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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/4

10:00 a.m., January 5, 1983

J. de Larosière, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	A. B. Diao, Temporary
J. Anson	C. Taylor
	H. G. Schneider
B. de Maulde	A. Le Lorier
A. Donoso	
R. D. Erb	C. Dallara
M. Finaish	
A. H. Habib	
T. Hirao	T. Yamashita
R. K. Joyce	
A. Kafka	
G. Laske	
G. Lovato	C. P. Caranicas
R. N. Malhotra	
Y. A. Nimatallah	J. E. Suraisry
J. J. Polak	T. de Vries
A. R. G. Prowse	K. G. Morrell
	O. Kabbaj
F. Sangare	E. I. M. Mtei
	J. L. Feito
	L. Vidvei
Zhang Z.	Wang E.

L. Van Houtven, Secretary
J. A. Kay, Assistant

Also Present

European Department: P. B. de Fontenay. Exchange and Trade Relations Department: S. Mookerjee, Deputy Director. External Relations Department: A. M. Abushadi. Legal Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy General Counsel; G. F. Rea, Deputy General Counsel; R. C. Effros, Ph. Lachman, S. A. Silard. Middle Eastern Department: G. Tomasson. Research Department: W. C. Hood, Economic Counsellor and Director; A. D. Crockett, Deputy Director. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; D. S. Cutler, D. Gupta, T. M. Tran, P. K. Woolley. Western Hemisphere Department: E. Wiesner, Director. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: S. R. Abiad, E. A. Ajayi, J. R. N. Almeida, J. Delgadillo, S. El-Khouri, L. Ionescu, P. Kohnert, H.-S. Lee, P. D. Péroz. Assistants to Executive Directors: H. Alaoui-Abdallaoui, H. Arias, R. Bernardo, L. E. J. Coene, I. Fridriksson, G. Gomel, Jiang H., J. M. Jones, M. J. Kooymans, W. Moerke, J. A. K. Munthali, V. K. S. Nair, Y. Okubo, G. W. K. Pickering, J. Reddy, D. I. S. Shaw, H. Suzuki, Zhang X.

1. GENERAL ARRANGEMENTS TO BORROW (GAB) - PROPOSALS FOR REVISION AND EXPANSION

The Executive Directors considered a memorandum setting out the text of revisions to the existing General Arrangements to Borrow (SM/82/239, 12/28/82), prepared in response to requests at the conclusion of the preliminary discussion at EBM/82/162 (12/17/82).

The Chairman commented that the procedure by which the Executive Board was discussing the proposed revision and expansion of the GAB was a good one; the Executive Board was having an opportunity to make its input before conclusions had been reached, or even discussed in final form by the participants in the GAB. The Deputies of the Group of Ten under Mr. Dini would meet in a few days; it would be helpful for them to have the views of the Executive Board before their meeting.

Mr. Erb agreed with the Chairman that the procedure by which the Executive Board could provide input to the participants in the GAB was a good one.

With respect to the substance of the proposed changes, Mr. Erb remarked, in connection with the heading "Interest and Charges" on page 3 of SM/82/239, that the staff had described the intention of the Deputies to abolish the transfer charge and to allow interest on GAB loans to accrue at a rate equal to the full combined market interest rate used by the Fund to determine the SDR interest rate. His authorities would prefer the interest to be paid quarterly rather than annually, as proposed by the staff on page 4. Under the heading "Use of Borrowed Currency" (page 4), he emphasized the importance that his authorities attached to the principle that access to the Fund's resources by individual members would be determined by the applicable policies of the Fund and by the financing available from all sources to the Fund, and would not depend on whether or not GAB resources could be drawn upon to finance such access. With respect to the period of renewal, the United States believed that the review of the General Arrangements should take place in accordance with the existing five-year cycle; it did not see any need to relate the renewal period to the review of quotas.

Speaking on the section "Financing of Transactions with Nonparticipants," Mr. Erb remarked that the staff had written, "the proposals of the G-10 Deputies envisaged that the GAB may be activated to meet requests from nonparticipants for conditional financing,..." On that point there had been considerable discussion of what was meant by "conditional financing." His authorities had understood that the financing should be associated with upper credit tranche use of Fund resources, thus excluding drawings in the reserve tranche or first credit tranche drawings standing alone. The staff had continued by saying, "if the Fund is faced with an inadequacy of resources to meet such requests and they reflect an exceptional situation that could threaten the stability of the international monetary system." The Deputies had added a second condition, namely, that the inadequacy of resources should arise from an exceptional

situation associated with requests from countries with balance of payments problems of a character or of an aggregate size that could pose a threat to the stability of the international monetary system. The idea contained in that clause should have been incorporated in the staff text.

Regarding the section on "Parallel Creditors," Mr. Erb considered that further discussion would be required not only among the G-10 Deputies themselves but also between the Fund, the G-10 Deputies, the participants in the GAB, and potential parallel lenders. The description given by the staff was a useful starting point. While he could agree that in the case of parallel creditors the Fund would be able to use the resources of the GAB for the same purposes and under the same conditions as the participants, one of several matters still needing to be resolved was whether, when the GAB was used for parallel lenders making reserve tranche drawings or first credit tranche drawings standing alone, the parallel lenders would be subject to the same GAB review as participants. Another issue that would need to be resolved was what say the GAB participants would have regarding the approval of any new parallel creditors that might wish to link themselves to the General Arrangements. His present view was that a consensus by the GAB participants would be required before a parallel lender was able to enter into a formal arrangement with the participants. One reason for taking that view was that if a parallel lender were able to have access to GAB resources on the same terms and conditions as GAB participants, it would thereby be affecting access to the General Arrangements by other participants. All such matters could well be discussed among the G-10 Deputies and between the G-10 Deputies and potential parallel creditors.

Under the heading "Other Nonparticipants," Mr. Erb continued, he reiterated the point that GAB loans would not be available to finance reserve tranche purchases or first credit tranche purchases standing alone. As to whether GAB loans could be used for extended arrangements requested by participants, the modification to the existing arrangements would be minor; his authorities had an open mind on the point. In passing, he had been asked what resources would be available to the United States if it drew on the Fund under an extended arrangement. The amount (4.50 x $13 billion) would be rather large.

On page 7 of SM/82/239, Mr. Erb noted, the staff had described two versions--Version A and Version B--of the criteria for activating the General Arrangements in favor of nonparticipants. Version B (page 19 of SM/82/239) contained the phrase "an inadequacy of resources readily available." He did not believe that the introduction of the term "readily available" added much to the criterion. Ultimately, both the Executive Board and the participants in the General Arrangements would have to make a judgment regarding the liquidity position of the Fund, and whether it needed to be enhanced by the use of GAB resources if the other criteria were met. It would therefore be useful to know what the staff had in mind in using the term "resources readily available." Meanwhile, his authorities put great stress on the arrangements described by the staff on page 7 of SM/82/239 whereby "on the basis of [the] consultations [the

Managing Director] could negotiate arrangements with the reasonable assurance that GAB resources would be available, even though calls could not be made until specific proposals for activation, and the arrangements themselves, had been approved."

Mr. Nimatallah remarked that Mr. Erb had said that the association of any parallel creditor with the General Arrangements would need consensus by the participants. He had always assumed that such a consensus would be necessary. But would such a consensus be required each time that a parallel creditor made a loan in conjunction with the participants, or only on the occasion when the parallel creditor was first associated with the General Arrangements?

Mr. Erb replied that his understanding was that consensus by the participants would be needed only at the time that a country became a parallel creditor associated with the General Arrangements.

