to world imports had increased only a little, to about 6 percent. The most recent World Economic Outlook paper had projected a 10 percent annual increase in world imports, suggesting that the relationship between quotas and world imports would revert to the one that had prevailed before the Eighth General Review, when the Fund had felt the need to adopt the enlarged access policy. It would be wrong to consider phasing down the enlarged access limits without simultaneously considering a substantial increase in quotas. A reduction in the access limits would seriously undermine the Fund's ability to react to changing circumstances in the world economy. A medium- or longer-run plan for a reduction in access limits should not be planned without providing for substantial increases in quotas, bearing in mind their relationship to the growth of world imports. Any resolution of the access issue that failed to take into account the present inadequacy of quotas would not be in the best interest of the adjustment process.

The staff papers contained a balanced assessment of the present and prospective world economic situation, Mr. Malhotra considered. One of the staff's major conclusions was that the recent reduction in the external current account balance of non-oil developing countries had been due to a lack of financing for imports; it did not reflect a reduced need for external resources as such. Developing country imports were estimated to be much lower in nominal terms in 1984 than in 1981; and the staff had recently estimated that those countries had further reduced their imports by about 10 percent in the first quarter of 1984 compared with the final quarter of 1983. External current account improvements based on import compression were not sustainable. While there had been some improvement in the world economic situation, the staff had rightly cautioned that it should not be overemphasized in view of continuing uncertainties and weaknesses.

The considerable decline in the share of financing by international institutions--including the Fund--in total financing in the 1970s had caused some countries to postpone their adjustment efforts, Mr. Malhotra remarked. It was important to learn from the past: a further reduction in the Fund's relative financing role could again contribute to adjustment-related problems. The staff had mentioned that some developing countries still faced serious debt problems and needed Fund support. It was important to assess the access issue in the perspective of recent history and expected needs, which would suggest that at the present stage, measures phasing out the enlarged access policy--which had proved very effective--were unwise.

Those who favored a reduction in the access limits in 1985 seemed to imply that it would signal that the Fund believed the world economy was healthy, Mr. Malhotra commented. He wondered whether such a signal needed to be conveyed in that manner. Other speakers had stressed that the markets would see a reduction in the access limits as a sign that the Fund was cutting back its financing role, an impression which should be avoided.

It was unconvincing to argue that a reduction in the access limits in 1985 should be acceptable because the provision for exceptional access would be retained, Mr. Malhotra mentioned. It was noteworthy that the Fund had never permitted a member country to exceed the established access limits; indeed, the Fund had been reluctant to permit access even up to the established limits for 1984. A clause providing for exceptions could not adequately substitute for an established access limit.

The financing gap of SDR 1 billion projected for the second half of 1985 was not a good reason for reducing the access limits at the present stage, Mr. Malhotra considered. After all, at its September 1983 meeting, the Interim Committee had implied by adopting alternative access limits of 102 and 125 percent of quota, that it had been prepared to accept Fund borrowing totaling $8-13 billion in the period up to April 1986. In any event, given the Fund's improved liquidity position, it should be possible to use ordinary resources instead of additional borrowing to close the projected financing gap. Moreover, there was no certainty that a financing gap would in fact appear in 1985.

It appeared, in restrospect, that there had been no justification for reducing the access limits for 1984, Mr. Malhotra added. In fact, Fund borrowing totaling $8 billion until April 1986 could easily have supported an annual access limit of 150 percent of quota. There was certainly no case on liquidity grounds for reducing access limits in 1985.

The restriction on access in 1984--both the shift to lower access limits, and the limited actual financing--had apparently been a response to the then perceived constraint on the Fund's liquidity, Mr. Malhotra continued. While he recognized that liquidity estimates were difficult to make, it was clear that the staff's estimates for borrowing needs relative to access limits had proved to be quite inaccurate. Following Executive Board discussions on access for individual cases, he had expected much more liberal Fund financing than had actually occurred. During the discussions on access limits for 1984 some Executive Directors, including himself, had expressed their concern that the effective ceiling on access would be 102 percent of quota, rather than the alternative limit of 125 percent of quota, which was then being suggested as a second tier. That concern had obviously been justified, as actual access had been well below 102 percent of quota. The Fund's financing in individual cases must be much more liberal in the coming period than in 1984. Otherwise, many countries would be forced to continue adjustment through further import compression that was not healthy for their economies.

