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CONFIDENTIAL

September 29, 1983

To: Members of the Executive Board
From: The Secretary
Subject: Measures to Conserve the Fund's Usable Resources
in Present Circumstances

There is attached for consideration by the Executive Directors a paper on measures to conserve the Fund's usable resources in present circumstances.

This subject has been scheduled for discussion on Monday, October 3, 1983.

Att: (1)

INTERNATIONAL MONETARY FUND

Measures to Conserve the Fund's Usable Resources
in Present Circumstances

Prepared by the Treasurer's Department and the Exchange
and Trade Relations Department

(In Consultation with other Departments)

Approved by W.O. Habermeler and C. David Finch

September 29, 1983

I. Introduction

In his statement on The Financing of Commitments Under the Present Policy of Enlarged Access (Buff 83/240, 9/14/83), the Managing Director indicated that the staff would examine various ways to slow down the drain on the Fund's usable resources pending the conclusion of further borrowing arrangements to close the gap between the amounts of borrowed resources committed by the Fund under the enlarged access policy and those available to it under existing credit lines (the "commitment gap").

In this connection, it will be recalled that the Managing Director expressed the view that the commitment gap, amounting to SDR 4.1 billion at present and which, on present policies, was projected to rise to SDR 6 billion by the end of 1983/early 1984 (and to SDR 7.8 billion by April 1984), could not be permitted to increase over the next few months "in the absence of reasonably firm indications on the means of financing it" and in the light of the rapidly deteriorating liquidity position of the Fund. His statement then continued as follows:

In this regard, one solution could be for the Fund to cease entering into any new arrangements involving the enlarged access policy--i.e., to effectively suspend the policy on enlarged access so that the Fund would not, for the time being, enter into further commitments involving EAR borrowed resources. We could also consider various alternative modalities to ration access to the Fund's resources, including ordinary resources, on an availability basis with perhaps subsequent augmentation when resources become available. I have asked the staff to examine urgently various alternative approaches that could effect a slowing down of the drain on the Fund's resources.

The following Section II discusses some quantitative aspects of the Fund's present and prospective liquidity position. Section III outlines some of the modalities that might be considered to effect a slowdown in the use of the Fund's resources; Section IV discusses

possible augmentation of the access to Fund resources when the required financing becomes available. Section V presents some observations on possible consequences of an abrupt, unforeseen and possibly substantial reduction--even if temporary--in access to the Fund's resources. The final Section deals with some concluding remarks.

II. Quantification of Need to Conserve Fund's Resources

Under stand-by and extended arrangements with enlarged access, the Fund is committed to provide members with ordinary and borrowed resources in specified proportions. As of now the Fund is committed to provide members with stand-by and extended arrangements with approximately SDR 10.2 billion of borrowed resources, of which only SDR 6.1 billion are covered by lines of credit--i.e., there are commitments of SDR 4.1 billion which are not covered by existing lines of credit. Consequently, in the absence of arranging new lines of credit the Fund will need to provide ordinary resources in due course to meet these commitments to provide borrowed resources (except to the extent that the stand-by and extended arrangements involving borrowed resources are, for one reason or another, not fully drawn upon by the time of their expiration).

As can be seen from Table 1, the total of the Fund's uncommitted ordinary resources is at present SDR 9.7 billion and, after deducting the total of the Fund's uncovered commitments to provide borrowed resources, the total is SDR 5.6 billion. On the estimates presented in EBS/83/170 and modified only to maintain the commitment gap at SDR 4.1 billion, ^{1/} the total of uncommitted resources would be SDR 2.6 billion by the end of 1983 or early 1984 and to SDR 700 million by end-April 1984. These amounts are judged to be too low in relation to the Fund's liability to assure the unquestioned liquidity of reserve tranche position and loan claims on the Fund (which by the end of 1983 are estimated to total SDR 38 billion), and also to be able to provide resources in connection with drawings under new arrangements and the first credit tranche.