Mr. Laske observed that the staff had made a great step forward in helping to revise and expand the General Arrangements to Borrow. The text proposed in SM/82/239 would certainly not be final, so that the comments of Executive Directors would be helpful to the Deputies and Ministers of the Group of Ten in coming to a conclusion.

Taking up the proposed changes in the General Arrangements, Mr. Laske referred first to paragraph 1(xi) on page 11 of SM/82/239. Paragraph 1(xi) contained the definition of "parallel creditor." Like Mr. Erb, he believed that the association of a parallel creditor with the General Arrangements should require the consent of the participants on the occasion when the parallel arrangement was worked out. Similarly, in paragraph 21 it was his understanding that, broadly speaking, the obligations and rights of any parallel creditor should be as similar as possible to the obligations and rights of a participant in the General Arrangements. However, paragraph 21 as drafted seemed to be rather asymmetrical in the sense that the proposals incorporated primarily the rights of the parallel creditors, while the obligations were only to be embodied in an agreement between the Fund and the parallel creditor. As a matter of principle, it seemed better either for paragraph 21 to include both the obligations and the rights of parallel creditors, or for neither to be included in the decision but embodied in parallel agreements.

In paragraph 9, Mr. Laske observed, it was proposed that interest should be paid on an annual basis. Like Mr. Erb, he saw no reason not to maintain the payments of interest outstanding from the General Arrangements on a quarterly basis; remuneration and payments of interest on SDR positions were different from payments of interest on loans under the General Arrangements. Moreover, proposed paragraph 9 tied the interest to be paid on claims under the General Arrangements to the formula for determining the SDR interest rate as it might stand at any given time. It would be preferable if the paragraph would indicate that what was meant was the SDR formula as it stood at present. Then, if the SDR formula

were changed by a decision of the Executive Board, the new formula would not automatically apply to participants in the General Arrangements to Borrow. It would also be desirable to maintain a floor for the rate of interest to be paid on claims under the General Arrangements. The floor could be 4 per cent, the rate currently paid on GAB claims.

Taking up paragraph 11--repayment by the Fund--Mr. Laske recalled that under the Articles of Agreement before the Second Amendment, the Fund had accepted an obligation to repay GAB creditors when a country that had drawn on the Fund and caused an activation of the General Arrangements reconstituted its reserve tranche. The Second Amendment had eliminated the obligation to reconstitute a reserve tranche after a drawing, thus creating a hiatus between the Articles of Agreement and the provisions of the General Arrangements. He would like to fill that gap by inserting in paragraph 11 a provision by which the Fund would be obligated to repay a GAB creditor for amounts that had been used to finance the reserve tranche drawing pari passu with the reconstitution of the reserve tranche, if the action took place prior to the maturity of the claim on the General Arrangements, which would be five years.

The Deputy Managing Director recalled that, before the Second Amendment of the Articles of Agreement, if a member had purchased its reserve tranche repurchase, and the General Arrangements had been activated for the purpose, the participants in the General Arrangements had to be repaid by the Fund at the moment of the repurchase. However, if the drawing member's reserve tranche position had been reconstituted because the Fund had used its currency, there had been no automatic repayment to the participants in the General Arrangements.

Mr. Laske said that he had understood the significance of the point made by the Deputy Managing Director. If the General Arrangements were being revised, he would like to return to the position by which, when a drawing member reconstituted its reserve tranche, the Fund would be obligated to repay the amount borrowed from the participants in the General Arrangements to Borrow.

As his authorities understood the matter, Mr. Laske went on, the extension of the General Arrangements for use by the Fund in connection with drawings under stand-by arrangements, extended arrangements, and upper credit tranche purchases by nonparticipants was closely tied to the present situation in the world economy. Consequently, in discussing the renewal date for the General Arrangements in paragraph 19(d), he would prefer to see the insertion of language which would ensure that at the time of any renewal, the extension of the General Arrangements to nonparticipants would only be permitted if the special circumstances under which the extension had originally been decided were considered by agreement between the participants and the Executive Board to continue to prevail.

Commenting on a technical point in connection with paragraph 21(a), Mr. Laske remarked that there seemed to be some difference in language between paragraph 21(a), which concerned the activation of the General Arrangements for the benefit of a parallel creditor, and paragraph 6, which dealt with the activation for the benefit of the participant. Whereas paragraph 6 referred to exchange transactions and stand-by arrangements, paragraph 21(a) referred only to exchange transactions. He wondered whether there was any difference of substance between the two. As to the two versions of paragraph 21(b), his authorities found that there was little difference between them. They had a slight preference for Version A but could well accept Version B provided that the adjectives "actual and expected" were deleted before the word "requests" in the second line. In paragraph 4(i) of the conclusions reached at their meeting of December 10, 1982, the G-10 Deputies had suggested that the GAB should be activated to finance purchases by other members if the Fund were faced with an inadequacy of resources "to meet appropriate requests for conditional financing." It would be better if the staff would adhere to the language adopted by the G-10 Deputies.

Mr. de Maulde stated that he had no difficulty with the staff text. It had been instructed to change as little as possible, and it had done a good job.

On the technical points raised by other speakers, Mr. de Maulde said that he would agree with Mr. Erb regarding the desirability of maintaining quarterly payments of interest. He was rather doubtful about the need to maintain an interest rate floor or to specify that the calculation of the SDR interest rate was that prevailing at the present time. However, if there was a consensus on those points, he would join in. Mr. Erb had a good point regarding the review date; it would be better to adhere to the five-year cycle without referring to the Fund's quota reviews.

Taking up more substantial matters, Mr. de Maulde referred to the footnote on page 6 of SM/82/239, which explained that, without amendment, the General Arrangements might be activated as a means of financing extended arrangements with nonparticipants but not with participants. The discrepancy between the two groups should be eliminated. Under the heading "Other Nonparticipants," the staff had written that the General Arrangements should be activated to enable the Fund to finance conditional drawings but not drawings under any of the special facilities. While he could accept the general principle, more precision was needed. Borrowing under the General Arrangements would be more expensive than normal Fund financing; it was important to consider as a matter of principle how the Fund should use its cheaper resources compared with its more expensive resources. It might be preferable for the Fund to use high-cost resources to finance special facilities with low conditionality and to use its cheaper resources for financing high-conditionality drawings. He was not making a specific proposal on the point.

With respect to the alternatives in paragraph 21(b), Mr. de Maulde stated that he could go along with Alternative I, Version B, in its present form. If there was no agreement to adopt that text, he could also go along with Alternative II.

Mr. Anson stated that he agreed with what the Chairman had said about the procedure for revising the General Arrangements. The G-10 Deputies had produced a helpful outline for comment by the Executive Board, but it was clear that once attempts were made to put the requirements into more legal language, further refinement would be needed. Indeed, he hoped that the Executive Directors not associated with the Group of Ten would make comments; their input would certainly be helpful. In particular, the Group of Ten had probably not yet examined its future relationship with Switzerland in connection with the General Arrangements. There was a fundamental difference between a member and a nonmember, in that the nonmember could not draw on the Fund. It might therefore be best to leave the matter for discussion between the participants and Switzerland, and to retain the possibility of associate status as well as that of parallel creditor at that stage.