The catalytic role of the Fund should be carefully reviewed, Mr. Malhotra considered. It had been useful in helping heavily indebted member countries to obtain additional bank financing over and above Fund financing, but should not become an argument for restricting financing by the Fund itself for low-income countries, particularly in Africa.

At the conclusion of the discussion on enlarged access at Executive Board Meetings 83/168 and 83/169 (12/5/83), Mr. Malhotra recalled, the Chairman had said that "a number of Directors expressed the view that the problem of small-quota, low-income countries has been dealt with inadequately in the staff paper and that the Fund should carry out the injunction in the Interim Committee in paragraph 5 of its communique that in implementing its policies on access to resources, the Fund should be particularly mindful of the very difficult circumstances of the small-income countries." The Chairman had added that a number of Directors had felt that, in considering such cases, the Fund should bear in mind that the limit of SDR 25 million for small quotas was outdated and should be reviewed. Since then, the Executive Board had had no opportunity to address the issue of those countries, and the issue should be brought up again in the coming months. In interpreting its catalytic role restrictively in relation to several low-income, small-quota countries, and in not addressing the problem of small-quota countries effectively the Fund had not, in his view, met the expectations of the Interim Committee.

He fully supported Mr. Ismael's comments on the access limits for special facilities, Mr. Malhotra said. In 1984, five countries had found that their financing under the compensatory financing facility had been constrained by the lowered access limit. The previous access limit on compensatory financing--100 percent of quota--should therefore be restored for 1985. Moreover, there was no justification for mandating annual reviews of the access limits for special facilities. After all, the Executive Board could choose to review any of its policies at any time. If the Executive Board felt that it was required by the Interim Committee to review the access limits for special facilities, the Committee should be asked to clarify its position with a view to avoiding yearly reviews of those limits.

He fully agreed with Mr. Ismael that the tightening of conditionality on compensatory financing had seriously detracted from its traditional rapid availability, Mr. Malhotra continued. Staff missions to member countries had become the practice even for requests involving use of the lower tranche--up to 50 percent of quota--of the compensatory financing facility. The facility had been designed to compensate temporary export shortfalls caused by factors beyond a member country's control. It had not been intended that members using the compensatory financing facility should necessarily readjust their policies. Policy and practice with respect to the compensatory financing facility should be reviewed, with a view to restoring the facility's effectiveness. The recovery of exports in some member countries was not sufficient reason to lower the limits on access to the compensatory financing facility. While many member countries might not have to use the facility in the coming period, the staff had stated that others might face export shortfalls.

The Director of the Exchange and Trade Relations Department recalled that a question had been raised about the meaning of the statement on page 5 of EBS/84/168 that negotiations had begun and remained in progress with a number of member countries where the nature and size of the balance of payments need would justify access at or close to the limit. The staff had meant to say that the present circumstances in some member countries were similar to those that had led the Executive Board to adopt the enlarged access policy. In particular, those countries had accumulated sizable payments arrears and needed to establish the credibility of their policy efforts. If those countries agreed to make what the staff felt were decisive policy actions, they would require, and might well qualify to receive, relatively large amounts of Fund financing. The staff had not meant to say that merely because some member countries needed financing in larger amounts, the Fund would necessarily supply it. The countries concerned would have to make the necessary policy decisions first, and each request for assistance would have to be carefully examined.

On page 3 of EBS/84/168, the staff had fully explained the reasons for the shift toward lower access summarized in Table 2 on page 5, the Director commented. The Fund's overall liquidity had not been a factor in the determination of the access for individual countries in the period covered by Table 2. Rather, the determination had been based on how quickly the countries concerned had been expected to recover and on the likelihood that they would be involved in further prolonged use of Fund resources. The staff had also explained that during the period covered by Table 2, the Fund had been negotiating with member countries that could conceivably qualify in coming months for relatively high access.

