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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 pages 6 through 9 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 at this morning's meeting (EBM/83/134). These pages are being considered this afternoon at Executive Board Meeting 83/135.

Att: (1)

Other Distribution:
Department Heads

The use of Fund resources is anticipated to continue at a high level after the increase in quotas. New commitments under stand-by and extended arrangements in the period from January 1984 to April 1986 are estimated by the staff at about SDR 14 billion with access limits of 102/305/407 percent of quota, at about SDR 20 billion at access limits of 125/375/500 percent, and at about SDR 25 billion at access limits of 150/450/600 percent, to which have to be added use of reserve tranche positions and 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. The staff projections imply additional gross borrowing requirements for the Fund in the order of SDR 8, 13, or 16 billion, respectively, for the period January 1984 to April 1986. 1/ Part of the projected borrowing requirements could be met from the enlarged General Arrangements to Borrow, if the conditions for activating these Arrangements were satisfied. However, concern was expressed by some on the magnitude and the feasibility of financing of such amounts; in

1/ With access limits of 110/330/440 percent, projected commitments would be SDR 16 billion, and additional gross borrowing requirements SDR 10 billion. All of these projections are 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. The borrowing requirements assume that the present commitment gap, which is estimated to reach SDR 6 billion at the end of 1983, will have been closed by other borrowing arrangements before the new quotas enter into effect.

addition, it will have to be taken into account that the liabilities of the Fund arising from borrowing are very liquid. Other Directors shared the view of the staff and management that a borrowing requirement of SDR 13 billion could be financed, taking into account the size of the enlarged General Arrangements to Borrow and the projected improvement in the Fund's liquidity position after 1986. The group of Directors who favored access limits of 150/450/600 percent thought, for similar reasons, that a borrowing requirement of SDR 16 billion could also be financed.

2. Access to the special facilities

Executive Directors are continuing their review of current practices regarding the use of the special facilities. One group of Directors, all of whom favored maintaining the current enlarged access limits of 150/450/600 percent, held the view that there should be no reduction in the access limits for special facilities, access under each compensatory financing decision remaining at 100 percent of quota, access under the two combined at 125 percent and access to the buffer stock financing facility at 50 percent. Some Directors preferred no reduction in the access limits for the special facilities but, if the enlarged access limits were reduced to 125/375/500 percent, they could accept a reduction in CFF access from 100 to 85 percent. A third group of Directors preferred an equiproportional reduction in access limits under the enlarged access policy and the special facilities; thus enlarged access limits of 102/305/407 percent would correspond to CFF access of 68 percent, and a limit of 125/375/500 percent to CFF access of 85 percent. Some Directors felt there should be some

adjustment to the principle of equiproportionality depending on the outcome of the enlarged access discussions. A few Directors called for a somewhat larger reduction in access to the special facilities than under the enlarged access policy. One Director suggested CFF limits of 65-70 percent.

3. The considerations governing access limits in the future

In spite of the temporary character of the enlarged access policy, most Directors agreed that it was premature to consider a date for terminating it 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 reviews of the enlarged access policy. These reviews will pay regard inter alia to the magnitude members' payments problems, the appropriate balance between financing and adjustment, the stability of the international financial system, and the Fund's liquidity position and borrowing possibilities. Many Directors felt that the inadequacy of the Eighth General Quota increase meant that it would be necessary to continue the enlarged access policy for the foreseeable future.

Other Directors emphasized the temporary nature of the policy on enlarged access, and some of these Directors proposed that enlarged access limits for the future be agreed now, considering the more favorable prospects for the world economy and the adjustment efforts now under way. One Director suggested that new annual and cumulative limits be set at 102/305/407 percent of quota following the effective date of the Eighth General Review of Quotas, new limits of 70/210/245 percent would come into effect on January 1, 1985, and traditional access levels

(100 percent of quota under the credit tranches and 165 percent of quota when use of the extended Fund facility is involved) would be restored by the end of 1986, unless reviews concluded that developments in the world economy made such reductions undesirable. Another Director, who could agree to a continuation of the enlarged access policy with limits of 102/305/407 percent for a specific transitional period of, say, one year, suggested that the phasedown should begin at the end of this transitional period and should be accomplished within two years. These two Directors also maintained that arrangements approved henceforth should take any preannounced reduction in access limits into account in the phasing of drawings.

Directors 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.