

MASTER FILES

EBS/83/245

CONFIDENTIAL

November 14, 1983

To: Members of the Executive Board
From: The Secretary
Subject: Simplification of the Policy on Enlarged Access

Attached for consideration by the Executive Directors is a paper on the simplification of the policy on enlarged access. A draft decision appears on pages 9 and 10.

This subject, together with the paper on the extension of period under Paragraph 4, and guidelines on access limits (SM/83/230, 11/7/83), has been tentatively scheduled for Executive Board discussion on Monday, December 5, 1983.

Att: (1)

INTERNATIONAL MONETARY FUND

Simplification of the Policy on Enlarged Access

Prepared by the Treasurer's and the Legal Departments

Approved by W.O. Hafermeier and George P. Nicoletopoulos

November 14, 1983

I. Introduction

In the staff memoranda prepared for the review of the Policy on Enlarged Access, some changes were proposed in the administration of that policy in order to simplify existing procedures and to make them more easily understandable by member countries. ^{1/} While a number of Executive Directors commented on these matters, they were not considered in detail during the review of Enlarged Access pending agreement on the continuation of the policy and on the determination of access limits. However, Executive Directors expressed their intention to return to the more technical aspects of the policy at a later stage, and the present paper is intended to serve as a basis for such consideration. The following paragraphs summarize the present procedures for determining the amounts of ordinary and borrowed resources that are used in arrangements approved under the Policy on Enlarged Access and the proposed changes in these procedures, and discuss their impact on the Fund's liquidity position and borrowing needs. In addition, the paper proposes a clarification of the applicability of the Policy on Enlarged Access in present circumstances, taking into account the practices that have developed since the adoption of that policy. The paper concludes with a proposed decision.

The changes that were suggested in EBS/83/79 and EBS/83/133 aimed at simplifying the administration of the Policy on Enlarged Access, and included a unification of the proportions of ordinary and borrowed resources used in stand-by and extended arrangements and the elimination of the provisions prescribing that previous use of Fund resources be taken into account in determining the relative amounts of ordinary and borrowed resources (the "catching up" provisions and their reverse). These modifications in the mixing ratio are discussed further below. In addition, the earlier staff memoranda discussed the discontinuation of the use of borrowed resources in connection with first credit tranche purchases and the elimination of the floating character

^{1/} See "Review of Enlarged Access Policy", EBS/83/79 (4/20/83), pp. 25-34, and "Review of the Policy on Access to the Fund's Resources--Financial Considerations", EBS/83/133 (6/28/83), pp. 16-21.

of the Extended Facility with respect to the credit tranches. Changes in these areas were generally considered undesirable by the Executive Directors who commented on the matter, and they are not pursued further in the present paper.

II. Present Mixing Provisions

The proportions of ordinary and borrowed resources that are used in arrangements with Enlarged Access are set out in paragraph 8 of the decision on the Policy of Enlarged Access. 1/ Both types of resources are used in the required proportions until the availability of the Fund's ordinary resources is exhausted. 2/ Any purchases beyond these limits are financed from borrowed resources exclusively. 3/ As mentioned, members that already have outstanding use of ordinary resources in the credit tranches or under the Extended Facility are required to purchase borrowed resources first until the outstanding use of ordinary and borrowed resources reaches the prescribed proportions (the "catching up" provision), depending on the type of arrangement

1/ Paragraph 8 of the Decision on Enlarged Access Policy is reproduced in full in Attachment A.

2/ At present, a member may use ordinary resources until outstanding purchases reach 100 percent of quota in the credit tranches and 140 percent under extended arrangements, with a combined limit of 165 percent.

3/ The existing proportions between ordinary and borrowed resources under the Policy on Enlarged Access are as follows:

(i) In conjunction with a stand-by arrangement

	Ordinary Resources (Percent of quota)	Borrowed Resources
1st credit tranche	25	12.5
2nd credit tranche	25	30.0
3rd credit tranche	25	30.0
4th credit tranche	25	30.0
Beyond 4th credit tranche	(-)	all borrowed resources

(ii) In conjunction with an extended arrangement

140 percent of quota	140	140
Beyond 140 percent of quota	(-)	all borrowed resources

It is to be noted that extended arrangements float above the first credit tranche, and that prior use of Fund resources is taken into account, as discussed further below.

involved. 1/ "Matching up" by analogy has become accepted also to mean that outstanding use of borrowed resources which is not matched by the use of ordinary resources in the appropriate proportions calls for purchases of ordinary resources until the prescribed proportions had been established or re-established ("reverse catching up" or "matching up"). 2/