The reference on page 8 of EBS/84/168 to "net" financial assistance from the Fund did not mean that the staff had abandoned the gross concept of assistance in favor of the net one, the Director explained. Moreover, the text in question would still be accurate if the word "gross" was substituted for "net." The staff had meant to say that, if certain countries continued their adjustment effort, they might qualify for gross assistance that would exceed their outstanding repurchases. The reference to net financial assistance was not meant to suggest the need for a new policy.

The discussion in the staff papers was preliminary, the Director of the Exchange and Trade Relations Department said. The staff intended to examine further the relationship between the cumulative and annual access limits and the problem of prolonged use of Fund resources. At the time of the writing of the papers, the staff had had only eight months' experience with the present access limits; therefore it had been able to offer only its first reaction to the experience with their application.

The Director of the Research Department recalled that the question had been raised whether any request for drawings under the compensatory financing facility for amounts below 50 percent of quota had been denied during 1984 on the ground that the member had failed to cooperate with the Fund. As a rule, a member country's decision on whether or not to approach the Fund was not based on a single factor. There had been two or three cases in 1984 in which the policy approach of the member countries concerned had led the staff to doubt seriously that the countries would cooperate with the Fund to solve the countries' balance of payments problems, and those doubts had been of considerable importance in the decision by the countries not to request compensatory financing.

The Treasurer said that there were several reasons why the staff had revised its estimate of commitments in 1984 from SDR 8.25 billion--calculated in spring 1984--to the present estimate of SDR 5.3 billion. The world economic outlook had improved substantially. There was no strict proportional relation between changes in that outlook and changes in member countries' need for financing, but the former were likely at least to influence the latter. The external current account deficit of the non-oil developing countries had been reduced, and the prospects for financing it had improved. At the same time, it was important to note that the uncertainty about the outlook for the world economy had never been greater. Hence, the declining trend in the demand for Fund credit in 1985 suggested by the available data should be seen merely as an indicator of likely developments, and not as a foregone conclusion. The present downward trend might well be reversed in 1985 if the world economic outlook changed. It was also useful to bear in mind that the way in which large member countries financed their payments needs could significantly change the estimates of Fund financing by as much as SDR 2-3 billion. Indeed, much of the downward revision of SDR 3 billion for 1984 in the latest staff estimates was due to the changed position of a small number of relatively large member countries. For instance, one major member country had decided not to use all the Fund resources to which it had been entitled; the negotiations with one or two major member countries had taken longer than expected, and another member country no longer wished to negotiate an extended arrangement and intended to seek a series of one-year stand-by arrangements instead. Of course, unexpectedly long negotiations and switches from a multiyear arrangement to a series of shorter arrangements did not necessarily diminish the demand for Fund resources over time, but they did affect the estimates made for a single year. In fact, more than 40 countries were likely to request Fund resources in 1985; and 30 of them were already using Fund resources, a fact that was consistent with the relatively low access that had been given to individual member countries in 1984, as it had been evident that those countries would require additional Fund financing in coming years to support their continued adjustment efforts. Recognizing the Executive Directors' wish to understand the reasons for changes in staff estimates of the demand for Fund credit, the staff had provided detailed explanations in the present set of papers.

The question had been raised, the Treasurer recalled, why the commitment of borrowed resources would be much greater in 1985 than in 1984. Table 2 in EBS/84/171 showed that new commitments would be covered by SDR 2.2 billion of borrowed resources in 1984 and SDR 3 billion in 1985 and that the proportion of the new commitments covered by borrowed resources would rise from about 40 percent to 60 percent. The explanation for the increase was that the use of the Fund's ordinary resources was limited to 100 percent of quota, and any financing in excess of that amount had to be covered entirely from borrowed resources; many member countries had used the Fund's ordinary resources in 1984 and earlier, and had reached, or were about to reach, the limit of 100 percent of quota. Indeed, the staff had estimated that under the present policy on mixing resources, a small number of stand-by arrangements, amounting to some

SDR 2 billion, might be responsible for the employment by the Fund of SDR 1.7 billion in borrowed resources--a share of 80 percent--because the countries concerned had already used large amounts of the Fund's ordinary resources relative to their quotas.

