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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/72

3:00 p.m., May 18, 1983

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

Executive Directors	Alternate Executive Directors
	W. B. Tshishimbi
J. de Groote	
	A. Le Lorier
	J. Delgadillo, Temporary
R. D. Erb	C. Dallara
M. Finaish	T. Alhaimus
	Jaafar A.
T. Hirao	T. Yamashita
R. K. Joyce	M. Casey
	C. Robalino
	G. Grosche
G. Lovato	C. P. Caranicas
R. N. Malhotra	A. S. Jayawardena
Y. A. Nimatallah	J. E. Suraisry
J. J. Polak	T. de Vries
	K. G. Morrell
	O. Kabbaj
F. Sangare	E. I. M. Mtei
M. A. Senior	J. L. Feito
J. Tvedt	A. Lindø
N. Wicks	C. Taylor
Zhang Z.	Wang E.

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

Also Present

African Department: F. d'A. Collings. Asian Department: H.-C. Kim, S. Shah. European Department: A. Leipold. Exchange and Trade Relations Department: C. D. Finch, Director; S. Mookerjee, Deputy Director; D. K. Palmer, Deputy Director; M. Allen, M. Guitian, C. M. Loser, R. L. Sheehy. Legal Department: G. P. Nicoletopoulos, Director; G. F. Rea, Deputy General Counsel; Ph. Lachman. Research Department: W. C. Hood, Economic Counsellor and Director. Secretary's Department: A. P. Bhagwat. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; D. Williams, Deputy Treasurer; M. N. Bhuiyan, D. H. Brown, D. Gupta, O. Roncesvalles, G. Wittich. Internal Auditor: B. C. Huang. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: S. R. Abiad, A. A. Agah, E. A. Ajayi, C. J. Batliwalla, S. M. Hassan, P. Kohnert, H. S. Lee, I. R. Panday, P. Péterfalvy. Assistants to Executive Directors: E. M. Ainley, H. Arias, L. Barbone, R. Bernardo, J. Bulloch, T. A. Connors, G. Ercel, I. Fridriksson, G. Gomel, J. M. Jones, M. J. Kooymans, W. Moerke, V. K. S. Nair, G. W. K. Pickering, M. Z. M. Qureshi, T. Ramtoolah, J. Reddy, J. Schuijer, Shao Z., J. C. Williams, Zhang X.

1. ENLARGED ACCESS POLICY - REVIEW

The Executive Directors resumed from their previous session (EBM/83/71, 5/18/83) their consideration of a staff paper reviewing the Fund's enlarged access policy (EBS/83/79, 4/20/83; and Cor. 1, 4/25/83). They also had before them an additional table showing the percentage change in absolute access of member countries to the Fund's resources under the four hypothetical access limits used in EBS/83/79, prepared in response to a request by Mr. Joyce (see Annex to EBM/83/71).

Mr. Sangare remarked that the staff had raised a number of important issues requiring careful consideration by the Executive Board. Consequently, like some other Executive Directors, he felt that no formal decision should be taken and would confine himself to preliminary remarks.

The available evidence, Mr. Sangare went on, indicated that the external payments position of many Fund members, particularly the poorer ones, continued to be difficult; indeed, they had been aggravated by the reduction in financial flows from international banks that had begun to reassess their exposure to a large group of countries. The staff had noted that in present circumstances it would be appropriate for the Fund to provide larger balance of payments financing than had been envisaged at the end of 1980, when the Board had discussed the current guidelines on access to Fund resources. The staff had also stated, and he completely agreed, that at a time when the Fund was asking other lenders to increase their exposure in member countries experiencing liquidity problems, it would be a wrong signal to lenders if the Fund reduced the amount that members could borrow in support of their stabilization efforts. The point was indeed a fundamental one that Directors ought to bear in mind in attempting to formulate a policy on enlarged access. The view of his chair--consistent with that of the Group of Twenty-Four--was that with the coming into force of the Eighth General Review of Quotas, the access limit should remain at 150 per cent of quota a year, and a total of 450 per cent over three years. However, he was not suggesting that access would automatically be available up to the limit. He expected that, where warranted, a member would be permitted to purchase up to the limit, and that "special circumstances" should include the need to assure a smooth adjustment process in weaker and less flexible economies, where multiyear programs seemed to be the most appropriate way of containing the problems.