Over time these mixing provisions, for a number of reasons, have become complicated to administer or to explain satisfactorily to members which enquire about the mix of resources under a particular arrangement. In view of the "floating" nature of the Extended Fund Facility against the upper credit tranches, prior use of ordinary resources in the upper tranches under a stand-by arrangement is taken into account in determining the mix of resources and requires "catching up" in a subsequent extended arrangement, but such prior use under an extended arrangement does not require "catching up" although it may limit the amount of ordinary resources available under a subsequent stand-by arrangement. 3/ This asymmetry of treatment as regards prior use of the Fund's resources on occasion produces results that are difficult to justify or to defend on economic or financial grounds. Moreover, under the Policy on Enlarged Access purchases of ordinary resources in the first credit tranche are combined with borrowed resources (in the proportions of 2:1) if made under a stand-by arrangement, but purchases in the first credit tranche made in connection with an extended arrangement do not require concomitant use of borrowed resources. In addition, the mixing ratio differs between stand-by and extended arrangements, with a somewhat greater relative use of borrowed resources prescribed in connection with a stand-by arrangement. As a result, the "catching up" and "matching up" of ordinary and borrowed resources for members that are making use of Fund resources under a series of arrangements, which has increasingly become the pattern, has required the use of a number of conventions that are not only difficult to understand and complicated to administer, but may also appear arbitrary in their effect.

1/ In the discussion of the "catching up" provisions of this paper, the term "borrowed resources" includes resources purchased under the Supplementary Financing Facility.

2/ Outstanding use of ordinary and borrowed resources at the time of a new arrangement may be in proportions which differ from those prescribed by the decision for a variety of reasons, including for example, repurchase of ordinary resources subsequent to approval of the preceding arrangement under the Policy on Enlarged Access (for which there has been catching up), or because of an increase in the member's quota which increased the absolute amount of ordinary resources available to the member.

3/ The floating nature of the Extended Fund Facility follows from paragraph 4 of the decision establishing the policy. See Executive Board Decision No. 4377-(74/114) as amended, Selected Decisions, Tenth Issue, p. 30.

The modification in the mixing provisions proposed below is intended to make the Fund's policy on the use of ordinary and borrowed resources more understandable by member countries, and to alleviate these operational difficulties.

III. Modification of Mixing Proportions

Paragraph 8(d) of the Decision on Enlarged Access provides that:

From time to time the Fund will review the proportions of ordinary and borrowed resources specified in (a) and (b) above and may modify them, and the modified proportion shall apply uniformly to both arrangements approved after the modification and amounts that may be purchased under existing arrangements after the modification.

In view of the difficulties encountered in the implementation of the Policy on Enlarged Access just discussed, the staff proposes that the proportions of ordinary and borrowed resources be modified from the date on which the Eighth General Review of Quotas becomes effective as follows:

(a) purchases under a stand-by arrangement in the upper credit tranches and extended arrangements would be financed from ordinary and borrowed resources in the ratio of 1 to 1 until the availability of ordinary resources has been exhausted, and from borrowed resources only thereafter; and

(b) under both a stand-by and an extended arrangement members no longer would be required to purchase borrowed resources in order to "catch up" with an outstanding use of ordinary resources, or to purchase ordinary resources in "reverse catching up" to re-establish the proportions of ordinary and borrowed resources that would apply had all of the Fund's holdings of the member's currency been acquired in connection with the proposed arrangement.

There would be no change in the use of ordinary and borrowed resources for purchase in the first credit tranche. Under stand-by arrangements, purchases of ordinary resources in the first credit tranche would continue to require the concomitant use of borrowed resources (in the ratio of two parts ordinary resources to one part borrowed resources); first credit tranche purchases by a member that also had requested, or had in effect, an extended arrangement would, as at present, be financed from ordinary resources only. Similarly, arrangements would provide that beyond the availability of ordinary resources, borrowed resources only would be used.