The reference to the heavy repurchase obligations in 1986-88 was in no way meant to suggest that member countries might well delay scheduled repurchases and accumulate arrears to the Fund, the Treasurer said. The staff had merely meant to note that the substantial repurchases--about SDR 23 billion--due in that period would cause a net improvement in the Fund's liquidity, as approximately SDR 13 billion would be used to repay Fund creditors, leaving some SDR 10 billion to add to the Fund's liquidity. In addition, the staff had cautioned that that net improvement in the Fund's liquidity should be seen in isolation of balance of payments developments in the period concerned. It was conceivable that the member countries making the repurchases and other members might have a genuine need for new Fund financing. Hence, total new commitments under stand-by and extended arrangements in 1985 would depend to a major extent on developments in the world economy and on the Fund's financing policy. He fully agreed with Mr. Nimatallah that the Fund's credit standing and ability to increase quotas would be harmed by member countries' hesitation to make scheduled repurchases.

The Chairman made the following statement:

I shall not attempt to sum up this discussion, which was a preliminary one. We will have to return to these matters, and I am sure you will report to the members of the Interim Committee what was said today. Instead, I would like to give you my personal views on the very important question of access limits for 1985.

1. I was interested to hear some suggestions for a paper describing the impact on the Fund's liquidity of different possible schedules for phasing out the enlarged access policy. We will of course prepare such a paper, but there is clearly no direct mechanical link between the maximum access limits we are discussing today and the amount of Fund resources that would be used under the enlarged access policy in 1985. In addition to the number and size of requests, the way in which the Fund applies the access ceilings to individual countries is one of the main factors in the total use of Fund resources. Reducing the ceiling on maximum access from 102 percent of quota to, say, 90 percent, as one Director suggested, would certainly not entail a proportionate reduction in the utilization of Fund resources in 1985. Indeed, it might not entail any reduction, as in recent months the bulk of resource use has been well below the ceiling.

As a number of Directors stressed today, the Fund has indeed implemented the enlarged access policy very cautiously in 1984. More than 80 percent of the arrangements approved since December 1983 have been for amounts below 61 percent of quota, compared with only 40 percent of the arrangements approved in 1982-83; and no arrangement reached the ceiling. I hope that the membership, and particularly creditor countries, will take the caution exercised by the management and the Board into account in determining their position on the access limits for 1985.

My next observation has to do with the justification given by some Directors for their proposed reduction in the access limits for 1985. I did not hear a convincing justification for this on financial grounds. Indeed, a reduction in the limits of the size suggested by Directors would not entail any substantial modification of our financial forecasts. The major factors underlying the use of Fund resources are the number of countries that negotiate arrangements with the Fund and the prudence exercised in determining access limits for individual countries.

In passing, I would note that commitments by the Fund have declined markedly in recent years, from some SDR 11 billion in 1983 to approximately SDR 5 billion in 1984, and it remains to be seen whether the SDR 5 billion level forecast for 1985 will be reached. Given the Fund's present liquidity position, which has been bolstered by the factors Directors mentioned, and the limited impact on the commitment of Fund resources in 1985 of a reduction in the access ceilings, I see no financial or liquidity reasons for a sharp or even modest reduction in the access limits in 1985.

Directors expressed concern about the commitment gap of SDR 1 billion projected for the second half of 1985, which could increase somewhat in 1986. But as the projected gaps are small and there is no certainty they will occur, I believe they should not be a dominant factor in the decision on the access limits for 1985. In passing, I would also caution against deciding to rely on the Fund's ordinary resources to finance enlarged access in 1985. Changing the mix of ordinary and borrowed resources could lead some members to fear that further use of enlarged access would result in the need to advance the next general quota review.

