FOR AGENDA

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To: Members of the Executive Board

From: The Secretary

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

The attached first five pages of the draft report to the Interim Committee on the policy on access to the Fund's resources have been revised in the light of the discussions yesterday and this morning at Meetings 83/132, 83/133, and 83/134. These pages will be taken up at an Executive Board meeting scheduled for this afternoon.

Att: (1)

Other Distribution:
Department Heads

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 -, 1983

I. Introduction

In its communique 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, can be up to 600 percent of quota, excluding outstanding drawings under special facilities (i.e., the compensatory and buffer stock financing facilities). In some cases, arrangements may be approved for larger annual amounts than these limits would normally allow. The Fund, of course, retains the flexibility to permit an excess over the cumulative limit in exceptional circumstances. 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 special facilities are 100 percent of quota under either the decision for the compensatory financing of export fluctuations, or 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

While they noted that progress toward adjustment was under way, Executive Directors were aware that the needs of many members for the type of temporary balance of payments financing the Fund provides are and may remain large in relation to their quotas. Executive Directors were also aware that there may be constraints on the Fund's ability to raise sufficient funds to finance those needs.

Executive Directors were of the view that, subject to agreement being reached on various aspects of the enlarged access policy, the policy, which is a temporary one, should continue after the Eighth General Review of Quotas comes into effect. While quotas should be the main basis for the Fund's financial operations, continuation of the enlarged access policy, together with the expected large use of special facilities, will require further recourse to borrowing. Future access limits under the enlarged access policy, and for the special facilities, must therefore strike an appropriate balance between members' needs and the availability of financing to the Fund.

Executive Directors agreed that, whichever limits on enlarged access were adopted, the annual access limit was not to be treated as a target. They also agreed that the amount of access in individual cases would, as now, vary with the circumstances of the member. Executive Directors are continuing their review of the criteria currently determining access in individual cases, in particular the need for, and the previous use of, financing from the Fund, as well as the strength of the member's adjustment program. They reaffirmed that the Executive Board had to retain the present flexibility to approve arrangements for amounts above the access limits in exceptional circumstances.

III. The Issues

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 principles for future changes in access limits.

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 enlarged 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 continue to be expressed in terms of three limits: an annual limit, a limit for access over a three-year period, and a cumulative limit. The cumulative access limit would continue to be in terms of a total amount of access, net of repurchases scheduled at the time of the approval of an arrangement and excluding any outstanding drawings under the special facilities.

Executive Directors expressed different views on the appropriate access limits in the period following the effective date of the Eighth General Review of Quotas. One group of 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 access limits of 150/450/600 percent of quota should be retained in order to maintain the potential access in real terms as originally envisaged. Another group of Directors, emphasizing their concern about the limits for the Fund's financial position and noting the [large real] increase introduced in the maximum access in the late 1970s, proposed a reduction in the limits to 102/305/407 percent, the level at which potential access in absolute terms for the membership as a whole would be unchanged from that prevailing before the quota increase. A further group of Directors took an intermediate position, most of them suggesting access limits of 125/375/500 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 access limits of 125/375/500 per cent, but could in no way accept a 102/305/407 percent solution, which would result in an actual reduction in maximum access for 108 countries. Another suggestion was for an annual access limit approximately half way between 102 percent and 125 percent, e.g., at 110 percent or 112.5 percent.

While most Directors preferred a single access limit, some Directors were prepared to consider the suggestion put forward by one Director for a two-tier system of access, with first tier limits of 102/305/407 percent, and provision for higher limits in special cases which would not normally exceed 125/375/500 percent. 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 23 percent only after access at the limit of 102 percent had proved to be insufficient in the light of subsequent unforeseen exceptional circumstances. Most Directors did not favor this suggestion for various reasons, in particular that it would, in their view, effectively reduce the annual access limits for most members to 102 percent. A number of Directors were prepared, subject to qualifications, to consider the proposal further.