IV. Application of Modified Proportions

The modified proportions would apply uniformly both to new arrangements approved after the modification and to amounts that may be purchased under existing arrangements after the modification, in accordance with paragraph 8(d) of the decision on the Policy on Enlarged Access. With respect to existing arrangements, this would implement the provision in stand-by and extended arrangements according to which "any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of the modification." 1/

The modified proportions would be applied on the basis of the quota in effect on the date of approval of the arrangement, so as not to disturb the proportions that were determined, and applied to previous purchases, on the basis of the member's credit tranches and quota in effect when the arrangement was approved. Calculations for apportionment on the basis of the modified proportions would continue to be based on the situation of the member when the arrangement is approved in order to be consistent with paragraph 8(c) of the Policy on Enlarged Access. 2/ This would give effect to the requirement of uniform application of the modified proportions to new arrangements and to amounts that may be still purchased under an existing arrangement, because the proportions would be determined by reference to the member's credit tranches and quota in effect when the arrangement is approved. Financing of any augmentation of an arrangement that might be approved following the effectiveness of quotas authorized under the Eighth Review would similarly be made on the basis of its quota at the time the arrangement was approved. 3/

V. Application of Enlarged Access to Successive Arrangements

Purchases under a stand-by or extended arrangement that is not under the Policy on Enlarged Access are financed exclusively from ordinary resources. An arrangement has not been considered to be under that policy if the use of the Fund's resources authorized by the arrangement would not cause the Fund's holdings of the member's currency

1/ See Paragraph 3 of Forms of Stand-by and Extended Arrangements Under Enlarged Access Policy, Selected Decisions, Tenth Issue, pp. 49, 54.

2/ Paragraph 8(c) provides that:

"The apportionment in accordance with (a) and (b) above will be made on the basis of the outstanding use by the member of the Fund's resources at the time the arrangement for the member is approved.

3/ The circumstances under which augmentation of existing arrangements may be appropriate are discussed in "Criteria for the Amount of Access in Individual Cases", EBS/83/233 (10/31/83), pp. 5-6.

to exceed the availability of ordinary resources mentioned earlier. In this context, it should be noted that the decision on the Policy on Enlarged Access provides that:

"A member contemplating use of the Fund's resources under this decision shall consult the Managing Director before making a request for such use. A request will be met only if the Fund is satisfied: (i) that the member needs financing from the Fund that exceeds the amount available to it in the four credit tranches or under the Extended Fund Facility and its problem requires a relatively long period of adjustment and a maximum period for repurchase longer than the three to five years under the credit tranche policies; and (ii) on the basis of a detailed statement of the economic and financial policies the member will follow and the measures it will apply during the period of the stand-by or extended arrangement, that the member's program will be adequate for the solution of its problem and is compatible with the Fund's policies on the use of its resources beyond the first credit tranche or under the Extended Fund Facility".

and that the period of a stand-by arrangement would normally exceed one year.

It is necessarily a matter for a finding by the Fund whether the member's request for use of the Fund's resources meets the criteria in this provision, but it is a finding with important financial consequences both for the member and the Fund. This is because, in addition to establishing the basis for the amount of access to resources from the Fund, a finding that the arrangement is not under the Policy on Enlarged Access means that purchases under the arrangement would be financed from ordinary resources only.

The finding whether or not the request by a member for an arrangement comes under the Policy on Enlarged Access has been based on the extent of the member's use of Fund resources under the specific arrangement under consideration, in particular whether the arrangement would result in the member's outstanding use of Fund resources exceeding the four credit tranches. As pointed out in the memorandum on access in individual cases, the practice has developed of considering a one-year stand-by arrangement as coming under the Policy on Enlarged Access, notwithstanding the presumption of multi-year arrangements, when there was a recognized need for a relatively long period of adjustment and the arrangement was in the context of a medium-term adjustment strategy, provided the amount of the arrangement was greater than that available in the credit tranches. 1/

1/ See "Criteria for the Amount of Access in Individual Cases", EBS/83/233 (10/31/83), page 2.

However, on the financing side, the practice with respect to one-year arrangements within a medium-term strategy can mean that the initial arrangements would not exceed four credit tranches and thus be financed by ordinary resources only. It is proposed that the financing in such case would be under the Policy on Enlarged Access. This would mean that ordinary resources would be mixed with borrowed resources in any arrangement that is formulated within a medium-term strategy of steady progress toward a sustainable balance of payments position, even if the initial arrangement would not exceed four tranches. 1/

VI. Use of Resources Borrowed under the SFF

The proposed modification of the proportions would not create difficulties with the utilization of borrowed resources that remain available under the Supplementary Financing Facility. It will be recalled that under paragraph 9 of the Decision on the Policy on Enlarged Access, supplementary financing would be made available to finance purchases under the Policy on Enlarged Access in accordance with the decision establishing the Supplementary Financing Facility. That latter facility, in contrast to the Enlarged Access policy, did not provide for the automatic application of modifications in the proportions of ordinary and borrowed resources to remaining purchases in the existing arrangements. Any remaining amount of supplementary financing available to be used for Enlarged Access, which can be drawn on until February 22, 1984, is expected to be used only under extended arrangements on the basis of the same 1 to 1 ratio of ordinary and borrowed resources as would be the case without modification of the proportions, and no difficulties would be encountered in utilizing that amount.