2. Another major consideration Directors had in mind in advocating a scaling down of the access limits is the general state of the world economy. Things are indeed better, the global balance of payments situation is certainly improving, and it is useful to see these matters in a longer-term perspective; but that does not necessarily mean that the access limits for individual countries should be reduced at this stage. Indeed,

some of the larger countries will face balance of payments problems in 1985 as severe as those that justified higher access limits in past years. I would therefore caution against an immediate and mechanical reduction in access limits as a response to the improvement in the world economic situation. I would also advise the Board to keep in place in 1985 a set of instruments flexible enough to deal with individual countries' situations in 1985, given the uncertainties about the overall economic conditions. For fully justifiable reasons, some countries may well need the flexibility of higher access limits, and it would be wrong to eliminate that flexibility merely because global macroeconomic conditions and the balance of payments are improving. While the Fund's new commitments are declining, and may well continue to decline further in 1985, I would not wish the Fund to find itself in a difficult position because procedural rules that had not been fully thought through kept it from meeting individual countries' legitimate requests to use Fund resources in large amounts relative to their quotas. Maintaining the present access limits in 1985 would be akin to keeping a lifeboat in reserve in the event a storm should suddenly occur; it would be folly to dispense with the lifeboat merely because weather conditions were fair for the time being. We do not know for certain what the world economic situation will be in 1985, and we cannot say for certain how long the present recovery will last.

3. Executive Directors seem to have two underlying justifications for reducing the access limits for 1985: to signify that the policy is being phased down; and to try to cope with the problem of prolonged use of Fund resources.

I agree that enlarged access is not a permanent part of the Fund's policy armory; it is a temporary mechanism for dealing with specific conditions that will improve. I also understand the view of some Directors--although I do not share it--that we should take advantage of the improvement in the global macroeconomic situation to send a signal--a reduction in the access limits--stressing the temporary nature of the enlarged access policy. Signals have to be given at the right moment, and in my view the time has not come to send a signal in the form of a scaling down of access to the Fund. The situation is still uncertain. World interest rates remain very high--having risen by more than two percentage points since the previous Interim Committee meeting--and there is considerable nervousness in financial markets and among heavy debtors that feel they are devoting excessively large amounts of their resources to meeting their financial obligations. In some countries, the needed adjustment may affect political stability, and in all frankness, protectionism has not been abating; indeed, it has probably been reinforced since the April meeting of the Interim Committee. In such unstable circumstances--despite the large improvement in the general macroeconomic situation--and in the absence of pressure on the Fund's financial resources, for the Fund's major creditors to favor reducing the access limits could well have distinctly negative psychological consequences. And it would not ease the task of the Fund in encouraging other creditors--be they banks or other institutions--to participate in the financial packages that it will have to organize for some important countries in the coming months.

The prolonged use of Fund resources is, I agree, a genuine problem. We discussed it on June 15, 1984, and we will have to consider it further in due course, but it would be best to look at the specific characteristics of prolonged use with a view to eliminating its causes. In particular, we should try to increase the effectiveness of adjustment programs by improving operational and monitoring procedures, and some of you may well feel that there is a case for resorting to norms designed to prevent undue prolonged use. But I would be very concerned if we were in effect to skim over the problem of prolonged use by reducing access in a mechanistic way, thereby cutting off Fund assistance to member countries approaching the access limits.

4. I was most concerned to learn that some Directors favor a cumulative access ceiling in 1985 of the order of 300 percent of quota, as it would cut off further Fund assistance to countries like Brazil, Ivory Coast, Jamaica, Mexico, Sudan, Turkey, and Yugoslavia, which are engaged in important adjustment programs that will take time to implement and show results. It is true that some countries should accelerate their adjustment effort, but cutting them off from Fund financing merely because they reached 300 percent of quota surely would in my view be the wrong response.