The depletion of the Fund's usable resources will become unsustainable taking into account the volume of commitments and disbursements of resources in the period immediately ahead. The Fund's holdings of usable currencies and SDRs (adjusted for working balances) plus undisbursed SFF and EAR credit lines at present total SDR 20.6 billion and are estimated to fall to SDR 14 billion by the end of the year and to SDR 10 billion by end-April 1984. By the latter date, undrawn balances of borrowed resources under arrangements will virtually equal the total

^{1/} That is, it is assumed that there would be no further commitment beyond SDR 4.1 billion of borrowed resources in connection with the policy of enlarged access, while the estimates of the commitment of ordinary resources in connection with arrangements would increase as indicated in EBS/83/170.

Table 1. Estimates of the Fund's Usable Resources--
September 1983 to April 1984

(In billions of SDRs)

	Sept. 26-Dec. 31 1983	Jan. 1-Apr. 30 1984
1. Ordinary Resources		
Usable Currencies and SDRs <u>1/</u> (At beginning of period)	14.5 <u>1/</u>	10.8 <u>1/</u>
Of which:		
Members' undrawn balances under commitments	4.8	4.1
Uncommitted Ordinary Resources (At beginning of period)	9.7	6.7
Add repurchases	0.3	0.3
Subtract: a) net new commitments	1.2	1.2
b) CFF purchases	1.3	1.0
c) GAB Repayment	0.8	--
Uncommitted Ordinary Resources (At end of period)	6.7	4.8
2. Borrowed Resources		
	<u>9/26</u>	<u>12/31</u> <u>4/30</u>
SFF and EAR credit lines	6.1	3.5 1.8
Members' undrawn balances under commitments	-10.2	-7.6 -5.9
Commitment gap	-4.1 <u>2/</u>	-4.1 <u>2/</u> -4.1 <u>2/</u>
3. Uncommitted Resources		
(end of period)	<u>2.6</u>	<u>0.7</u>

1/ The level of usable currencies and SDRs at the beginning of the period--i.e. end of September 1983, have been adjusted to take account of the need to maintain working balances, and to take account of members' weakening balance of payments positions. The difference in the totals of usable currencies and SDRs between September 26, 1983 and January 1, 1984 reflects an inflow of resources from repurchases of SDR 0.3 billion and disbursements of SDR 3.2 billion with respect to purchases and of SDR 0.8 billion in repayment of GAB loans.

2/ The commitment gap has been maintained unchanged in the light of the Managing Director's statement of September 14, 1983.

of the Fund's usable resources on the assumption that the present commitment gap of SDR 4.1 billion will not rise further. Total disbursements over the next nine months are expected to amount to approximately SDR 10 billion. In the absence of a replenishment of usable resources, by early conclusion of borrowing, through an increase in quotas, and ratification of CAB enlargement, a suspension of the enlarged access policy could not be regarded as a short-term measure, nor would a suspension in itself necessarily avoid an undue deterioration in the Fund's liquidity position.

Table 1 shows estimates of the evolution in the Fund's resources for the period mid-September to end-December 1983 and to April 1984. The estimates are based on Tables 1 and 2 of EBS/83/170. As can be seen, use of the Fund's ordinary resources to finance drawings under stand-by and extended arrangements and under the special facilities are estimated to amount to a further SDR 2.5 billion for the period September 20 to end-December 1983 on the assumption that the commitment gap is maintained at SDR 4.1 billion. ^{1/} For the period January-April 1984, it was earlier estimated that a further SDR 2.2 billion of ordinary resources would be committed and drawn (of which SDR 1.2 billion would be in connection with commitments under stand-by or extended arrangements and SDR 1.0 billion drawn under the special facilities). ^{2/} The preceding estimates of likely demand for the Fund's ordinary resources for the period to end-April 1984, which amount to SDR 4.7 billion, give a broad quantitative indication of the extent to which any changes in the Fund's policy on the use of its resources might improve the Fund's liquidity position over the short run in relation to the commitment gap of SDR 4.1 billion. However, a number of qualifications to these estimates need to be considered:

(i) The estimates do not allow for any drawings in the reserve tranche or any encashment of loan claims, and, it should be emphasized, none of the measures which are discussed below to conserve the Fund's ordinary resources would apply to such drawings or encashments. As indicated in EBS/83/170, reserve tranche drawings of the order of SDR 1-1.5 billion could be expected in the period to April 1984. The full liquidity and usability by members of their reserve positions in the Fund must, of course, continue unchanged, despite the effect of such drawings in reducing the total of the Fund's usable ordinary resources. ^{3/}

^{1/} A further commitment of SDR 2 billion of borrowed resources was estimated for the same period in EBS/83/170.