The staff had made the point that the application of the present access limits would severely strain the liquidity position of the Fund, Mr. Sangare recalled. While prudent management would require the Fund to maintain a suitable liquidity position, it seemed rather peculiar that, immediately after agreement had been reached on a 47.5 per cent increase in quotas, the Fund should find itself worrying about a liquidity squeeze. He could only wonder what the situation would have been if the increase in quotas had been anything less than had been approved by the Executive Board. The present projections of demand for Fund resources confirmed the position that his chair had taken throughout, that it was necessary for the Eighth Review to bring about a substantial increase in quotas if quotas were to remain a principal source of financing for the Fund.

He had noted the alternative access limits presented in the report, ranging from 102 per cent in one year or 305 per cent in three years to 125 per cent in one year and 375 per cent of proposed new quotas in three years, Mr. Sangare mentioned. As to the lower limit, namely, 102 per cent in one year, the staff had made it clear that its adoption would result in 108 members, 99 of them non-oil developing countries, having reduced access in absolute terms, by up to 21 per cent. Such a situation was untenable, if only because it would make a mockery of the entire exercise of increasing quotas from the standpoint of a majority of Fund members, those that would need the Fund's resources the most. An access limit of 108 per cent in one year or 324 per cent in three years--similar to the limits of 110/330 per cent used in Table 2--was also unacceptable on much the same grounds: it would reduce access in actual terms for half the Fund's membership, all but three of which would be non-oil developing countries, and 24 of which had arrangements with the Fund in 1982 or 1983 out of the total of 32 such members in those years. As a general principle, he could not accept an enlarged access formula that would entail reduced access for any member, and certainly not for a large group of members.

Speaking in particular of the formula providing for 125 per cent of quota in one year or 375 per cent in three years, Mr. Sangare remarked that that was the only formula put forward by the staff that would result in no member's having reduced access. However, the absolute increase under that arrangement, which seemed to be favored by the staff, would be very small for many low-income countries. Two countries in his constituency would have an increase in access, on the basis of 125 per cent limits, of less than SDR 2 million, and seven of them would have an increase of no more than SDR 5 million. The situation was even more disconcerting if it was borne in mind that the relative voting share of the countries in his constituency had already declined as a result of the increase in quotas. In the circumstances, it was hard to accept the view that the recent increase in quotas under the Eighth General Review had been beneficial to those countries, especially since access was likely to fall below the annual three-year limit, as it had in the past.

It was for that reason, Mr. Sangare stated, that, like Mr. de Maulde at the morning session, he regretted that no simulation had been provided for a possible continuation of the present access limits. He asked the staff to look into that possibility and other possible percentages of quota higher than the 125/375 figures that it had proposed in EBS/83/79.

The idea of standardizing the operational procedures regarding the mix between ordinary and borrowed resources in stand-by and extended arrangements was something that needed to be looked into, Mr. Sangare said. However, he did not believe that it would be appropriate to change the mixing ratio in favor of the use of more borrowed resources, if only because the cost to countries making use of Fund resources would be higher if the proportion of ordinary resources were reduced. He would not like to find the Fund in a position in which smaller countries, lacking access to borrowed resources, would have to pay more, while larger borrowers would pay less. Such an arrangement would be unfair. It would moreover give the signal that quotas were no longer regarded as the major source of financing for the Fund. His observations also applied to the more radical suggestion of eliminating entirely the mixing ratios of ordinary and borrowed resources for financing individual purchases.

As to the structure of repurchases, Mr. Sangare considered, it would be an anomaly if the Fund decided to shorten repurchase periods at a time when efforts aimed at correcting structural problems in many countries were being devoted to stretching the repayment periods to provide the requisite room for adjustment.

Mr. Tshishimbi commented that, like other speakers, he hoped that the present meeting could be considered preliminary. Two main considerations should govern any decision on access policy: first, the need to finance members' balance of payments deficits, including a decision on the extent to which the Fund should participate in that financing; and, second, the relationship between access limits and the Fund's liquidity. For non-oil developing countries, which included most countries in his constituency, the deterioration in the balance of payments had proved much greater than had been expected only two years previously when the access limits had been adopted. Moreover, substantial financing from the Fund seemed to be required in order to assist countries to reorganize their increasingly worrisome external debt situation. The access limits, both annual and triennial, should remain sufficiently liberal to allow for the required contribution to the financing of members' balance of payments needs. In that context, any ratio lower than the limit of 125 per cent in one year or 375 per cent in three years would reduce the absolute access of most members of the Fund, particularly of countries in his constituency. He agreed with the staff that such a course of action would give wrong signals to the financial community, as it would imply that the Fund was turning away from an active role in overseeing the adjustment process.