Similarly, Mr. Anson went on, more work might be needed to see exactly how the proposed paragraph 21 fitted in with the purpose of the exercise. It would be best to provide for quite wide variations in the forms of parallel lending to meet the interests of the Fund and the circumstances of individual parallel creditors. There need not be a single model agreement. The original intention was to retain the existing General Arrangements as far as possible, but to graft onto them arrangements that would allow the resources of participants to be lent in parallel with loans from other surplus Fund members to finance conditional drawings by nonparticipants. One possible approach would be to ask parallel creditors to undertake to consider calls only in the circumstances set out in paragraph 21(c). That would be a different approach to that envisaged under the proposed wording of paragraphs 21(a) and (b). If that approach were accepted, the reciprocal relationship between the participants in the General Arrangements and the parallel creditor would arise only in relation to those loans made in conjunction with conditional drawings by nonparticipants, and the need for new provisions referring to reserve tranche drawings and other low-conditionality drawings would disappear. There was one other point where some ambiguity might arise. The staff had assumed on page 5 of SM/82/239 that parallel creditors would agree that the Fund could resort to their credit lines in the same circumstances and for the same purposes as in the case of participants' credit arrangements, including refinancing an early encashment of a claim on the Fund. As he understood it, under the General Arrangements as they now stood, the GAB could be used to finance encashment of GAB claims but could not be used to finance encashment of other claims.

Taking up the points made by Mr. Erb and Mr. Laske, Mr. Anson said that he agreed with many of them. It would be useful if the language would indicate that the review of the General Arrangements would bear particularly on the need to continue the enlargement of the arrangements at the moment of the review, and he also agreed with Mr. Erb regarding the five-year review cycle. He saw no reason for changing the present arrangement under which interest payments to GAB creditors were made on a quarterly basis, although he had no instructions on that point. He agreed with Mr. Erb in emphasizing the need for uniformity of treatment

of individual members' requests for Fund assistance. On the question whether conditional financing referred to the first credit tranche as well as the second and subsequent tranches, Mr. Erb's comments seemed to have some force. Regarding the approval of parallel lending arrangements by the participants in the General Arrangements, he agreed with Mr. Erb that approval should take place at the stage where a declaration was made that a parallel lending arrangement was being established. However, there should be sufficient flexibility to allow for a variety of parallel lending arrangements. In those circumstances, he agreed with Mr. Laske that it would be preferable to mention the obligations as well as the rights of parallel creditors, to the extent that they needed to be spelled out in the decision, particularly as they might vary somewhat, depending on the nature and scope of an individual lending arrangement.

As a matter of tidiness, he agreed that if the words "extended arrangement" appeared in paragraph 10 of the General Arrangements in relation to nonparticipants, they should also appear in paragraphs 6 and 7--although in practice the provision might not be invoked very often--Mr. Anson observed. Similarly, if there was to be an agreement about the definition of the interest payment, it might be better to spell out the fact that the formula in question was the formula in force at the moment when the new arrangements became effective. He also sympathized with Mr. Laske on the desirability of maintaining a floor for the interest rate paid to GAB creditors, although in present circumstances he wondered if it would make much practical difference. Mr. Laske's point about repayment to GAB creditors when a reserve tranche was reconstituted, also seemed valid. As to the language of paragraph 21(c), his authorities were inclined to favor Version B, which seemed to be an improved reflection of the language prepared by the G-10 Deputies. If Version B was not acceptable, his authorities would prefer to fall back on Version A rather than on Alternative II. The points included in Versions A and B were so crucial to the significance of the whole operation that the language ought to appear in the decision itself rather than in some other document.

Mr. Kafka remarked that he would have had no questions if those posed at EBM/82/162 and mentioned in the Managing Director's summing up had been answered. Unfortunately, they did not seem to have been. First, why should decisions on activation and those on whether there was a need both prolonged enough and large enough to require special action be confined to the lenders? Would it not be better to adopt the system agreed upon with the Saudi Arabian Monetary Agency, by which the potential lenders gave a firm commitment to lend, naturally subject to suspension if the balance of payments situation made lending impossible, and then leave the judgment to the Executive Board, on which all potential lenders were represented with substantial voting power?

Moreover, Mr. Kafka continued, he could not agree with the staff that the proposals as presented were nondiscriminatory. While access to the General Arrangements was nondiscriminatory as between conditional and nonconditional drawings for participants, it was not so for other countries drawing on the Fund. There was also discrimination with respect to lending.

The relationship between participants and parallel lenders seemed to be on a two-class basis. However, supposing those matters to be settled, he had comments on specific paragraphs.

In paragraph 1(xi), Mr. Kafka inquired, could the status of a parallel creditor be denied by the participants, unless the parallel creditor was not prepared to lend on the same terms and conditions as participants? In other words, could the participants insist that a Fund member should not become a parallel lender? Second, some phrases in the staff's commentary could with advantage be incorporated in the body of the revised decision itself. Specifically, the sentence at the end of the commentary on page 4 confirming that access to the Fund would not depend on whether or not GAB resources could be drawn upon to finance it could well be incorporated in the body of paragraph 10. In paragraph 21, Alternative I(c), it would be useful to specify with whom the Managing Director should consult. As to the various texts, his own preference was for Alternative I, Version B. *Finally, it would be helpful to incorporate in the decision as paragraph* 21, Alternative I(d), the sentence at the bottom of page 8 and the top of page 9 of SM/82/239 reading, "It should be clear that consultations on a proposal for financing purchases by a nonparticipant would not deal with the question of the consistency of the requests with the applicable policies of the Fund or the adequacy of the program on which the request is based."

Mr. Hirao stated that, first, he could support the idea of leaving the quarterly payment of interest on GAB claims unchanged. Second, he agreed with Mr. Laske that the General Arrangements should be amended to the extent necessary, so as to require the Fund to repay to participants in the General Arrangements on the reconstitution of the reserve tranche by a drawer on the Fund. Third, he agreed with the staff that in practice there was probably little difference between paragraph 21, Alternative I and Alternative II. However, he was inclined to favor Alternative I, which seemed to be closer to the conclusions of the G-10 Deputies. He could accept either Version A or Version B. He agreed with Mr. Erb and Mr. Laske regarding their other points.

Mr. Vidvei remarked that paragraph 11 stated that the Fund should repay to the participants an equivalent amount five years after a transfer by a participant in the General Arrangements. On the other hand, the Fund would be able to borrow from the General Arrangements to cover extended arrangements with nonparticipants, and they might have a maturity of eight years. He wondered whether he was right in thinking that the mismatching of maturities between the Fund's borrowing from the General Arrangements and its lending to members might cause difficulties. He had raised the same point on other occasions; it was perhaps time for the Fund to consider it.

Mr. Polak noted that the present discussion for the revision and enlargement of the General Arrangements to Borrow was much more efficient than that which had preceded the negotiation of the General Arrangements in 1961. He agreed with many of the suggestions that had been made by earlier speakers. For instance, as suggested in the footnote to page 6

of SM/82/239, it would be useful to make the changes in paragraphs 6 and 7 needed to introduce extended arrangements into the General Arrangements to Borrow, whatever the practical significance might be. With respect to paragraph 21, he strongly preferred Alternative I to Alternative II, and he could go along with Version B. Some reconciliation of the language might be needed, particularly with respect to the use of the word "conditional." In paragraph 21(b), the staff had used the word "conditional tranches" and in paragraph 21(c), Version A, the words "conditional financing." Neither term was exact, and the word "conditional" meant different things in each case. As he had understood it, the term "conditional tranches" would include first credit tranche drawings, while the term "conditional financing" surely included the upper half of the compensatory financing facility.

Concluding his remarks, Mr. Polak commented on the proposals for parallel creditors. To the greatest extent possible the relation of the parallel creditors to the Fund should be spelled out in the Fund decision, leaving only details to the bilateral arrangements. The tendency seemed to have been to make parallel creditors as close to participants as they could be; consequently, the admission procedure should be that suggested by Mr. Erb and others, namely, that the parallel creditors should be accepted by all participants. On the question of similar treatment for parallel creditors, was paragraph 11(d) of the draft revised agreement suitable as it stood? The paragraph provided that repayment should be made to participants in proportion to the Fund's indebtedness, but it seemed to him that parallel creditors should also receive payment.