^{2/} It was also estimated in EBS/83/170 that a further SDR 1.8 billion of borrowed resources would have been committed in the period January-April 1984.

^{3/} As regards loan claims from a legal point of view, the Fund is obliged to repay when repayment is requested in accordance with the provisions of the loan agreement concerned. As far as reserve tranche positions are concerned, it would not be possible for the Fund to limit the right of members to mobilize such positions, unless it adopted a

(ii) Demands on the Fund's ordinary resources would be lower than the estimates presented above to the extent, for example, that (a) potential new stand-by and extended arrangements that would have involved borrowed as well as ordinary resources are delayed or postponed until there are reasonably firm indications of financing arrangements on the scale that might have been originally envisaged by the member; (b) drawings under the special facilities might not take place on the scale indicated or might be delayed (in the past a slippage of 10-15 percent of estimated use of the special facilities has not been unusual); recent indications would suggest that drawings under the special facilities might be lower by up to SDR 0.3 billion in the period to April 1984; (c) adjustment programs supported by the use of Fund resources under the enlarged access policy get irretrievably "off track" so that they would expire without full use of resources committed under them, or would be canceled to be replaced by new arrangements without accompanying use of borrowed resources. As discussed further below, cancellation of arrangements involving borrowed resources would help to reduce the present commitment gap; and (d) it is also possible that arrangements are not fully drawn upon because members, although in compliance with the program, no longer have a balance of payments need to call on resources available under the arrangement with the Fund. It is, however, difficult at this stage to quantify the extent to which these developments would materialize and thereby help to reduce the commitment gap.

(iii) It should be noted, however, that the demand for the Fund's resources could also be higher than the estimates presented above. For example, and as noted in EBS/83/170, the estimate of demand for the Fund's resources did not make any provision for possible use of the Fund's resources by a GAB participant (or for any industrial country). If a GAB participant used the Fund's resources, including a reserve tranche drawing, it would be reasonable for the Fund to seek financing from the existing lines of credit under the GAB. With the repayment of outstanding GAB indebtedness in November, the GAB lines of credit will be intact at approximately SDR 6.3 billion.

A suspension of the policy on enlarged access, if it were to be prolonged in the absence of the increase in quotas coming into effect, could create a number of incentives, which are difficult to quantify, for members to increase their use of the Fund's ordinary resources. For example, members might attempt to use fully their customary access to ordinary resources under stand-by or extended arrangements; and in

^{3/} (Cont'd. from p. 4) decision, under the emergency provisions of the Articles (Article XXVII), under which the Fund could suspend (or limit) in certain specified circumstances, for a limited period, the operations of various provisions of the Articles, including those relating to the use of its resources. Such a decision would require an 85 percent majority of the total voting power, but could be terminated at any time by a simple majority of the total voting power. As indicated below (Section III) no such general action is contemplated.

this connection they might also make as full use as possible of resources under the special facilities, and, of course, use their reserve tranches. During the period to end-December 1983, however, it is unlikely that a major shift toward greater use of ordinary resources would occur because many countries that had intended to use the Fund's resources under enlarged access already had made considerable use of the Fund's ordinary resources. ^{1/}

In brief, a suspension of the policy of enlarged access (i) would have the effect of preventing a further increase in the commitment gap, which at present amounts to SDR 4.1 billion; and (ii) could, in the absence of other measures, tend to increase to some extent the demand for the Fund's ordinary resources both under stand-by and extended arrangements involving only ordinary resources, under the special facilities and drawings in the reserve tranches. On present indications, the demand for ordinary resources could, in the absence of measures to contain it, amount to SDR 2.5 billion in the period to end-December 1983 and to a further SDR 2.2 billion in the period January to end-April 1984-- a total of SDR 4.7 billion. Furthermore, because an increase in demand for ordinary resources beyond these indications cannot be precluded in the absence of borrowed resources becoming available, and also taking into account the possibility that ordinary resources might have to be used to meet the Fund's outstanding commitment to provide borrowed resources, the strain on the Fund's ordinary resources could result in their excessive depletion. Consequently, it would thus seem necessary to consider measures to conserve the Fund's ordinary resources in addition to a suspension of the enlarged access policy.