On the other hand, the staff had appropriately explained, Mr. Tshishimbi went on, that in only a few cases had the access limits actually been reached, or even approached. The Fund had been cautious in adjusting the use of its resources not only to the amount of financial assistance required relative to members' quotas but also to the severity of adjustment programs themselves. Members had also often been encouraged to finance part of their balance of payments needs from the financial markets, or from official sources, thus limiting their recourse to the Fund's resources.

As to the Fund's liquidity position, Mr. Tshishimbi recalled, the staff had reminded Executive Directors that by the end of 1983, even if the Fund resorted to the enlarged borrowing arrangements now contemplated, its holdings of uncommitted ordinary resources might fall nearly to zero. The demand for the Fund's resources that would arise after the new quotas came into effect could be met only through the proceeds from the quota increase, so that, even taking into account the Eighth General Review of quotas, the Fund's ordinary resources might be depleted by mid-FY 1986.

In those circumstances, it was clear that it was urgent for the Eighth General Review of Quotas to come into effect; it was also only too evident that the quota increase would be inadequate, as many Governors had stressed would be the case at the Interim Committee held in February 1983.

Because of the selective character of the Eighth General Review of Quotas, Mr. Tshishimbi averred, the countries most likely to need access to the Fund's resources, including more than 70 per cent of the countries in his own constituency, had received only minor increases in quota. Furthermore, the table circulated in response to Mr. Joyce's request showed that the absolute access for most countries in the most favorable case envisaged by the staff--namely, 125 per cent of quota in one year or 375 per cent in three years--would increase only marginally. Under any other proposals, the majority of countries in need of the Fund's resources would incur a net reduction in access. He therefore wondered whether the whole quota increase exercise had served its intended purpose.

At the time of the meeting of the Interim Committee in February 1983, Mr. Tshishimbi recalled, several members had expressed the wish to see the maintenance of the present enlarged access limits of 150 per cent of quota in one year or 450 per cent in three years, combined with a cumulative ceiling of 600 per cent. It was rather surprising that the staff had not shown the appropriate calculations under those ceilings. His chair wished to reiterate its strong preference for the maintenance of 150 per cent of quota in one year and 450 per cent in three years as the upper limits of access.

Among the technical questions raised by the staff, Mr. Tshishimbi remarked, he would comment only on the question of the mix of ordinary and borrowed resources in connection with stand-by and extended arrangements. The staff had made a number of suggestions designed to alleviate the operational difficulties of the present arrangements. He would certainly welcome any changes that would simplify the present method. However, it was important not to adopt changes that would raise the cost of using the Fund's resources for the neediest members. In particular, he would reject the idea sometimes put forward in the Executive Board that the same rate be applied to borrowing and lending operations of the Fund. He favored the maintenance of the present scheme, under which rates were differentiated according to the ability of the borrower to have access to the financial markets. He would even like to see the subsidy on the interest rates on borrowed resources slightly increased.

Mr. Hirao commented that the review of enlarged access was the most important policy issue remaining after the completion of the Eighth General Review of Quotas. The outcome of the present review would probably shape future Fund policies and have a decisive bearing on the magnitude of Fund borrowing until the Ninth Quota Review came into effect. In light of the great importance of the review, the matter should be thoroughly discussed, taking all possible implications into account. He welcomed the first round of discussion.

The staff had provided useful estimates of the financial gap that might arise between the present and April 1986, under different access limits, Mr. Hirao observed. However, he had missed any indication in the paper of how to finance the gap. Clearly, it was a major issue, and considerable time would be required to find the best solution. Although he could well understand that the staff would wish to deal with the financing separately, there was no guarantee that the financing gap could actually be financed if the access limits were determined solely on the basis of member countries' projected needs. As the Fund was a financial institution, the guiding principle should be that the future access limits, including those for the compensatory financing facility and the buffer stock financing facility, should be determined taking into account both the potential need for support and the prospects of finding the necessary finance. At the very least, Executive Directors should be given a rough idea of the prospects of financing the gap.