Mr. Malhotra associated himself with the observation by Mr. Kafka to the effect that some of the issues raised at EBM/82/162 had not been answered, and that SM/82/239 gave the impression that the questions raised on that occasion by some Executive Directors had not been considered relevant. In the circumstances, he found it difficult to make any meaningful comments on the document under discussion. For instance, Mr. Kafka and others had raised a question about the decision-making process in connection with activation of the GAB, which he considered the most crucial issue. On the same occasion, Mr. Finaish had also made a strong case for having only one forum in which a decision to activate the GAB would be taken. Neither of those questions had been answered.

Consequently, Mr. Malhotra went on, he would repeat what had been said at EBM/82/162. First, it had been said that decision making with respect to activating the General Arrangements to Borrow should remain with the Executive Board. In support of that contention it had been argued that the participants in the GAB were strongly represented in the Executive Board. If they were opposed to activation, the Managing Director would find it difficult to proceed. The advantage of having the decision taken in the Executive Board was that many members of the Fund who were not part of the Group of Ten would at least have an opportunity of being heard.

Second, Mr. Malhotra remarked, the Board had given management a ceiling within which it could borrow, and thus had some control over the Fund's borrowing. With all those safeguards built into the system, he and others doubted whether it was desirable to have a second stage of approval, which could turn into a veto for the whole operation.

Third, Mr. Malhotra considered, under the Articles of Agreement, it was the Fund that was supposed to oversee the international monetary system and should be in the best position to decide whether it was likely to suffer major impairment. It was also for the Executive Board to decide on the adequacy of the Fund's resources in a given situation. The matter was indeed one of principle, and should not be sacrificed on the altar of convenience. He understood that the Managing Director would in any event have to consult with the participants in the GAB before making a proposal to the Executive Board, and that if he found that the participants were not disposed to proceed, he might not make a proposal to the Board. From his standpoint, however, the prior consultation with GAB participants was another safeguard that argued in favor of having the ultimate decision taken in the Executive Board. Mr. Finaish, in strongly arguing against a two-tier decision-making process, had suggested that, if necessary, further safeguards could perhaps be considered. His own view was that the safeguards already in place were adequate and it was therefore unnecessary to have two separate decisions in connection with activation.

The arrangement between the Fund and the Saudi Arabian Monetary Agency was quite different from that between the participants in the GAB and the Fund, Mr. Malhotra noted. While, naturally, the Saudi Arabian authorities would decide whether they had resources available for lending to the Fund, it was not they who decided whether the circumstances warranted borrowing by the Fund. It was important to know whether such arrangements would be preserved, or whether parallel creditors would also have to enter arrangements similar to the GAB. The Saudi Arabian authorities lent for seven years, while the GAB credits would be repayable in five years. There could thus be a mismatch as special Fund facilities envisaged repayments over a substantially longer period.

More generally, Mr. Malhotra observed, he and several of his colleagues did not favor the idea of the establishment of an emergency fund if it was likely to affect an appropriate enlargement of the Fund. Even if the GAB were operated as an emergency fund, the decision for its activation should be taken in the Executive Board. As G-10 Deputies were to meet in mid-January 1983, they should be asked to consider the view that the ultimate determination on activation should remain with the Executive Board. The expansion of the GAB and its extension to nonparticipants was a major development; he hoped that it would take place in such a way that the cooperative and nondiscriminatory character of the Fund would not be affected.

Mr. Schneider reported that his Belgian authorities wished interest payments to continue on a quarterly basis and to ensure that the calculation of the interest rate would remain related to the SDR valued as at

present. They also favored a review in accordance with the present five-year cycle, and they preferred Alternative I, Version B in paragraph 21(c), but they could accept Alternative I, Version A.

Regarding the parallel creditors, Mr. Schneider noted that Switzerland, a nonmember of the Fund, could have the same status as a parallel creditor by including the words in square brackets in paragraph 1(xi) of the draft revised arrangements. If that procedure were not adopted, he understood that there would be three types of creditors: participants in the GAB; an associated member, Switzerland; and parallel creditors. Such an arrangement would be a downgrading of the rights and obligations of parallel creditors. However, supposing that the sentence in square brackets were adopted, would the parallel creditors have the same status as Switzerland, or would Switzerland have the same status as the parallel creditors? The potential difference, of course, could be the present observer status of Switzerland. Second, it was rather unclear what the rights and obligations of parallel creditors would be. For instance, if the agreement of participants in the GAB was needed to activate the General Arrangements, and the parallel creditors would not agree to an activation, what would happen then? It was surely for that sort of reason that Mr. Laske had asked that the rights and obligations of the parallel creditors should be spelled out in the decision itself. Third, if the participants in the GAB wished the status of participants and parallel creditors to be almost identical, he would find it difficult to accept Mr. Anson's proposal that the funds made available by parallel creditors should only be used for financing arrangements in the higher credit tranches.

Mr. Donoso asked for clarification of paragraph 21(b) in Alternative I. It would surely be rather difficult for a member to make a formal request for an arrangement if there were any possibility that the resources would not be made available. It was valuable for members to know in advance whether resources would be available or not. The present General Arrangements allowed for the consultation process to begin as soon as a participant approached the Fund, as stated in paragraph 6. Alternative II in paragraph 21(b) also made it possible to hold consultations before any formal request was made. The request was necessary only as a preliminary to making a call on the GAB, not to initiating consultations or other procedures. On the other hand, as he understood it, Alternative I meant that an initial consultation could not take place until a request had been received.

The Chairman remarked that he had not seen the difference between Alternative I and Alternative II in the same light as Mr. Donoso. As he understood it, the essential difference between the two was that in Alternative II nothing was said about the conditions for activation, which were to be left to understandings between the Fund and participants in the GAB. The problem raised by Mr. Donoso in relation to both Versions A and B under Alternative I would also occur under Alternative II, because the terms and conditions were intended to be placed not in the decision but in a communication of the sort that Mr. Baumgartner had sent to the other participants in 1961.

The Director of the Legal Department commented that Mr. Donoso had in effect remarked that paragraph 6 stated that activation of the GAB could take place when the Fund was approached, while the language in paragraph 21(b) provided that the procedure could be initiated only in connection with a request. He would answer by saying that in paragraphs 21(a) and 21(b) it had been made clear that paragraphs 6 and 7 applied to all activations, including those for nonparticipants. Paragraph 21(c), on the other hand, was intended to indicate that when there was an activation, there were certain circumstances that would have to be taken into account.

With respect to the Chairman's remarks, the Director of the Legal Department went on, the purpose of the language in paragraph 21 was to permit consultations with participants before proposals for calls were made. To answer Mr. Kafka, who had asked why in paragraph 21 a description of the partners to the consultation had not been included, paragraph 6 also used the term "after consultation." It had been decided in paragraph 6 not to indicate the entities with which the Managing Director would consult, in order to leave him free to consult anyone he thought fit. Only in paragraph 7 had it been stated that the proposal might not be made unless the Managing Director had consulted both the Executive Directors and the participants. If the Managing Director suspected that, as a result of approaches that had been made or of approaches that might be made in the future, there might be a threat to the international monetary system accompanied by an inadequacy of resources on the part of the Fund, the Managing Director could approach the participants. He would of course at that time not be making a call on the resources of the GAB because he would not have received the requests from Fund members that would lead to a call. What he would be doing would be obtaining the reaction of participants to a possible request to replenish the Fund's resources. Once the participants had considered the Managing Director's observations and had agreed that there was an inadequacy in the Fund's resources, the Managing Director would initiate the procedure for activation, but only after consulting Executive Directors and participants in accordance with paragraph 7.