VII. Use of Ordinary Resources and Borrowing Requirements

The proposed modifications in the proportions of ordinary and borrowed resources would entail some changes in the use of the Fund's ordinary resources and of its borrowing requirements. However, these effects would be partly offsetting, and in the aggregate are likely to be small in relation to the expected extension of credit by the Fund.

As discussed, the adjusted proportions would be used not only in arrangements members may request in the future, but also for purchases remaining under arrangements already in effect. Under these

1/ A similar question normally does not arise under extended arrangements, which usually cover a three-year period and are for larger amounts than would be available without Enlarged Access. Should the issue nevertheless arise, the staff would intend to deal with it analogously to the procedure suggested here.

arrangements, most members have already completed purchases affected by the "catching up" provisions, and the abrogation of these provisions would have little effect on the aggregate use of ordinary and borrowed resources. Similarly, no change would be required for purchases under the extended arrangements presently in effect, under which ordinary and borrowed resources are used in equal proportions. For stand-by arrangements, the modification of the proportion of ordinary to borrowed resources used in upper credit tranche purchases from 1:1.2 to 1:1 would result in a change in the relative use of these resources only for the few arrangements that would not bring use of ordinary resources in the credit tranches to quota level. Because most members with arrangements would at present exhaust their access to ordinary resources, a change in the mix would affect the timing, but not overall use, of ordinary and borrowed resources. 1/

A recalculation of the mix under existing arrangements, taking into account arrangements that are expected to be in effect at the end of 1983, shows a shift from borrowed to ordinary resources for only 10 of the 34 stand-by arrangements then in effect. The shift amounts to about SDR 60 million (an increase of about 2 percent in purchases of ordinary resources remaining under these arrangements after 1983) and is partly (SDR 17 million) offset by a shift in the opposite direction when the "catching up" provisions are abolished. As far as existing arrangements are concerned, the proposed modification would thus have practically no effect on the Fund's liquidity position, nor would it result in a noticeable reduction of the borrowing requirement or the existing commitment gap.

For arrangements that are expected to be requested through the end of 1984, the impact of the proposed modifications is more difficult to gauge, as it depends not only on the size of arrangements in relation to quota but also on the timing of the arrangements. The elimination of the "catching up" provisions is likely to result in some conservation of ordinary resources, as the present system would permit members that have made extensive use of borrowed resources under the Supplementary Financing Facility or with Enlarged Access to match or rematch such use due to repurchases of ordinary resources maturing before the concomitant use of borrowed resources. In contrast, the modification of the proportions for upper credit tranche stand-by arrangements would somewhat delay the use of borrowed resources within one or over several arrangements, depending on the amount of the member's use of Fund resources.

It will be recalled that the most recent country-by-country survey¹¹ of possible requests for arrangements by member countries in 1984 suggested new commitments in the order of SDR 7-9 billion, of which borrowed resources were estimated on the basis of present proportions

1/ An example is provided in Attachment B.

to be in the range of SDR 2.5-4 billion. ^{1/} A reestimation on the basis of the proposed procedures for combining ordinary and borrowed resources for presently projected new arrangements indicate borrowing requirements of broadly the same order of magnitude. Over the period that is covered by a succession of arrangements a lesser use of ordinary resources is likely initially, which is estimated in the range of SDR 300-400 million. However, this shift will be offset in the normal course of events with the conclusion of subsequent arrangements by a lesser use of borrowed resources--i.e., the shift in the composition of resources will be temporary taking the succession of stand-by arrangements together.

Proposed Decision

In view of the foregoing considerations, the following decision is proposed for adoption by the Executive Board:

"The Fund, having reviewed the proportions of ordinary and borrowed resources to be used under a stand-by or extended arrangement approved under Decision No. 6783-(81/40), March 11, 1981 (Policy on Enlarged Access), decides that:

1. The proportions after the Eighth General Review of Quotas becomes effective will be as follows:

- (a) Under a stand-by arrangement purchases will be made with ordinary and borrowed resources in the ratio of 2 to 1 in the first credit tranche, and 1 to 1 in the next three credit tranches. Thereafter, purchases will be made with borrowed resources only.
- (b) Under an extended arrangement, purchases will be made with ordinary and borrowed resources in the ratio of 1 to 1 until the outstanding use of the upper credit tranches and the Extended Fund Facility equals 140 percent of quota. Thereafter, purchases will be made with borrowed resources only.