III. Measures to Conserve the Fund's Liquidity

A number of measures to conserve the Fund's liquidity may be considered, for an interim period pending effectiveness of the quota increase, in the absence of a reasonable assurance that additional lines of credit could be arranged, to avoid a further expansion, or even to reduce, the present commitment gap and also to be in a reasonable position to finance it out of ordinary resources, if that should be needed. The measures discussed below that might serve to conserve the Fund's liquidity would obviously not apply to members' use of their reserve positions in the Fund (reserve tranche positions and loan claims on the Fund), and indeed would help enhance the liquidity of the reserve positions. Accordingly, there would be no question as to the Fund meeting requests by members for the use of their reserve positions on the representation of balance of payments need. Similarly, there would be no abrogation of the rights of members to request purchases that have met all the criteria for making purchases under stand-by or extended arrangements that have already been approved by the Executive

^{1/} If those members projected to use the Fund's resources would use ordinary resources to the maximum extent, the commitment of ordinary resources under stand-by or extended arrangements would increase by only SDR 200 million.

Board. 1/ Measures to ration access to the Fund's resources under existing Fund policies would thus apply only to future stand-by and extended arrangements and possibly to drawings under the special facilities.

In this latter connection it should be pointed out that at the time of the Managing Director's statement to the Executive Board on "The Financing Commitments Under the Present Policy on Enlarged Access" (Buff 83/240, 9/14/83) some member countries had completed negotiations of stand-by arrangements which, if approved, would involve the commitment of borrowed resources by the Fund. 2/ In view of the fact that these arrangements have already been negotiated, and one of the requests has already been placed on the Executive Board agenda, it is for consideration whether these requests should not proceed, despite the consequential increase in the commitment gap to approximately SDR 4.5 billion if the requests would be approved. Certain options of how to deal with this type of request are explored in the last section of this memorandum.

Beyond that the first and most obvious method to avoid further increases in the potential use of borrowed resources, would be to suspend any further commitment by the Fund to supply borrowed resources under the policy of enlarged access, as announced by the Managing Director in his statement of September 14, 1983, with the possible exception of the requests mentioned above. This would mean that only ordinary resources would be made available under new extended arrangements, subject to the normal limits within the credit tranches or under extended arrangements of 100 percent and 140 percent of quota, respectively. Commitments to members that have already made use of Fund resources under such arrangements would be determined by the corresponding limits on Fund holdings of their currency at the time new arrangements are agreed. As noted earlier, this action would prevent the commitment gap from increasing by a further SDR 2 billion in the period to end-December 1983 or early 1984, if the suspension continued that long. While it would be possible to maintain a suspension of the enlarged access policy until the financing becomes available, it might also be appropriate to review the suspension after a relatively short period of time, say after the November meeting of the BIS at which time an update of the Fund's liquidity position could also be provided.

Temporary suspension of the enlarged access policy would not, however, alleviate the pressure on the Fund's liquidity position, in terms of uncommitted usable resources, that derives from the existing

1/ Under a standard clause in stand-by and extended arrangements, the Fund has reserved the right to suspend and presumably limit further purchases by a member under an arrangement, inter alia, by action taken pursuant to Article XXVII to suspend further financial operations with members.

2/ It should also be noted that two further members had effectively completed negotiations with the staff and had reached virtually full agreement with the staff.

commitment gap; such relief could, of course, come if the existing commitment gap could be financed without further use of ordinary resources. However, consideration might be given to ration the access that members normally have to the Fund's ordinary resources. This course of action raises the issue of whether and to what extent rationing might be applied uniformly to any use of Fund credit--i.e., to use of the credit tranches and the extended facility and to use of the special facilities.

It would be possible to maintain unchanged the present balance between access to Fund resources under the more conditional facilities (i.e., under stand-by and extended arrangements) and those subject to a lesser degree of conditionality (the special facilities). If the reduction in potential maximum access under the special facilities were made on a proportional basis, it would reduce the ceilings on combined access to the special facilities from 100-125 to 30-50 percent of quota. ^{1/} This could reduce potential demand by approximately SDR 750 million.