The two most fundamental principles were still that quotas should remain the primary source of financing for the Fund, and that prolonged recourse to borrowed resources should be avoided as much as possible, Mr. Hirao pointed out. According to the staff's calculations, the need for additional borrowing from January 1984 to April 1986 could amount to as much as SDR 8-10 billion, even if the combined access limit were reduced to 102 per cent for one year or 305 per cent for three years. With the option of a combined access limit of 125 per cent in one year or 305 per cent in three years, the borrowing need would increase by an additional SDR 4 billion. In addition, some SDR 5.7 billion would have to be financed by the end of 1983. The Fund should make a thorough study of the feasibility of borrowing such large additional amounts, together with the implications for the fundamental character of the Fund, to which Mr. Joyce had referred. It would be helpful if the staff would prepare a paper analyzing the implications, as a basis for further discussion. It should also be borne in mind that there might be exceptional circumstances in which the stability of the international financial system was threatened. In such a situation, the Fund should stand ready to extend financial assistance to the members involved, over and above the annual or triennial limits. The additional resources needed for such exceptional assistance could be found by activating the enlarged General Arrangements to Borrow.

Finally, regarding the proposals for simplifying the present procedures for mixing ordinary and borrowed resources, Mr. Hirao agreed that the present procedure was too complex. However, he would have great difficulty in accepting the idea that the mixing ratio should be totally eliminated, because it might lead to a basic change in the guiding principles of the Fund and raise a number of major problems.

Mr. Delgadillo commented that it was difficult to find economic circumstances in the past in which the Fund would have played as important a role as it was being called upon to play at present. The existing guidelines on access limits had been agreed to at the end of 1980, when conditions in the international markets had been entirely different from those of mid-1983. Both terms of trade and interest rates were less favorable, and there had been a sudden interruption of normal financing flows from the banking community. The accumulation of problems was so great that in many cases they could not be overcome by means of short-term adjustment. He shared the staff view that access even at the maximum current limits was insufficient to enable heavily indebted countries to meet their financing needs, even with unprecedently severe adjustment. Consequently, he could support the language set out on page 15 to the effect that large financing by the Fund in such cases would have provided a cushion of reserves that would have enabled countries to pursue their adjustment policies with more liberal exchange and trade policies. He would however, add that the lack of greater financing had not only prevented the desired liberalization; far worse, it had put undue pressure on current programs.

There could be little doubt that the Fund's efforts to persuade banks to provide most of the financing needed by debtor countries had been both necessary and successful, Mr. Delgadillo observed. However, the current experience had also shown that not only were there several uncontrollable areas, like trade financing, in which it had been impossible to avoid reductions in bank exposure, but also that it had been difficult to avoid the impression that governments operated on very thin margins. The lack of reserves had encouraged destabilizing speculation by domestic financial holders. Moreover, the pressing need for funds felt by some countries had heavily biased negotiations with banks, the result being that countries had had to accept higher charges on the resources that they had obtained.

In those circumstances, Mr. Delgadillo stated, he was strongly inclined to maintain the present access limits and the guidelines applicable to special circumstances. Taking account of the Fund's liquidity position, however, he was prepared to accept access limits that would ensure that no country lost access in absolute terms, in other words, 125 per cent of quota in one year and 375 per cent in three years.

In practice, Mr. Delgadillo noted, in only a few cases had the existing limits been exceeded; in the remainder, the amount of Fund resources used had been well below the agreed limit. In those circumstances, different approaches might be used to establish more meaningful limits. For instance, it was possible to conceive of a flexible approach involving the use of a whole set of limits, whereby the specific limits to be applied in a particular program would be related to the needs of the country involved. It was certainly necessary to preserve the flexibility of application of the existing limits, in order to be able to offer special treatment for a country that was in great need. Nevertheless, a more explicit range of limits to be applied according to circumstances would be even more useful.

In view of the special circumstances faced by many member countries with respect to liquidity, adjustment, and growth, Mr. Delgadillo remarked, before reaching any conclusion, Executive Directors would have to study a number of interrelated policy issues and technical matters, each of which deserved careful consideration. He therefore supported the view expressed by other Executive Directors that no decision should be taken at the present meeting.

