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July 27, 1983

To: Members of the Executive Board
From: The Secretary
Subject: Final Minutes of Executive Board Meeting 83/5

The following correction has been made in EBM/83/5 (1/5/83):

Page 13, 2nd full para., lines 10-13: for "situation, would...EBM/82/162."
read "situation, could...EBM/82/162,
that the GAB could be activated,
in certain circumstances, to help
a small country or countries deal
with their payments problems."

A corrected page is attached.

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Commentary and other documents surrounding the Decision. Otherwise, his chair could fully support Version A, with the understanding that the Managing Director, in his initial considerations relating to the procedures for making calls, might indeed have to take into account some expectations relating to requests for drawings. In other words, the explicit reference in Version B to "actual and expected requests" might be a more implicit consideration in the operation of Version A.

On the whole it would be useful, Mr. Dallara remarked, for the Deputies, and for the Executive Board if it agreed, to make the minor amendment necessary to permit the GAB to be used by participants in connection with extended arrangements.

On the question of small countries, Mr. Dallara concluded, he would appreciate learning whether the legitimate concerns raised during the discussion had been addressed satisfactorily. To reiterate, the view of his chair was that the current drafting of the provisions relating to the use of the GAB for nonparticipants was intended to take into account the possibility that, in conjunction with a threat to the system, the balance of payments needs of small countries could in that context conceivably be met in part by the use of GAB resources. It was not particularly likely that a single small country, regardless of the severity of its payments situation, could pose a circumstance that met, in isolation from other cases, the criteria; nevertheless, there was a clear possibility, as the Managing Director had stated in his *summing up* at EBM/82/162, that the GAB could be activated, in certain circumstances, to help a small country or countries deal with their payments problems. It was also obvious that the use of GAB resources to deal with the financing problems of major countries could not help but have a beneficial impact on the Fund's liquidity with respect to the use of resources by small Fund members.

Mr. Joyce asked whether he was right in assuming that a nonparticipant wishing to extend credit to the Fund would in fact be able to choose between doing so by way of a parallel credit arrangement or by a direct and separate credit arrangement with the Fund, such as Saudi Arabia had at present. If so, the question was then whether a country that had entered into an agreement to participate in parallel credit arrangements would, in the event that the GAB participants and parallel creditors decided not to activate the Arrangements in a particular case, still be in a position to advance funds separately to the Fund if it wished to do so, and if the Fund found that acceptable.

The Director of the Legal Department confirmed that a member would still have a choice. The Fund could enter into an ad hoc agreement with a member that was in a position to make resources available to the Fund, for use either more generally or at the time that the Managing Director made a proposal to the GAB participants. Of course, a member that had made resources available to the Fund that had not become a parallel creditor would not benefit from the modifications made to the GAB. The GAB could be activated in relation to the needs of such a member but only as a nonparticipant, and not as a parallel lender. It would also be possible for the Managing Director to borrow from a member without consulting

the GAB participants. An agreement with a member to lend to the Fund could be tied to proposals to activate the GAB or could be quite separate.

Mr. Zhang inquired whether resources borrowed by the Fund from an individual member under a separate agreement would have to be used more or less in line with the policy for use of GAB resources, or in whatever way the Fund chose. Presumably, if a country became a parallel lender, the credit it extended to the Fund would be for use in accordance with the provisions of the GAB, quite apart from whether or not there was systemic stress.

The Director of the Legal Department reiterated that a parallel lender would have to reach an agreement with the Fund, under which it would agree to make resources available on terms comparable to those under which the GAB participants had agreed to lend to the Fund. Certainly, the Fund would not want to exclude the possibility of better terms, under which it might be possible for the Managing Director to utilize the resources made available by a parallel lender in a more general way, irrespective of GAB activation. But the agreement between the Fund and the lender would have to include certain minimum features that would make it comparable to the GAB; the arrangement would have to be standing rather than ad hoc, and it would have to include the revolving aspect of the GAB. If, in addition, the arrangement stated that the Managing Director could borrow for the general purposes of the Fund, and if that provision was found acceptable by the participants in the consultation leading up to the agreement with the parallel lender, the Fund would have no objection.

The Chairman added that different arrangements were possible. The Fund could enter into ad hoc bilateral arrangements, like the one between the Fund and official lenders such as the Saudi Arabian Monetary Agency (SAMA) that had no links to GAB procedures. The General Arrangements to Borrow, or parallel arrangements, were different in the sense that they were permanent or standing arrangements, with provisions for revision and renewal. If a member country was willing to be far less specific about the conditions of activation of a standing arrangement, the Fund would be happy to agree, but it was not obvious that that would happen, although no form of borrowing should be excluded.

Mr. Zhang remarked that the Fund would lose its freedom for maneuver if all its individual lenders became parallel lenders.

The Chairman responded that, as he saw it, the expansion of the General Arrangements to Borrow had the advantage of bringing into being an enlarged and permanent standing line of credit, which did not have to be renegotiated when it expired.

Mr. Zhang commented that that advantage would seem to be offset by the necessity to borrow for specific purposes rather than for ordinary purposes.

The Chairman replied that if it appeared that the Fund's total quotas did not provide it with enough ordinary resources to cope with regular demands of members to use those resources, the Executive Board could authorize him to make other borrowing arrangements to obtain funds that