Alternatively, if the Executive Board believed it reasonable to ration access mainly to the special facilities, one way would be to suspend access, pending the availability of new credit lines to cover the existing commitment gap. As indicated above, this could conserve resources up to the order of SDR 2-2.3 billion in the period to end-April 1984.

A third method to effect a temporary reduction in the commitment of the Fund's resources relates to the relative frequency of multi-year stand-by or extended arrangements. Multi-year stand-by arrangements typically involve the commitment of larger amounts of Fund resources, whether ordinary or borrowed; extended arrangements, moreover, commit ordinary resources for longer time periods (for up to ten years) than stand-by arrangements. Consideration might, therefore, be given to the avoidance of multi-year arrangements during the period of strain on the Fund's liquidity unless such arrangements demonstrably are the only way in which the necessary adjustment measures can appropriately be supported by use of the Fund's resources. During the period of suspension of enlarged access, such an emphasis would tend in the direction of concluding more one-year stand-by arrangements (rather than extended arrangements) and in restricting access to the Fund to quota level, or less. This might be considered a rationing method which would promote equity among member countries, especially if it should prove necessary to retain the suspension of enlarged access for a relatively prolonged period.

^{1/} A reduction of the maximum of outstanding purchases under stand-by arrangements from 600 percent of quota to 100 percent would correspond to a reduction of access under the special facilities from 175 percent of quota to 29.2 percent, and a reduction in the maximum of outstanding use under EFF arrangements from 600 percent of quota to 165 percent would correspond to a reduction of purchases under the special facilities to 48.1 percent of quota.

Another method to preserve Fund resources to serve the aim of supporting the adjustment process and of contributing to more equitable distribution of access to Fund resources relates to the modification of arrangements already in effect but which presently do not permit any purchases because the terms of these arrangements are not being observed. Unless the adjustment path under such arrangements clearly was no longer attainable, in which case a new arrangement would be agreed, the Fund in the past has been willing to entertain waivers of conditions or modifications of the arrangement to permit its restoration into effect. Only when an arrangement was irretrievably "off track" did the staff suggest replacement of the existing arrangement by a new one. In present circumstances, conclusion of a new arrangement would, of course, preclude the use of EAR borrowed resources, and would also lessen the potential call on the Fund's ordinary resources to finance purchases under the enlarged access policy, i.e. the commitment gap would be reduced by any cancellation of existing arrangements involving the commitment of EAR borrowed resources. There always exists an area of judgment to distinguish between arrangements that could be put back to the intended adjustment path with the application of substantial new policy measures and those that clearly are "off track". Such cases would be examined with particular care before permitting an extension of waivers or the acceptance of substantial modification of programs. This might also be seen to serve the aim of maintaining a greater degree of equity in the resulting degree of reduced access to the Fund's resources among member countries.

A further technique, which probably could make only a small contribution to financing Fund commitments, would aim at slowing down the rate of disbursement of resources by the Fund in a particular period of time, by modifying the practices on the phasing of drawings under arrangements and to introduce phasing for drawings under the special facilities. Such a slowdown in disbursements could be made to synchronize somewhat more deliberately with the inflow of ordinary resources, thereby helping to maintain the level of usable resources at a particular time. In the past, the phasing of drawings under arrangements has normally been of an even character and both the incidence and scope of front and backloading have been relatively infrequent and limited. At present, however, to conserve resources at least temporarily, it would be possible to establish a pattern that consistently and significantly backloads the disbursement of Fund resources under arrangements and also limits the amount of drawings under the special facilities to a specified proportion of quota in a particular period. Such a postponement of disbursements would only truly conserve existing resources if the increase in quotas took place before the disbursement period ended, or if the member decided late in the program period not to request further use of the Fund's resources.