Mr. Finaish observed that as the limits on members' access to Fund resources under the policy on enlarged access would also depend on other discussions, including--according to some speakers--a review of access under special facilities such as the compensatory financing facility, for which further information was needed, his remarks would be preliminary. An important consideration in determining appropriate access limits ought to be members' prospective needs for balance of payments financing from the Fund in support of adjustment programs. It would therefore be desirable to determine whether changes in members' needs for Fund assistance since the introduction of the enlarged access policy in March 1981 warranted an adjustment of those limits.

There were two important factors, Mr. Finaish considered. First, the combined balance of payments deficit of the developing countries had remained at a high level. The moderate decline in the deficit that had taken place in 1982 was largely a reflection of the difficulties experienced by those countries in raising the necessary external finance. Second, conditions in international financial markets were currently less favorable than when the present access limits had been set. Some of the major debtors among developing countries had recently experienced serious difficulties in meeting their debt servicing obligations, and commercial banks had reduced their exposure in the developing countries quite sharply. It seemed likely that the balance of payments financing available from commercial banks for developing countries in the next few years would be significantly less than in the past.

Thus, Mr. Finaish continued, not only had the need for balance of payments adjustment in deficit countries, and hence the financing in support of that adjustment, remained large; the role of the Fund in meeting that need had become more important. Furthermore, with the intensification of financial difficulties in some major debtor countries, and the potential threat that those difficulties posed to the stability of the international financial system, the need for the Fund to be able promptly to put in place appropriate adjustment programs supported by sufficient financing to help restore the confidence of other potential lenders had been added to the existing catalytic function of Fund assistance. Hence, the policy of enlarged access should certainly be continued; in addition, as the staff noted on page 12 of EBS/83/79, there was a need for the Fund to provide larger balance of payments financing than had been envisaged at the end of 1980 when the present limits were being decided.

Similarly, the Interim Committee at its meeting in February 1983 had laid stress on the enhanced importance in current circumstances of the Fund's role in providing balance of payments assistance to member countries that engaged in adjustment programs, Mr. Finaish observed. At a minimum, the present level of absolute access should not be reduced; such a change, even for a group of members, would give the wrong signal to financial markets at the present time. On that basis, the staff regarded access limits of 125 per cent of quotas in one year and 375 per cent over three years as being more consistent with the present economic conditions, since those limits would ensure that potential absolute access would not decline for any member. The staff noted that those access limits would permit a weighted average increase in potential absolute access of 23 per cent for the membership as a whole, roughly corresponding to the increase in the nominal value of world imports since the existing access limits had been set. However, since a large part of that increase would accrue to members that had not been using Fund resources, it would be more interesting to know what the average increase in potential absolute access would amount to for members that had been using the Fund resources in recent years, or were expected to use Fund resources over the relevant period in the future.

Another consideration favoring larger access with the coming into effect of the Eighth Quota Review would be the desirability of passing on to members some of the benefits of the quota increase, Mr. Finaish considered. Indeed, that was one of the reasons explicitly put forward by the staff in proposing an increase in absolute access from the time of the coming into effect of the Seventh Quota Review.

Section IV of EBS/83/79, Mr. Finaish observed, provided useful information on the implications of different access limits for the Fund's liquidity position during the period until April 1986 on the basis of the projected needs of members for Fund resources. Naturally, due allowance should be made in interpreting those projections of the Fund's future liquidity position in view of the highly tentative nature of the assumptions on which they were based. Naturally, too, what might be considered a prudent lower limit to the liquidity ratio in an institution like the Fund would inevitably involve some judgmental element. Nevertheless, the estimates presented did indicate that the Fund's liquidity position would come under increasing strain within the two years following the effective date of the Eighth Quota Review, and that a need would arise for substantial further borrowing by the Fund to meet expected commitments during that period.

From the estimates provided by the staff, Mr. Finaish went on, the Fund's liquidity position would appear to come under some strain in the period up to 1986 even if the access limits were fixed at the lower end of the range considered in EBS/83/79, a level of access that would involve a reduction in present absolute access for a large majority of the Fund's members and for practically all current users of Fund resources. Naturally, the degree of strain would increase as the access limits were raised, although, for the range considered, the change did not seem great. However, the fact that the liquidity position would come under strain even at the lower end of the range of access limits would suggest that, in a sense, the problem stemmed not so much from access limits' being too liberal, as from a general inadequacy of the Fund's own resources relative to the needs of members in the present world economic situation.