Mr. Erb reverted to the difference between Version A and Version B in Alternative I of paragraph 21. What he liked about Version B was that it made it clear that in forming a judgment about the activation of the General Arrangements for nonparticipants, those concerned with the decision making would be looking not only at actual requests but also at requests expected to be received in the near future. Even under Version A, in making a judgment that the use of the General Arrangements for nonparticipants was necessary, participants would be taking expected requests into account, because they would be related to the prospects of the Fund's liquidity position. The main difference between Version A and Version B therefore was that Version B made the point more explicit.

Mr. Erb remarked that the inclusion of the phrase "readily available" in Version B created a problem for the U.S. authorities and made them lean in the direction of Version A. Version B seemed to suggest that the

resources were close to being available, whereas under Version A there was no suggestion one way or the other that the Fund might have exhausted its resources, thus leaving open the question of whether the Fund might have access to other resources. It would certainly not be a good idea to use language implying that the Fund had exhausted its resources before it could engage in consultations with the participants.

The Chairman commented that perhaps the words "readily available" gave an impression of referring only to resources immediately at hand to the Fund. Clearly, in the circumstances referred to, the Fund would not for instance consider selling gold before undertaking consultations with the participants. He would have no objection to the language in Version A if it was understood that "inadequacy of resources" did not imply a complete exhaustion of borrowing sources and the liquidation of the Fund's assets.

The Treasurer agreed that the term "readily available" might not be exactly what the staff had had in mind. What was intended in Version B was to explain that there should be no legal presumption that the Fund would have to be on the point of exhausting all means of financing, including arranging new borrowing or selling gold, before undertaking consultations with the participants. What the staff had had in mind for the term "readily available" was the same concept that was used in connection with the operational budget. In addition, the staff would include SDR holdings, to the extent that their use was consistent with the decisions of the Fund, and any lines of credit actually usable at that time.

Mr. Erb commented that he did not agree with the Treasurer that the language in Version A contained a presumption of exhaustion. The topic had been discussed among the G-10 Deputies, and it had been decided to have a vaguer concept that would not presume the exhaustion of Fund resources. The decision on how the Fund would raise additional resources--whether on the market, by short-term borrowing arrangements, by medium-term borrowing arrangements with official authorities, or by an approach to the participants--was a decision that ought to be made by the Fund. As he understood the Treasurer, the implication was that the Fund would first go to the participants in the General Arrangements. In his view, that was not necessarily so. The proposal to expand the General Arrangements did not preclude the Fund from saying, at any time, that it would prefer to go to the market, or to any other source, rather than take advantage of the offer by the participants in the General Arrangements.

The Treasurer commented that Mr. Erb seemed to be starting from the presumption that the Fund could not go to the General Arranggements unless it had fully explored all other means of raising additional resources. If that was the intention, the term "inadequacy" was certainly rather strong. However, as the matter had been well thrashed out, there might be no need to amend the word in the text, since it had been used in the conclusions of the G-10 Deputies. On the other hand, it would be desirable to insert a phrase to explain that there was no presumption that the Fund must exhaust all means of raising additional resources before approaching

the participants in the GAB. As to the point made by Mr. Malhotra and echoed by Mr. Erb, the language in no way enjoined the Fund from borrowing from other sources, selling special drawing rights, or going to the market.

The Director of the Legal Department commented that one way of dealing with the problem would be to reflect the understanding of what was meant in the report that would accompany the proposed changes. Naturally, management, the Board and the participants would be guided by that understanding. There seemed to be no difference in substance between Mr. Erb and the staff; Mr. Erb had suggested that the Fund did not need to have exhausted its other means of raising resources, and the Managing Director had explained that he wished to be assured that he would not be prevented from approaching other sources if it seemed desirable to do so. In the circumstances, there ought to be no difficulty in reaching a conclusion that could be reflected in the report to accompany the proposed changes.

Mr. Prowse commented that the point raised by Mr. Erb regarding the meaning of the term "readily available" was one of the most important in the whole paper. He hoped that the meaning could be further spelled out, especially for those who might wish to activate the General Arrangements to Borrow in the years to come. He therefore hoped that the staff could produce language along the lines suggested by the Director of the Legal Department and the Treasurer.

More generally, Mr. Prowse went on, the staff had produced a useful paper, even though the timetable had prevented him from receiving comments from his authorities. He had however noted that, as written, the draft provided for three groups of borrowers: the participants, an associated country, and nonparticipants. There was thus bound to be some absence of uniformity in arrangements. Moreover, what was being proposed was much more like an associate status than a parallel arrangement. Other potential creditors would be associated with the participants in the General Arrangements to Borrow instead of becoming members of a parallel arrangement because the arrangements between the Fund and the other creditors were not parallel, in the sense that they did not reflect precisely the situation of the GAB itself.

His observations on the draft reflected those of nonparticipants, Mr. Prowse went on. He hoped that the final draft would spell certain points out more fully. For instance, the role of parallel creditors in decision making in connection with activation had received surprisingly little attention. Paragraph 7 seemed to make decisions for calls for any of the purposes involved, including activation of the GAB for the benefit of parallel creditors, subject to acceptance by participants only, and not by parallel creditors. Naturally, that was a matter that the parallel creditors themselves would need to look at; he assumed that parallel creditors would wish to have more than observer status in consultations that would lead to activation of the GAB, especially in regard to their credit arrangements.

Another point, which had been more fully discussed, was the definition of parallel creditors, Mr. Prowse commented. He assumed that there would be negotiations between potential parallel creditors and the Fund on such matters as a minimum commitment, the possibility of providing usable currencies, the reserve strength of the potential parallel creditors, and the like. It would be useful to lay down either in the decision itself or in a document of understanding whether it was the participants in the GAB that would determine the criteria for parallel creditors, whether they would do so in consultation with the management or with the Executive Board of the Fund, and whether the participants wished to have veto power over participation in parallel arrangements as they did over participation in the GAB itself. It seemed clear that participants in the GAB would wish to have a role in considering which countries should be parallel creditors, but nothing had been said about the relation of that role to the actions of the Executive Board and management.

Regarding the activation of the General Arrangements for nonparticipants, Mr. Prowse felt that there was considerable support for Alternative I, which would be the preferred choice of his chair. It was important to have the criteria set out in the decision itself. Under Alternative I, he, like the majority of those who had spoken, would prefer Version B, which would provide some flexibility while remaining consistent with what seemed to be the principles adopted by the participants in the General Arrangements. Finally, like Mr. Malhotra, he noted that the intention seemed to be to limit the use by nonparticipants of the resources provided both by participants and by parallel creditors to high-conditionality lending. Mr. Polak's points were well taken, but he was not clear why the participants in the General Arrangements would wish to restrict the use of the resources to such lending. In the nature of the circumstances, which would have to be such as to threaten impairment of the international monetary system, it seemed unlikely in any case that much good could be done by lending in the reserve tranche or the first credit tranche to Fund members who were not also participants in the General Arrangements. But it would be interesting to know why the participants themselves would wish to exclude other possible forms of lending.