2. In accordance with subparagraph 8(d) of Decision No. 6783-(81/40), the proportions in (1) above shall apply to amounts that may be purchased under existing arrangements after the modification on the basis of the member's quota at the time the arrangement for the member was approved.

^{1/} See "Criteria for the Amount of Access in Individual Cases", EBS/83/233 (10/31/83), page 6.

3. A member contemplating use of the Fund's resources under successive stand-by arrangements in the context of a medium-term strategy of steady progress toward a sustainable balance of payments position shall consult the Managing Director before making a request for an arrangement. A request for any such arrangement will be met under the Policy on Enlarged Access."

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Paragraph 8 of the Decision on the Policy on Enlarged Access
(Executive Board Decision No. 6783-(81/40) adopted March 11, 1981:

The amounts available under a stand-by or extended arrangement approved under this decision will be apportioned between ordinary and borrowed resources as follows:

(a) Under a stand-by arrangement purchases will be made with ordinary and borrowed resources in the ratio of 2 to 1 in the first credit tranche, and 1 to 1.2 in the next three credit tranches. Thereafter, purchases will be made with borrowed resources only. In the event that a member has already an outstanding use of all or part of its credit tranches because of previous purchases in the credit tranches or under the Extended Fund Facility, purchases will be made first with borrowed resources until that use of borrowed resources, together with any outstanding use of supplementary financing and exceptional use of the Fund's resources under Decision No. 5732-(78/65), adopted April 24, 1978, as amended on December 27, 1978, equals the amount of borrowed resources that would have been used if the previous purchases had been made under this decision.

(b) Under an extended arrangement purchases will be made with ordinary and borrowed resources in the ratio of one to one until the outstanding use of the upper credit tranches and the Extended Fund Facility equals 140 percent of quota. Thereafter, purchases will be made with borrowed resources only. In the event that a member already has an outstanding use of all or part of its upper credit tranches or the Extended Fund Facility, purchases will be made with borrowed resources until that use of borrowed resources, together with any outstanding use of supplementary financing and exceptional use of the Fund's resources under Decision No. 5732-(78/65), adopted April 24, 1978, as amended on December 27, 1978, equals the amount of borrowed resources that would have been used if the outstanding use of the upper credit tranches and the Extended Fund Facility had been made under this decision.

(c) The apportionment in accordance with (a) and (b) above will be made on the basis of the outstanding use by the member of the Fund's resources at the time the arrangement for the member is approved.

(c) From time to time the Fund will review the proportions of ordinary and borrowed resources specified in (a) and (b) above and may modify them, and the modified proportions shall apply uniformly to both arrangements approved after the modification and amounts that may be purchased under existing arrangements after the modification.

Example of Modification of Proportions of Ordinary and
Borrowed Resources Under an Existing Arrangement

Quota:	SDR 100 million
Outstanding use in credit tranches when arrangement was approved:	SDR 50 million
Stand-by arrangement in effect:	SDR 200 million
Amount purchased under the arrangement:	SDR 100 million
Amount remaining under the arrangement:	SDR 100 million

	<u>Ordinary Resources</u>	<u>Borrowed Resources</u>	<u>Cumulative Total</u>
	(In SDR million)		
1. Present apportionment for arrangement:			
In first credit tranche (in the ratio of 2:1)	(25)*	12.5	12.5
In upper credit tranches (in the ratio of 1:1.2)	(25)*	30	42.5
	50	60	152.5
Above the upper credit tranches	--	47.5	200
	<u>50</u>	<u>150</u>	<u>200</u>
2. Amounts purchased before modification: (SDR 100 million)			
In first credit tranche	(--)	12.5	12.5
In upper credit tranches	(--)	30	42.5
	26.14	31.36	100
	<u>26.14</u>	<u>73.86</u>	<u>100</u>
3. Balance available after modification:			
In upper credit tranches	23.86	23.86	47.72
Above the upper credit tranches	--	52.28	100
	<u>23.86</u>	<u>76.14</u>	<u>100</u>
Total	50	150	200

*Figures in parentheses indicate outstanding uses in the credit tranches. The presentation of available resources in relation to credit tranches has no implication for the phasing of purchases under an arrangement, which is determined independently from the proportions of ordinary and borrowed resources available under the arrangement. The modification of the proportions accordingly do not affect the phasing of purchases under an arrangement.