FOR AGENDA

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September 2, 1983

To: Members of the Executive Board

From: The Acting Secretary

Subject: Draft Report to the Interim Committee on the Policy on Access to the Fund's Resources

The attached draft report of the Executive Board to the Interim Committee on the policy on access to the Fund's resources has been scheduled for discussion on Wednesday, September 7, 1983.

Att: (1)

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DRAFT

INTERNATIONAL MONETARY FUND

Report of the Executive Board to the Interim Committee of the Board of Governors on the International Monetary System on the Policy on Access to the Fund's Resources

September 2, 1983

I. Introduction

In its communiqué issued after the Twentieth meeting in Washington, D.C., on February 10-11, 1983 the Interim Committee stated:

> The question of the limits on access to the Fund's resources was raised in the Committee. It was noted that the Executive Board will review this matter before June 30, 1983. The Committee invited the Executive Board to take note of the views expressed in the Committee by those favoring maintenance of the present enlarged limits in terms of multiples of quotas and also by those stressing the need to have regard to developments in the Fund's liquidity. It also invited the Managing Director to report on this matter at the next meeting of the Committee.

Decision No. 6783-(81/40) of March 11, 1981, which established the policy on enlarged access, provides for balance of payments assistance to members facing serious payments imbalances which are large relative to their quotas. Purchases under this policy, which are made under stand-by and extended arrangements, are financed from borrowed resources, in conjunction with the Fund's ordinary resources. The amounts of access under the policy are determined according to guidelines adopted by the Fund from time to time. The present guidelines provide for annual access to Fund resources of up to 150 percent of quota or up to 450 percent over a three-year period. Members' cumulative access, net of scheduled repurchases, is up to 600 percent of quota, excluding outstanding drawings under special facilities. In exceptional cases, arrangements may be approved for larger annual amounts than these limits would normally allow. Stand-by and extended arrangements may be approved under this policy until the effective date of the Eighth General Review of Quotas, but the Fund may extend this period.

The present access limits for the compensatory and buffer stock financing facilities (henceforth referred to as special facilities) are 100 percent of quota under the decision for the compensatory financing of export fluctuations, 100 percent of quota under that for the compensatory financing of fluctuations in the cost of cereal imports, 125 percent under these two decisions combined, and 50 percent under the decision establishing the buffer stock financing facility.

In view of the expectation that the quota increase will become effective soon and pursuant to the request of the Interim Committee, the Executive Board has reviewed the policies on access to the Fund's resources. This report summarizes the discussions and lists the main issues for consideration by members of the Committee.

II. Background to the Committee's Discussions

The financing needs of many members remain large in relation to their quotas, and an improvement in these members' economic prospects depends in large part on the still uncertain recovery in the world economy and the continued availability of finance from various sources. A reduction in the Fund's ability to respond to these financial needs at the present time might be perceived as indicating its unwillingness to give full support to maintaining the stability of the international financial system and would make it harder to arrange financial packages for members in difficulties and engaged in strong adjustment programs.

Executive Directors have therefore agreed that, while the enlarged access policy is a temporary one, and while quotas should again become the main basis for the Fund's financial operations, the policy on enlarged access should continue after the Eighth General Review of Quotas (together with the associated expansion in the General Arrangements to Borrow) comes into effect. It is assumed that increased quotas would have come into effect for most, if not all members, and particularly for those members contributing to the Fund's liquidity.

The continuation of the policy, together with the expected large use of special facilities, will require further recourse to borrowing to supplement the resources obtained from the quota increase. The access limits established for this period under the enlarged access policy and for the special facilities must reflect a balancing of considerations with respect both to members' needs, and to the availability of finance to the Fund.

The main areas on which Executive Directors are seeking the advice of members of the Committee include:

- The level of access limits under the enlarged access policy following the effective date of the Eighth General Review of Quotas;
- The level of access limits for the special facilities;
- The mechanism and principles for future changes in access limits.

III. The Issues

1. Access limits under the enlarged access policy following *the effective date of the Eighth General Review of Quotas*

Executive Directors agreed that the policy on access to the Fund's resources under stand-by and extended arrangements approved after the effective date of the Eighth General Review of Quotas could be expressed in terms of two limits: an annual limit and a cumulative limit. These would be subject to revision at the next review of the enlarged access policy. The cumulative access limit, net of repurchases scheduled at the time of the approval of an arrangement and excluding any purchases under the special facilities, would be set at four times the annual access limit.