Mr. Joyce stated that he too found the procedures being followed by the Fund and the participants to be helpful and appropriate. They did give the Executive Board an opportunity to express its views in advance of any decisions that might be taken by the Group of Ten. His views, like those of Mr. Prowse, would be personal for lack of reaction by his authorities, and they would cover five points. First, he supported Mr. Laske in feeling that the decision should spell out the rights and obligations of both participants and creditors either in full or not at all. Second, he agreed with those who had suggested that more uniformity of treatment between participants and nonparticipants might be desirable. Third, he agreed with those who suggested that if the facility was to be used to assist in financing extended arrangements with nonparticipants, it should surely be available in similar circumstances to participants. Fourth, payments of interest should continue to be made quarterly. Fifth, he agreed with Mr. Laske that it should be made clear specifically that there

was an obligation to repay GAB creditors when a member reconstituted its reserve tranche, no matter how the reconstitution occurred. Sixth, he agreed with Mr. Anson that more thought should be given to the status of Switzerland, and to any changes that might be suggested.

His authorities had no strong preference for either Alternative I or Alternative II in paragraph 21, Mr. Joyce observed. However, if Alternative I was to find favor, they would have some preference for Version B on the grounds that it was more flexible. Moreover, Version B had tried to clarify the meaning of the term "inadequacy of resources" by including the words "readily available." The words "inadequacy of resources" alone might run the risk of being interpreted in too restrictive a manner. On the other hand, he agreed with Mr. Erb that the existence of the General Arrangements to Borrow should not deter the Fund from seeking additional finance elsewhere if it were judged appropriate to do so. In general, Version B seemed quite appropriate, although *better individual words might be found.*

Regarding the terminology in paragraph 9(c), Mr. Joyce noted that the staff had used the phrase "other currencies that are actually convertible." Traditionally, the Fund had used the term "freely usable currencies," and he wondered whether "actually convertible currencies" was a broader concept.

Mr. Feito stated that he would endorse the points made by Mr. Kafka and Mr. Malhotra. In particular, he agreed with the points made by those speakers regarding the procedure for activation of the General Arrangements. While he could support many of the proposals put forward for revising the GAB, he would not support any decision that would involve a weakening of the role of the Fund in the decision-making process affecting the allocation of nonprivate flows of finance to member countries.

Mr. Zhang stated that he too supported the points made by Mr. Kafka and Mr. Malhotra. In addition, he would like to be told the rationale for the difference in treatment between participants and nonparticipants. He would also like to know whether there were any conceivable circumstances in which the participants in the General Arrangements to Borrow would refuse a request for activation by the Fund when the Fund wished to meet a request for assistance from a nonparticipant.

Mr. Sangare observed that his authorities had not had sufficient time *to reflect on the proposals; in any event, their reflection would have* been considerably assisted by the answers to the questions raised at EBM/82/162. Without repeating the substance of the matter, which had been well expressed by Mr. Malhotra, he had the impression that the staff had been instructed to prepare a paper which would, among other things, give replies to questions raised by a number of Executive Directors at the December 1982 meeting. Some of the questions were, after all, fundamental to any proposal to expand the General Arrangements; he had therefore hoped that the staff paper would deal in reasonable detail with the issues. He, like others, had observed that the proposal was intended to deal with

extraordinary balance of payments deficits that could threaten the smooth functioning of the international monetary system. That proposal was different from the quota review exercise, which was intended to provide the Fund with additional resources for lending to its members in moments of difficulty.

It was not entirely clear, Mr. Sangare maintained, to what extent or in what circumstances the enlarged GAB would meet the balance of payments financing requirements of the small developing countries, which individually would not pose any threat to the international monetary system. His chair had pointed out that the balance of payments difficulties of those countries were significant in their own right, and that they were neither normal nor ordinary. There was, he believed, general recognition that such a situation required a substantial increase in quotas, which could make special treatment for the small developing countries irrelevant and the need to expand the GAB less urgent.

Questions had also been raised regarding the desirability of the two-tier decision-making process in connection with the activation of the General Arrangements, Mr. Sangare concluded. SM/82/239 contained a proposal for amending individual provisions of the decision establishing the General Arrangements to Borrow. The Board had not been given an opportunity to consider the proposal in the light of the various questions raised at EBM/82/162. In the circumstances, his chair would find it difficult to take up the draft decision contained in SM/82/239. He therefore supported Mr. Malhotra's proposal that the question should be passed back to the Group of Ten, together with those mentioned by Mr. Kafka and others.

Mr. Schneider recalled that both Mr. Anson and Mr. Joyce had suggested that it would be necessary for the participants in the General Arrangements to have separate discussions with Switzerland, on the grounds that Switzerland was a nonmember of the Fund. If there was to be a three-stage system, with participants, associated members, and parallel creditors, could there be uniform treatment of Fund members, or would there be discrimination in favor of non-Fund members vis-à-vis Fund members?

Mr. Vidvei stated that his authorities supported Alternative I in paragraph 21. As it was the Fund that would bear the risk involved in lending operations, his authorities took the view that the Fund should play a central role in the decision-making process surrounding the use of credit arrangements for nonparticipants. His authorities supported Version B of Alternative I on the grounds that, when proposing the activation of the General Arrangements, the Managing Director should take account of both actual and expected requests. Finally, when the activation of the General Arrangements involved the use of funds supplied by parallel creditors, the countries that entered into parallel arrangements should be given a reasonable role in the decision-making process leading to the activation. Parallel creditors should in fact have a role equal to that of participants.

Mr. Habib remarked that, like others, he was without instructions from his authorities. The discussion at EBM/82/162 had been the first occasion on which nonparticipants had had an opportunity to discuss the various points in the proposal, including the suggestion that, for the first time, nonparticipants should have access to the resources of the General Arrangements. A number of questions had been raised at that meeting, and the Chairman had summarized them in his concluding remarks. While he too could understand the difficulties that lay in the way of the staff's making an attempt to provide answers to the questions, he would still like to hear the answers. He therefore supported the proposal by Mr. Malhotra that the matter of the decision-making form should be put before the G-10 Deputies. Meanwhile, he would require more time before taking a position on the proposed text.

Mr. de Maulde stated that he would support the position taken by Mr. Laske and Mr. Hirao on the question of reserve tranche drawings and the repayment of participants or parallel creditors when the drawings were reversed. Second, the last sentence of paragraph 3 stated that a member or institution should state the amount of the credit arrangement which it was willing to enter into, provided that the amount should not be less than the equivalent of SDR 100 million. He wondered whether that figure was in accordance with the objectives of the enlargement of the General Arrangements. It might be better to bring it up to date.

Mr. Kabbaj stated that in general terms he had the same problem as Mr. Kafka and others: he would have liked to see answers to some of the questions raised at EBM/82/162.

As to the text contained in SM/82/239, Mr. Kabbaj remarked that, at the December 1982 meeting, a number of Executive Directors had had difficulty with the proposed procedures for activating the General Arrangements for use by nonparticipants, particularly the provision that the participants should decide whether the conditions for activation were fulfilled or not. From his reading of the text, it was by no means clear that approval by the participants would not be dependent upon their examining specific programs or the conditionality attached to the use of GAB resources. Nor was it clear whether the understandings among participants regarding the criteria for activation for the benefit of nonparticipants, referred to in paragraph 8 of the Deputies' conclusions of December 10, 1982, were to be communicated for approval by the Executive Board or for its information only. In any event, it would be much simpler to make the activation of the General Arrangements to Borrow dependent only on decisions by the Managing Director and the Executive Board, as was the case with other borrowing arrangements. Naturally, no one wished to prevent the members of the Group of Ten from reaching understandings among themselves, and eventually opposing the activation of the General Arrangements within the Executive Board if they considered that circumstances so warranted.

