FOR AGENDA

EBS/83/172

CONFIDENTIAL

August 12, 1983

To: Members of the Executive Board

From: The Acting Secretary

Subject: Enlarged Access - Scale of Access and Limits

The attached paper dealing with principles governing the amount of enlarged access and a two-tier approach to access limits has been tentatively scheduled for Executive Board discussion on Wednesday, August 31, 1983.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Enlarged Access: Scale of Access and Limits

Prepared by the Exchange and Trade Relations Department

(In consultation with other departments)

Approved by C. David Finch

August 12, 1983

In EBS/83/132 (Review of the Policy on Access to the Fund's Resources--General Considerations), the staff had discussed the principles and practices governing the amount of access for individual arrangements. During the Board discussion on this matter (EBM/83/110 and EBM/83/111 (7/25/83)), the view was expressed that it would be useful to formalize the considerations governing the amount of access. The present note attempts to do that, and also comments briefly on a suggestion that was made at that meeting of a two-tier approach concerning enlarged access limits.

I. Principles Governing Enlarged Access

1. Under the decision on the enlarged access, a request for the Fund's resources will be met only if the Fund is satisfied that the payments imbalance that the member faces is large in relation to its quota, that the member's financing need from the Fund exceeds the amount available to it in the credit tranches or under the EFF, and that its problem requires a relatively long period of adjustment and a period of repurchase longer than three-to-five years. The decision further states that the period of a stand-by arrangement involving enlarged access will normally exceed one year and may extend to three years, and the period of an extended arrangement will be normally three years, and that the member's program should be adequate for the solution of its problem. In practice the Fund has considered successive one-year stand-by arrangements, formulated within a medium-term strategy of steady progress toward a sustainable balance of payments position, as consistent with this decision. The Fund has, moreover, accepted that in certain circumstances involving enlarged access, a full resolution of the balance of payments difficulties may take longer than three program years. Enlarged access may also be appropriate in special cases of one-year stand-by arrangements; these are cases (a) when a one-year arrangement is considered adequate for the solution of the member's problem but the member's financing need from the Fund is greater than the amount available to it in the credit tranches, (b) when such an arrangement is entered into, following a period of Fund support through an extended arrangement or successive stand-by arrangements, when the member has already used its credit tranches, and the arrangement is intended not primarily to meet a financing need but to maintain confidence in the member's policies.

2. A member's access to Fund resources would depend on the following considerations: (a) the size of the payments imbalance and the need for financing from the Fund, after taking into account the availability of other financing, (b) the nature of the payments imbalance, and the expected speed of recovery of the balance of payments, (c) the quality and strength of the adjustment program, including the appropriateness of the policies and of the timing of their application, and (d) the past record of the member in avoiding continuous use of the Fund's resources over a protracted period.

3. (a) Given the balance of payments need, access at or close to the limits is appropriate where a decisive improvement in the balance of payments can be expected within three years. In such cases, the member would be expected to have a comprehensive adjustment program, generally covering two or three years, with major adjustment measures to be taken in the first year, and adjustment expected to be completed by the end of the program period. If the member's circumstances make a succession of one-year arrangements more appropriate, the initial arrangement should constitute a substantially changed direction of policy and a major adjustment effort, and the medium-term adjustment path should be clearly delineated, with the aim of completing the adjustment process within a period of three years. In the special case of a one-year arrangement which may be considered adequate for the solution of the member's problems as noted toward the end of the first paragraph, access at or close to the limit may be appropriate if the requirement of need is satisfied.

(b) In exceptional circumstances, access exceeding the limits may be provided where the member has a particularly large financing need and where a rapid turnaround in the balance of payments can be expected to materialize, provided the other considerations mentioned in 3(a) are satisfied.

4. In the majority of cases where the process of balance of payments adjustment is likely to take more than three years, the annual amount is expected to be well below the limit, even when the balance of payments need, by itself, could justify a higher amount. These would include (a) cases where the adjustment program is supported by the Fund under the EFF but where it is not expected that the resolution of the balance of payments problem will be completed within the three-year period, and (b) cases where adjustment requires a period of several years and a step-by-step approach involving successive one-year arrangements is envisaged, with each one-year program being a part of a longer adjustment effort. In view of the possible involvement of the Fund over a number of years, there must be the prospect within a reasonable period, say, five years, of a significant reduction in balance of payments pressures enabling the member to make net repurchases to the Fund. The amount of access may of course be well below the limits on the ground of balance of payments need in the case of arrangements which otherwise meet the criteria described in paragraph 3(a).

5. More limited amounts would be appropriate in other circumstances:

(a) The member's outstanding use of the Fund is large and, in the light of the projected development of the balance of payments over the medium term and its prospective ability to service its debt, further substantial purchases from the Fund would be likely to add significantly to its debt servicing burden. The amount of the financing need that can be met from the Fund in these circumstances must be closely related to the expected rate of improvement in the overall balance of payments.

(b) A substantial improvement in the balance of payments calls for fundamental economic changes which can be achieved only over a fairly long period. While financing in such cases should come from other sources on appropriate terms, Fund financing on a small scale could be justified if the member is taking appropriate steps to deal with its situation. It would be expected that by serving to maintain international confidence in the policies of the member, the program supported by the Fund would encourage aid donors to provide the concessional resources needed by the member.

In both of the above cases, care should be taken to ensure that Fund financing does not take on a semipermanent character. Within a reasonable period, the member must begin to make net repurchases each year with a view to restoring its credit tranche position.

6. There will be instances other than those discussed in the above two paragraphs where a judgment will have to be made on the appropriate amount of access; this amount, in any event, would remain well below the limits.

II. A Two-Tier Approach

At EBM/83/110 and EBM/83/111 (7/25/83), the suggestion was made that the normal limits of access might be set at 102/305/407, with a second tier of exceptional additional limits of say 25/75/100. A two-stage approach could be envisaged with the second tier being activated to support follow-on arrangements after the normal limits of 102/305/407 had been exhausted, but this would have the implication of stretching commitment of resources by the Fund to a continuous period of as much as six years or more. Another possibility would be to provide resources up to the normal limits in appropriate cases, and, should unforeseen events during the course of the program give rise to a larger financing need than initially foreseen, to meet this need up to the limits of the second tier. However, the application of this procedure might lead to awkward situations. A member whose financing need, at the time it requested Fund resources, was larger than, say, 102 percent of quota could not receive more than that amount, while another member, whose need became larger during the course of an arrangement, could benefit from the second tier in addition to the normal limit.

A more practical approach which the staff would favor would be to compress the two stages into one in which case the Fund would normally apply limits of 102/305/407, but would apply the enhanced limits of 125/375/500 in exceptional cases. Thus all exceptional treatment would be contained within the latter limits. This is somewhat different from the staff suggestion in EBS/83/79 of limits of 125/375/500, with the possibility of exceeding the annual and triennial limits in exceptional circumstances, subject to the cumulative access limit of 500.

The conditions for exceptional treatment have been indicated in the preceding section under 3(b). These criteria were based on the access limits of 125/375/500, with provision for additional amounts in exceptional cases. If instead the normal limits were set at 102/305/407 with the enhanced limits of 125/375/500 being applied in exceptional cases, these criteria would need to be applied more rigorously as the scale of financing from the Fund would be less. While exceptional needs resulting from major unforeseen external events might be an occasion for the application of the second tier, the staff believes that this tier should apply to any exceptional balance of payments need, whatever the cause.