IV. Augmentation of Members' Use of Resources

The Managing Director in indicating to the Executive Board the need for a course of action that would effect a slowdown in the use of the Fund's resources, also noted the possibility of introducing "some contingency provision making the use of resources conditional on the availability of financing to this institution." In other words, consideration might be given to accompany the steps taken to ration temporarily the amount of access to Fund resources with provisions that would allow augmentation of the amount when the necessary financing becomes available in the Fund. In this regard procedures would need to be established which would indicate the circumstances under which augmentation of Fund resources would be effected. Such procedures would, of course, need to be consistent with the nature of the various facilities that provide access to Fund resources.

One possibility would be for the staff to negotiate with members the amounts that they would have sought from the Fund in the absence of a suspension of the policy on enlarged access. However, in the absence of available borrowed resources, the amounts that could be drawn would be limited to those financed with ordinary resources and use of resources would be subject to later augmentation when borrowed resources become available, provided, of course, that members met all the criteria for making drawings. It would also be possible to negotiate only on the basis of ordinary resources up to the traditional limits, but, as indicated above, this could increase the use of ordinary resources rather than diminish it. Furthermore, consideration could be given, in order to ensure that programs continue to be fully financed, to make provision in stand-by and extended arrangements, in the event that borrowed resources were not forthcoming, for the availability of alternative sources of funds or, in the absence of alternative sources, for the design of additional measures that would bring the programs in line with available resources.

Instead of providing for automatic augmentation of resources dependent on the increased availability of financing, members could be required to submit requests for augmentation of resources under an arrangement for consideration and scrutiny by the Executive Board. Augmentation of resources could affect the architecture of the program in terms of its instruments and objectives and therefore require modifications in the program itself. Such modifications could typically warrant Board review.

With respect to the special facilities, a provision could be made that access would be restored to its original level when the resources at the disposal of the Fund would increase, provided that the member's circumstances so warrant and provided that at that time the member still met the criteria for purchases under the facilities.

V. Some Possible Effects

The arguments made in this paper so far would not be complete if they did not contain a brief assessment of some possible consequences and repercussions of a sudden and unplanned reduction in the amount of resources to be made available by the Fund over the immediate future. A shortage of Fund resources, such as the one now in prospect and which may require their being rationed, could impair the image of the Fund at a particularly difficult stage in the international situation and would obviously reduce somewhat its ability to function in the most effective manner. The risks of this happening are, of course, diminished the sooner new funds are made available to the Fund. However, without action to slow down the rate at which Fund resources were being committed could have put the Fund in a position where it would be unable to honor past commitments.

First, over the next few months, there is a risk that negotiations with a number of countries could be seriously jeopardized by a reduction in access in general, and the rationing of resources, in particular. A reduction in the financial support that is provided in an arrangement with the Fund could reduce the Fund's ability to influence the policies of its members leading to possibly serious delay in the implementation of needed measures of adjustment. In particular, a financial relationship with the Fund in these circumstances could become politically difficult to conclude, partly on grounds of the sudden and unforeseen reduction in the amounts of assistance and partly on the uncertainty when larger amounts could become available, and the conditions on which the larger amounts could become available. These difficulties also apply to instances where arrangements are in effect but significant changes to the programs become necessary in the transitional period, or some existing arrangements would be canceled. This is because the changes under the procedures discussed above would call for the negotiation of a new arrangement with lower access. In short, the risk of reduced amounts becoming available to members could generally have adverse repercussions on their adjustment efforts and stabilization programs that in many cases were devised in the context of Fund programs. A weakening of adjustment efforts could prove to be a set back to the recovery underway in the world economy.

Second, over the recent past, the Fund has taken the responsibility for the organization of concerted international efforts to support the adjustment process. These efforts involved major governments and entailed the cooperation of commercial banks and official entities which provided new funds to supplement those made available by the Fund to support and ensure the effectiveness of the adjustment process. The implications of a possible reduction in access to the resources of the Fund are likely to be adverse for the broader role of the institution as an "active catalyst" for capital flows and in particular bank loans, if only because the smaller and less certain assistance from the Fund

would require more financing from the other parties or even stronger adjustment efforts on the part of borrowing countries, which are bound to feel that they bear too large a share of the burden. This catalyst role, which so far has broadly been discharged effectively, calls not only for a commensurate scale of access to Fund resources but also that the Fund should be in a position to ensure that its resources would be fully available to a member which is observing the terms of its arrangement in the amounts indicated in the arrangement. It is not certain that the Fund's catalyst role could be continued, not even in a more muted fashion, if the present shortage of borrowing and the prospective shortage of ordinary resources would continue for any length of time.