Executive Directors expressed different views on the appropriate annual access limits in the period following the effective date of the Eighth General Review of Quotas. Many Directors proposed that, in view of the intensity of members' needs for finance in the current circumstances and given the present difficulty of market borrowing, the current annual access limit of 150 percent of quota should be retained. Others, laying stress on the implications of the limits for the Fund's financial position, proposed a reduction in the annual limit to 102 percent, the level at which aggregate potential access in absolute terms would be unchanged from that prevailing before the quota increase. A further group of Directors took an intermediate position, generally suggesting an access limit of 125 percent, approximately the level at which no member would suffer a reduction in its potential absolute access. Some of the Directors who expressed a preference for maintaining the present limits indicated that they could support this position, but could in no way accept a 102 percent solution, which would result in an actual reduction in access for 108 countries.

While most Directors preferred a single access limit, some Directors favored a two-tier system of access, under which the annual access limit would be 102 percent, but with a higher limit of 125 percent in special cases. These would be cases where, in addition to an exceptionally large need for balance of payments financing, the member was making a particularly strong adjustment effort leading to the expectation of a rapid restoration of a sustainable balance of payments position. A variant of this proposal would activate an additional tier of 25 percent only after access at the limit of 102 percent had been exhausted.

Executive Directors agreed that, whichever approach was taken, the annual access limit was not to be treated as the norm, but that the amount of access in individual cases would vary with the circumstances of the member, in particular the need for financing from the Fund and the strength of its adjustment program. Executive Directors are continuing their review of the principles currently determining access in individual cases. They reaffirmed that the Executive Board had to retain the present flexibility to approve arrangements for amounts above the access limits in exceptional circumstances.

2. Financing of enlarged access

The use of Fund resources is anticipated to continue high after the increase in quotas. New commitments under stand-by and extended arrangements in the period from January 1984 to April 1986 are estimated at about SDR 14 billion with access limits of 102 percent of quota a year, at about SDR 20 billion at access limits of 125 percent, and at about SDR 25 billion at access limits of 150 percent, to which have to be added calls on the Fund's resources under the special facilities. To avoid an excessively rapid depletion of the Fund's ordinary resources during the first half of the quinquennial period following the effective date of quota increases under the Eighth General Review of Quotas, it will thus be necessary for the Fund to undertake additional borrowing to finance the continuation of the policy on enlarged access. These projections imply additional borrowing requirements for the Fund in the order of SDR 8, 13, or 16 billion, respectively, 1/ a substantial part of which in circumstances of severe difficulties in the international payments system might be derived from the enlarged General Arrangements to Borrow, keeping in mind that the Fund must pay due regard to potential calls on its resources by GAB participants themselves.

Executive Directors also agreed that the administration of the enlarged access policy should be simplified with a view to clarifying applicable procedures.

3. Access to the special facilities

Executive Directors are continuing their review of current practices regarding the use of the special facilities. Most Directors favored treating access limits for these facilities in the same way as the limits under the enlarged access policy. Those favoring the main-

1/ Based on a uniform mixing ratio of one part ordinary to one part borrowed resources until the customary limits on access to the Fund's ordinary resources--100 percent of quota under stand-by arrangements and 140 percent of quota under extended arrangements--are reached, and use of borrowed resources exclusively thereafter.

tenance of the present enlarged access limits also supported maintaining the present limits for the special facilities, while those calling for a reduction in enlarged access limits proposed an equiproportional reduction in access to the special facilities. A few Directors called for access to the special facilities to be reduced by a larger percentage than the annual enlarged access limit.

4. Future changes in access limits

Most Directors agreed that it was premature to consider a date for terminating the policy on enlarged access or to decide now on either a timetable or amounts for future changes in access limits. Instead they proposed that access limits be reconsidered periodically in connection with the review of the enlarged access policy. The review of access limits will pay regard to members' needs for financing, the appropriate balance between financing and adjustment, the stability of the international financial system, and the Fund's liquidity position and borrowing possibilities. Some of these Directors felt that the inadequacy of quotas meant that traditional access levels could not be restored in the foreseeable future.

Other Directors emphasized the temporary nature of the policy on enlarged access, and some of these Directors proposed that a precise phasedown of the access limits be agreed now. One Director suggested that new annual and cumulative limits be set at 102 and 407 percent of quota following the effective date of the Eighth General Review of Quotas, new limits of 70 and 245 percent would come into effect on January 1, 1985, and normal access levels would be restored by the end of 1986, unless reviews concluded that developments in the world economy made such reductions undesirable. Another Director supported a preannounced phasedown, but proposed that the elimination of the policy could be postponed for a year. These Directors also maintained that arrangements approved henceforth should take the preannounced reduction in access limits into account in the phasing of drawings. It was agreed that, in order to avoid any uncertainty, stand-by and extended arrangements already approved would not be cut back later in the light of possible subsequent decisions to reduce access limits.