Fund assistance, even in limited amounts--and I have sympathy with Directors who wish to consider carefully the amounts that would be appropriate in each case--would be in the best interest of the adjustment process and the smooth provision of international assistance. I do not accept the argument that reducing the access limits would be appropriate because members could still invoke the exceptional circumstances clause; an effective and well-administered system cannot be built on provisions for exceptions. Such an approach would open the Fund to the charge of arbitrary behavior. I much prefer to have a ceiling that would probably be reached only rarely or perhaps never than to state that any member country reaching a specified access limit would be cut off from access to Fund resources unless it was deemed sufficiently important to the system to warrant exceptional access. I would prefer to find other ways of dealing with the problem of prolonged use.

> The present cumulative access limit of 500 percent of quota maintains useful room for maneuver. I realize that some Directors might feel that reducing only the upper access tier of 125 percent of quota would give a signal of the temporary nature of the enlarged access policy. But whatever the views on this, and I have my doubts, I would urge them not to seek a proportionate reduction in the cumulative access limit to 408 percent of quota, which, as I see it, would be insufficient, given the many uncertainties about the future.

Mr. de Vries said that it was important to stress that unless a solution to the problem of prolonged use of Fund resources was found, it might well be difficult to avoid a reduction in the cumulative access limits. He hoped that the staff would examine possible solutions. Mr. Polak had already made detailed proposals in which some Executive Directors had expressed interest.

Mr. Kafka remarked that the discussion in the Executive Board had shown that prolonged use of Fund resources was complicated and had not yet caused major difficulties; accordingly, the Fund should not act hastily to regulate prolonged use either directly or by reducing the access limits. The Fund should first determine how serious the problem actually was.

Mr. Malhotra agreed with Mr. Kafka. The staff itself had mentioned that prolonged use had not caused major problems. He was certainly willing to discuss it further if other Executive Directors wished to do so, but there was no need to bring the matter back to the Executive Board's agenda in the near future.

Mr. Nimatallah remarked that the timing of a decision changing the mix of ordinary and borrowed resources was important. The change should not occur forthwith, but the time was ripe to begin thinking about making it in 1985.

Mr. Malhotra said that he understood why the Chairman was reluctant to recommend a change in the mix of ordinary and borrowed resources. He himself had not reached a firm conclusion on the matter; as the Chairman had mentioned, the commitment gap projected for late 1985 might well not materialize. He wished it to be clearly understood that he did not favor changing the mix at the present stage.

Mr. Joyce remarked that at its coming meeting the Interim Committee was unlikely to have a fruitful discussion on the access limits for 1985 unless it recognized that the problem of prolonged use of Fund resources had not been solved, that there were a number of possible solutions, and that the Executive Board was examining them. The immediate issue was the access limits for 1985, a change in which was not necessarily the best way to solve the problem of prolonged use.

Mr. Grosche remarked that great caution was called for in considering a change in the mix of ordinary and borrowed resources.

The Treasurer explained that some SDR 1 billion in ordinary resources was already being used to finance enlarged access that would otherwise have been financed by borrowed resources because the Fund had short-term credit that did not cover the whole period of outstanding access. Ordinary resources might well have to be employed for the same reason when the time came to repay SDR 6 billion in short-term loans. It had been deliberately decided that the Fund could cover that particular involvement of ordinary resources by borrowing as and when it became available. That arrangement was different from the mix of resources Executive Directors had discussed; it had the effect of changing the mix but not of altering the policy on the mix.

The Executive Directors concluded their discussion for the time being on the access limits for 1985.

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/84/134 (9/5/84) and EBM/84/135 (9/5/84).

2. ST. CHRISTOPHER AND NEVIS - REPRESENTATIVE RATE FOR ST. CHRISTOPHER AND NEVIS E.C. DOLLAR

The Fund finds, after consultation with the authorities of St. Christopher and Nevis, that the representative rate, under Rule O-2(b)(i), for the E.C. dollar circulating in St. Christopher and Nevis against the U.S. dollar is the rate determined by the fixed relationship for the E.C. dollar circulating in St. Christopher and Nevis to the U.S. dollar. The Eastern Caribbean Central Bank will immediately inform the Fund of any change in the representative rate.

Decision No. 7795-(84/135) G/S, adopted
September 5, 1984

APPROVED: June 24, 1985

LEO VAN HOUTVEN
Secretary