If approval by the members of the Group of Ten was considered necessary for the activation of the General Arrangements, the Executive Board should certainly have an opportunity to examine the understandings reached

between participants on the specific conditions that would be considered to warrant the use of GAB resources, Mr. Kabbaj considered. The discussion at EBM/82/162 had clarified the broad language used in the conclusions of the G-10 Deputies, particularly with reference to the impairment of the international monetary system and the possible nonuniformity of treatment between participants and nonparticipants. The clarification of the language of paragraph 4 of the G-10 Deputies' conclusions had been helpful in that it did not preclude an activation of the General Arrangements to Borrow in support of drawings on the Fund by groups of small countries whose problems might not be individually large enough to create a threat to the international monetary system. It also clearly established that the enlargement of the General Arrangements was envisaged as a supplement to Fund resources to be used whenever the Fund needed them to cope with exceptional circumstances. It would be desirable in any revised text to avoid the use of general expressions and to adopt the language employed by the Chairman in his concluding remarks.

Similarly, Mr. Kabbaj went on, paragraph 21 could be simplified to eliminate expressions that might lead to problems of interpretation. He could support neither Alternative II nor Alternative I, Version A, which merely reproduced paragraph 4 of the G-10 Deputies' conclusions. Although not entirely satisfactory to his chair, Version B could be acceptable as it should provide broader scope for the use of GAB resources, taking into account resources readily available to the Fund as well as actual and expected requests for conditional financing.

Mr. Nimatallah inquired whether resources provided by a parallel creditor would be added to the country's creditor position in the Fund, or would they be considered just like any other kind of lending to the Fund? Mr. Anson had said that there was no need for uniformity in parallel lending arrangements. In those circumstances, could a parallel creditor refrain from supplying resources at a time when activation took place and participants in the GAB agreed to supply certain resources, other than for balance of payments reasons?

The Treasurer remarked that funds received from parallel creditors would improve the member's creditor position in the Fund.

The Director of the Legal Department explained that the staff envisaged that a parallel creditor would have rights similar to those of participants, which meant that the General Arrangements could be activated for its benefit. At the same time, the staff had assumed that a parallel creditor, under the agreement that it was concluding with the Fund, would assume comparable obligations vis-à-vis the other members, which meant that the parallel creditor would have to provide resources when the General Arrangements were activated and the Managing Director felt that the parallel creditor should be included in the arrangement. Thus, in making a proposal to the participants, the Managing Director would make a parallel proposal to the parallel creditors. The parallel creditors would then be expected to make resources available in the same circumstances as the GAB participants. If, as was assumed, the parallel creditors were bound to make

resources available when the participants did so in response to a call by the Managing Director, it would be reasonable to expect that they would have an appropriate role in the decision-making process when the participants met. Naturally, the agreement between the Fund and a parallel creditor would contain provisions under which the Managing Director would consult fully with the parallel creditor whenever he consulted with the participants.

Replying to a question by the Chairman as to whether a participant could decide not to take part in a lending operation agreed to by the majority of participants, the Director of the Legal Department explained that the General Arrangements were silent on that point. All that the General Agreement said was that a proposal for calls to a participant would become effective, and the participant would have to lend on call, when the proposal had become effective, i.e., had been accepted by the participant and approved by the Executive Directors. However, in the letter from Mr. Baumgartner, Minister of Finance in France, in 1961 to the other participants, it was stated that each participant would have to provide the resources specified for it in the proposal, if the participants as a group had agreed to the proposal, it being understood that exemptions might be justified only for balance of payments reasons. There was also a procedure for spreading among the remaining participants any amount that might be withheld by a participant based on its present and prospective balance of payments and reserve position.

Mr. Nimatallah commented that wherever participants or nonparticipants were mentioned, it might be desirable to mention parallel creditors as well. He had had no instructions regarding a preference between Alternative I and Alternative II in paragraph 21. He could accept the view of the majority.

The Director of the Legal Department remarked that in paragraph 21(a), which applied to parallel creditors, the text made it clear that parallel creditors would be treated like participants in respect of all the financial benefits under the General Arrangements. In other words, calls could be made upon the General Arrangements in relation to the needs of the parallel creditors in the same manner as if they were participants. That provision obviated the need to mention parallel creditors in every case where there was mention of participants.

Mr. Erb apologized for having to leave the table. Before he left, he wished to reply to the fundamental question raised by a number of speakers, namely, whether it was appropriate to confine the decision on activation of the GAB to a group of lenders. The best way of looking at the General Arrangements to Borrow was as a framework within which members of the Fund had agreed to lend to the Fund in certain conditions. Those members were considering the possibility of broadening the circumstances in which the resources of the participants in the General Arrangements to Borrow could be used for Fund activities. It was up to the Fund, and particularly to the Executive Board, to decide at any time whether it wished to use those resources or not. One simple way of replying to

Mr. Malhotra would be for the participants in the General Arrangements to say that they would not expand the General Arrangements in order to permit lending to nonparticipants. However, if they were to act in that way, the Fund would be without an additional resource in certain circumstances in which the participants had said that they would lend to the Fund. There was nothing in the text set out in SM/82/239 to prevent the Executive Board from deciding that it would not ask participants to lend to the Fund.

If the Fund decided to ask the participants in the General Arrangements to Borrow to lend to it, Mr. Erb went on, it was then up to the lenders to decide whether they wished to lend. No lenders had an open-ended arrangement with the Fund. There were, for instance, conditions in effect that had to be met before Saudi Arabia decided to enter into its lending arrangement with the Fund, of which the most notable was that the Fund would borrow from Saudi Arabia only in connection with lending under the policy on enlarged access. Moreover, the agreement with Saudi Arabia was to be phased out in line with the supplementary financing facility. The resources of the General Arrangements to Borrow were available to the Fund on a longer-term basis. The proper way of looking at the present proposal was to consider that the participants in the GAB had proposed making additional resources available to the Fund; it was therefore a legitimate decision on any given occasion for the participants to decide whether they wished to lend to the Fund, and the criteria on which they would do so. The Executive Board was not being compelled to make a call on the participants at any time in the future, nor was it being compelled to abandon any other option for raising resources for the Fund.

The Chairman remarked that what was at issue was a series of transactions between a lending group and a borrowing institution. While the Fund might have second thoughts regarding the desirability of resorting to a lending group, from the standpoint of the members of that group--who were considering enlarging considerably the volume of credit to be encompassed in their operation and extending the geographical range of borrowers--it was only natural that when the arrangement was to be activated, the lenders should come together in consultation. In his view, the important point was to avoid any encroachment on the principles of the Fund, which could have occurred if the lenders had been given a say in the decision-making process of the Fund regarding individual requests by Fund members. He had stressed that point many times in preliminary discussions with the participants. However, the conclusions of the G-10 Deputies had been clear on that point; paragraph 4 of the conclusions contained the sentence, "Such consultation would not extend to the examination of specific programs for use of Fund resources, which remains the responsibility of the Executive Board." If that language was insufficiently clear, it could be made even clearer.

In those circumstances, the fundamental question was whether the Fund, and particularly the Executive Board, liked the idea of extending the pool of resources from the present SDR 6.3 billion to something in the neighborhood of SDR 20 billion and making access to it available on

behalf of all members of the Fund on certain conditions, the Chairman observed. The question of why the decision to activate the General Arrangements should be confined to the lenders was hardly fundamental; it only reflected the normal relationship between a group of lenders and an institutional borrower.

Another question that might require answering, the Chairman considered, was what would happen if the group of lenders did not agree to lend in particular circumstances, which, in the mind of the Managing Director, could reasonably have led to an activation of the General Arrangements to Borrow.