VI. Concluding Observations

The following are some of the main points made in the above analysis:

1. The Fund's liquidity position, which is already under considerable strain, would experience a rapid deterioration in the absence of further borrowing to cover the commitment gap which, at present, amounts to SDR 4.1 billion and would, on present indications, increase to SDR 6 billion by the end of 1983 or early 1984.

2. In the absence of reasonably firm indications that the Fund would arrange new lines of credit in the near future, and because of the deteriorating liquidity position of the Fund, the Managing Director in his statement of September 14, 1983 (Buff 83/240) indicated that consideration must be given "whether we can prudently let the commitment gap rise over the next few months..." In this connection, he suggested examination of "a course of action that would effect some slow down in the use of the Fund's resources, or at least to introduce some contingency provision making the use of resources conditional on the availability of financing to this institution."

3. As an interim measure the Managing Director announced that he did not believe that "in present circumstances it would be appropriate for the staff to continue or engage in discussions with members requesting the use of the Fund's resources which would involve further commitments by the Fund of EAR borrowed resources, and I plan to give appropriate instruction to staff missions on this matter."

In present circumstances, it is necessary to maintain this instruction to the staff. As a consequence, the staff will not negotiate new arrangements that would involve the commitment by the Fund of borrowed resources and will negotiate new stand-by or extended arrangements involving ordinary resources only to the extent and in the amounts, phasing and proportions that would have been agreed if borrowed resources would have been available at the outset. The commitment gap would be maintained at its present level of SDR 4.1 billion.

4. In the light of these developments, and contingent on reasonable indications that further amounts of borrowed resources would become available to the Fund at an early stage, the following courses of action for the immediate future may be considered:

(a) as regards the requests, which have had the support and approval of management, before September 14, 1983, by three members 1/ for stand-by arrangements and which, if approved, would involve an increase in the Fund's commitment of borrowed resources of SDR 400 million, three options are available:

(i) consideration by the Board could be deferred until there are improved prospects for new borrowing by the Fund;

(ii) the amounts of purchases under the arrangements could be limited to the amounts that would be financed out of ordinary resources in the phasing and proportions that would have been agreed if borrowed resources would have been available at the outset of the agreement. Use of resources that would have been financed out of borrowed resources would be augmented later as and when borrowed resources become available and on the assumption that the programs remain "on track" and the member has a balance of payments need to draw. In the event that borrowed resources were not forthcoming, and to ensure that programs would be fully financed, provision would need to be made for financing from non Fund sources or, in their absence, for the design of additional measures that would bring the programs in line with available resources;

(iii) it would also be possible to proceed with these three requests in the normal way and have them considered by the Executive Board. In present circumstances, this might not be the most prudent course of action.

(b) As indicated above, the issue arises of whether and to what extent measures should also be considered that would help conserve ordinary resources beyond maintaining the present commitment gap at its present level. The possible need for conservation measures stems from two sources: (i) the lack of availability of borrowed resources could tend to increase the demand for the Fund's ordinary resources; and (ii) the commitment gap would in due course need to be financed out of ordinary resources in the absence of new borrowing arrangements by the Fund. An important issue that arises in this connection is whether and to what extent measures to ration use of ordinary resources should be applied on all use of Fund credit (i.e., drawings under stand-by and extended arrangements as well as use under the special facilities).

1/ As noted in footnote 2/ on page 7, two further members had reached virtually full agreement with the staff on new arrangements. These arrangements would involve a further SDR 73.3 million of borrowed resources.

5. The steps already taken to avoid a further increase in the size of the commitment gap will help relieve a further buildup of pressure on the Fund's liquidity position and preserve and enhance the reserve positions in the Fund. However, the establishment of further lines of credit is not precluded; as noted in the communique of the Interim Committee, the Managing Director was strongly encouraged to seek further borrowing from official sources, and the Committee expressed the hope that this borrowing could be successfully concluded without delay. The Executive Board may wish to consider and provide guidance as regards the need for and form of rationing of the use of Fund credit that is financed by the use of ordinary resources.