It was generally recognized that developments in the Fund's liquidity position had an important bearing on the setting of limits on members' access to its resources, for the simple reason that the Fund should expect to have the resources available before it could promise to lend them, Mr. Finaish remarked. Indeed, liquidity considerations could become a binding restraint in the determination of access limits if the resources required to support a higher level of access were not expected to be forthcoming over the relevant period. However, access limits should in the first place be related to members' prospective needs for adjustment financing that should appropriately be met by the Fund.

The liquidity argument for a possible reduction in the existing level of access was bound to seem rather weak to a large number of members who felt that quotas under the Eighth General Review had not been raised to a level commensurate with members' prospective needs in the coming period, even though the relevant indicators, including staff estimates, pointed clearly toward a larger increase, Mr. Finaish considered. In the circumstances, the staff assessment that the liquidity position of the Fund would continue to weaken even after the coming into effect of the Eighth General Review was hardly a surprise. Thus, to reduce the level of access below what might be considered desirable in the present world economic situation, mainly for the reason that the proposed increase in quotas would not provide sufficient additional resources to finance a higher level of access, would not, from a purely logical point of view, make a convincing case. Those members would tend to consider that, to the extent that the desirable level of access could not be financed from ordinary resources, the Fund should attempt to raise the extra resources needed through further borrowing from members in a position to lend, mainly industrial countries in strong external positions. Should the Fund fail to attempt to raise extra resources, it could be seen to imply that, because of a lack of financial support from members, it had shrunk back from performing its role in the adjustment process, just when that role had acquired greater importance.

Even the supporters of the above line of argument, Mr. Finaish added, would not deny, however, that the picture presented by the staff of the current liquidity position and borrowing requirements under various possible access limits did raise some difficult questions about the manner of financing members' access to Fund resources over the relevant period in the future. It was easy to agree with the staff that such matters as the mix of resources, borrowing from private markets, and the like would need to be considered further when the appropriate level of access had been determined.

Regarding an increase in the relative use of borrowed resources in Fund financing so as to prevent a rapid decline in its holding of uncommitted ordinary resources, Mr. Finaish remarked, it was difficult to comment on the staff ideas at present, as the implications for the Fund's liquidity position had not been fully worked out. Furthermore, in considering changes in the mix of resources, the staff would need to give attention to the effect of the changes on the cost of Fund resources to members and to the cooperative character of the Fund.

Several speakers had said that more information was needed on the implications, particularly for the Fund's liquidity position, of some of the simplifications, suggested by the staff in Section V of EBS/83/79, in the existing procedures relating to the mix of ordinary and borrowed resources under the enlarged access policy, Mr. Finaish noted. The questions that arose were, of course, of much greater importance if the idea was to make the Fund's ordinary and borrowed resources fungible.

Finally, in several points in Sections II and III, Mr. Finaish observed, the staff had touched on the question of the broad criteria for determining the scale of Fund assistance to a member within the access limits and on the choice between extended arrangements and successive stand-by arrangements. While he had concentrated on the determination of access limits, he hoped that there would be other occasions for discussing more fully some of the issues that he had mentioned, including the next review of upper credit tranche arrangements.

Mr. Jaafar remarked that he too considered the discussion to be preliminary. It was difficult at the present stage to decide on the various policy issues under the enlarged access policy in isolation, without considering members' access to other Fund facilities and without knowing more about the status of other sources of financing. The staff had rightly observed that consideration of access should be in terms of members' needs for financing balance of payments adjustments, although account would have to be taken of constraints on the Fund's resources. The constraints should be tackled separately either by increasing quotas or by increasing borrowing. The staff had argued persuasively for more than doubling the Fund's quotas at the time of the Eighth General Review of Quotas, and many Executive Directors had subscribed to that view. If necessary, the Fund should be prepared to arrange for additional borrowing and to accelerate consideration of the Ninth Quota Review. After all, the purpose of the Fund was to provide balance of payments financing to facilitate the expansion and growth of international trade and to assist members by providing resources to correct maladjustments in the balance of payments without resorting to measures of a protectionist nature. If the Fund was to achieve those objectives, it had to be prepared to give assistance to members in meaningful amounts.