Mr. Erb replied that the very same question would be asked even if the General Arrangements did not exist, or if participants decided not to expand them. If the Fund found itself in a position where it was short of resources, one option open to it was to approach the participants in the GAB. If the participants decided not to activate the GAB, whether expanded or not, the Fund would seek its resources elsewhere. The question was therefore not one that arose in connection with the present discussion, which was related to expanding the resources of the General Arrangements and making them available to nonparticipants. When he had discussed the outcome of the debate at EBM/82/162 with his authorities, they had put to him the question why they should expand the General Arrangements and make the enlarged resources available to nonparticipants. It would after all be possible to increase the resources of the General Arrangements to Borrow and make them available to participants, as in the past. There was no inherent reason why the geographical field of potential borrowers should be expanded. If Executive Directors saw such considerable difficulties in doing so, it would be easy to limit the use of the increased resources to the participants alone. It would however be a mistake to do so, because the Executive Directors would thereby be closing off a future option for enhancing the resources of the Fund during periods of strain in the international monetary system, at a time when the Fund could play an extremely important role.

Mr. Malhotra said that he agreed with Mr. Erb that it was entirely up to the Fund to decide whether to make use of the resources available in the General Arrangements to Borrow. What was worrying him and some of his colleagues was that while opening up access to the General Arrangements to nonparticipants might be a liberalization, it gave the impression of creating another fund outside the Fund. He hoped that Mr. Erb's position was not as final as it sounded. The purpose of his own intervention had been to see whether the GAB proposals could be modified so as to take account of the apprehensions of a number of nonparticipants. He and his colleagues were raising what in their view were legitimate questions, and asking that it should be debated rather than treated as a matter already resolved.

The Chairman commented that Mr. Malhotra's question was certainly pertinent, and that he would invite the G-10 Deputies to consider whether they would submit the activation of the General Arrangements to Borrow

on behalf of nonparticipants to a decision by the Executive Board. The present discussion had, in his view, had the merit of bringing a number of questions to the surface, together with proposals for improving some aspects of the conclusions of the G-10 Deputies that would involve quite substantial amendments to the original text. Consequently, Mr. Malhotra should not feel that there was no room for give and take. He was after all asking the participants in the General Arrangements to Borrow to make a major change in the way in which the participants had in the past lent to the Fund. Mr. Erb had been giving a rationale for confining the decisions regarding the activation of the GAB to the lenders, while he for his part had been explaining that he had taken care to avoid any risk of a fundamental change in the Fund's decision-making process, something that could have occurred if the proposal had been to submit individual requests for Fund assistance to a group of lenders.

Mr. Malhotra explained that he could not deny the right of lenders to consult together and decide whether they should lend. What he had been suggesting was that decisions regarding the existence of a threat to the international monetary system and the adequacy of the Fund's resources should lie with the Fund. He took that view more particularly because the participants in the General Arrangements to Borrow were strongly represented in the Executive Board. Moreover, under the suggested procedure, the Managing Director would consult first with the participants and only then with the Executive Board. What he was suggesting was that the Fund should not be questioned regarding its judgment whether there was or was not a threat to the international monetary system. The proper place for taking such a decision was in the Executive Board, where, it was evident, participants in the GAB were strongly represented.

The Chairman reminded Executive Directors that, as part of the terms of the original General Arrangements to Borrow, the lenders had been called upon to decide, first, whether there was an impairment of the international monetary system and, second, whether the Fund needed supplementary resources. Mr. Malhotra's question had thus been debated at the very inception of the General Arrangements to Borrow, and the answer at that time had been that it was reasonable that the lenders should take those decisions. Another question might be asked on the present occasion, namely, whether permitting the lenders to take such decisions would be a more serious matter if access to the GAB were made available to nonparticipants. While he was not unsympathetic to Mr. Malhotra's concerns, he found it difficult to believe that an extension of the General Arrangements to Borrow to nonparticipants would not be an advantage.

Mr. Dallara observed that the United States would certainly not forgo the opportunity of consulting with the other participants in the GAB to determine whether the two criteria mentioned by the Chairman had in fact been met. However, the overall decision-making process was surely such as to assuage Mr. Malhotra's fears. It would not take place in three separate bodies independently. On the contrary, it was clear that there were to be consultations between the parties at every step of the way. It therefore seemed unlikely that divergent or independent views would be formulated regarding the existence of the two essential criteria.

Mr. Vidvei commented that he had understood the Director of the Legal Department, replying to his question regarding the rights and obligations of parallel creditors in the event of activation of the GAB, to have assumed that a parallel creditor would have some kind of general agreement with participants in the GAB regarding the extension of credits. He wondered whether it would be possible for a country to take part on an ad hoc basis in a lending operation to the Fund in parallel with an activation of the General Arrangements to Borrow.

The Director of the Legal Department remarked that a lender could be a parallel creditor in the sense of the General Arrangements to Borrow as amended, and thus obtain the advantages of an activation of the GAB as though it were a participant, only if it had a bilateral agreement with the Fund containing provisions under which the parallel creditor would accept similar obligations. The agreement would also declare that the lender was a parallel creditor for the purposes of the General Arrangements to Borrow. How a parallel creditor would be included in the consultations among participants in the GAB was a matter that could not be determined by a reading of the decision on the General Arrangements. There would have to be some sort of separate arrangement or understandings between the participants and the parallel creditor. If, under the agreement between the Fund and the parallel creditor, the parallel creditor was bound to honor a request by the Managing Director when a proposal by the Managing Director for the activation of the General Arrangements to Borrow was accepted by the GAB participants, he would expect that the parallel creditor would be given an appropriate role in the decison-making process. It was only logical that if the parallel creditor accepted obligations similar to those of participants, it should take an appropriate part in the decision-making process of the participants.

It should be added, the Director continued, that the concept of a parallel creditor would not preclude ad hoc agreements with any potential lender that was willing to make resources available to the Fund at the time of an activation of the GAB. Such a lender would not be a parallel creditor in the sense of the revised draft of the GAB decision.

Mr. Kafka stated that he had been much impressed by Mr. Erb's statement, with which he largely agreed. However, he did not entirely agree that the conditions under which the participants in the GAB or possibly parallel creditors would lend to the Fund were comparable to the conditions under which the Saudi Arabian Monetary Authority had been lending. Second, he entirely agreed with Mr. Erb that what was being offered was something additional, which it was open to the Fund to use or not. In other words, while it was not as advantageous as he would have liked, he saw the expansion of the General Arrangements as an advantage, with nothing disadvantageous attached to it. Third, the expansion of the General Arrangements to Borrow was a gift horse whose mouth ought not to be examined too closely. However, in approving the expansion of the General Arrangements, the Executive Board could simultaneously give the Managing Director the authority to initiate borrowing in the private market. In that way, the Board would be making it clear that it did not

wish the expansion of the General Arrangements to Borrow to appear preferable to any other approach that would yield additional resources to the Fund.

Mr. Malhotra remarked that the point regarding market borrowing raised by Mr. Kafka was one that he had intended to raise earlier. At present, management was borrowing from the Saudi Arabian Monetary Agency and from one or two other sources. It was easy enough to say that the Fund could borrow elsewhere if there were no agreement between management and the participants in the General Arrangements to Borrow; but unless the authorization to borrow in the markets was in place in advance, the Fund might be overdependent on the GAB participants.

Mr. Suraisry noted that paragraph 26 made provision for the use of funds obtained from the GAB in connection with stand-by arrangements as well as with exchange transactions. By contrast, in paragraph 21, only "exchange transactions" were mentioned. Was the difference intentional?

The Executive Directors agreed to continue their discussion at 3:00 p.m.

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/83/3 (1/4/82) and EBM/83/4 (1/5/83).

2. EXECUTIVE BOARD TRAVEL

Travel by an Executive Director as set forth in EBAP/83/1 (1/3/83) is approved.

APPROVED: June 14, 1983

LEO VAN HOUTVEN
Secretary