It was difficult to forecast member's future needs for balance of payments financing, Mr. Jaafar admitted. However, a number of developments had taken place in the past several years tending to suggest that members' access to Fund resources should be increased substantially in absolute terms. First, there had been the high rate of inflation throughout the world; second, there had been the growth in the volume of world trade; third, there had been high interest rates, which, together with the prolonged world recession, had compounded the debt servicing problems in many countries while resulting in the reduction of reserves to unacceptably low levels in many countries. Fourth, there had been a decline in the inflow of private capital to many developing countries because of the growing perception of risk among commercial banks. While he had no firm estimates of the increased needs of member countries to deal with the four factors that he had mentioned, it was his judgment that they would need a substantial increase in absolute access to the Fund's resources, if the Fund was to continue to play its role in balance of payments financing.

Fund financing as a ratio of total balance of payments financing available to members had declined substantially in recent years; it should not be allowed to decline any further if the Fund was to enhance its financing and adjustment roles, Mr. Jaafar concluded. The tables produced by the staff at the request of Mr. Joyce showed that, if the Executive Board adopted the new access limits of 125 per cent in one year or 375 per cent in three years after the Eighth Quota Review came into effect, there would be 42 members whose access in absolute terms would increase by less than 10 per cent. For those members, constituting almost one third of the Fund, the quota exercise would not be very meaningful. Nearly all the countries in his own constituency would receive only small increases under that limit, and he could anticipate a great amount of disillusionment among those countries if they found that their access in absolute terms had hardly been affected by a quota increase of almost 50 per cent. In the circumstances, it would be only appropriate to retain the present access limits in percentage terms so as to give members a meaningful increase in access in absolute terms and to retain the present mix of ordinary and borrowed resources.

Mr. Zhang stated that he agreed with other Executive Directors that no attempt should be made to arrive at a final decision on access limits at the present meeting. The maximum limits proposed by the Fund staff were only 125 per cent in one year or 375 per cent in three years. While those figures had the merit that no country would lose its present absolute access, recent experience had clearly shown that even at the current limits of 150 per cent in one year or 450 per cent in three years, access was small compared with the financial needs of some countries even with relatively large quotas. For countries with only relatively small quota increases, the situation would hardly be improved. The adoption of a limit of 125 per cent in one year or 375 per cent in three years would be inadequate for most of the developing countries if the present trend in the world economy continued. It would therefore be perfectly justifiable to maintain the present limits of 150 per cent for one year and 450 per cent for three years.

The staff had suggested that the maximum limit of 125 per cent in one year or 375 per cent in three years, if adopted, could be exceeded in exceptional cases, Mr. Zhang went on. If so, surely the Board should simultaneously set clear-cut guidelines for such cases. It would also be interesting to know what action the staff would propose in respect of the compensatory financing facility and buffer stock financing facilities under the limit of 125 per cent in one year or 375 per cent in three years.

One of the main considerations that had led the staff to propose the 125 per cent in one year or 375 per cent in three years' limit was the Fund's future liquidity position, Mr. Zhang observed. In retrospect, it had clearly been anticipated at the time of the Eighth General Review of Quotas that the compromise overall increase might prove to be inadequate. In those circumstances, the Fund would simply have to rely upon more borrowing to meet the increasing needs of the member countries, rather than curtailing its lending. Such an arrangement, together with some other proposals, if adopted in their present form, might well have an unfavorable impact upon the future rate of charges on borrowing by member countries. He would like to see some further quantitative assessment by the staff on those points.

Mr. Grosche remarked that the staff had made commendable efforts to provide the Executive Board with projections of countries' future needs for access to the Fund's resources. The staff had however also demonstrated that the term "need" was difficult to define. Arguments could still be put forward favoring quite different access limits. One thing did seem to be clear: in the future there would be cases similar to those confronting the Fund in recent months, when access to the Fund's resources--even up to the current large limits--would be small compared to the financing needs of members. Even considerably higher access limits could not have satisfied certain members' needs in the past. On the contrary, greater access to the Fund would perhaps have made it more difficult for the countries to fill their financing gaps because it could have eased pressure on private banks to act responsively. It was important to bear in mind that successfully closing the financing gap would depend crucially not only on adequate adjustment efforts but also on the participation of donor countries and commercial banks. The latter presumed a restoration of confidence in any country's economic management and prospects.

In those circumstances, Mr. Grosche went on, he attached great importance to maintaining the credibility of the Fund and of its financial base. The Fund would serve members' needs best by providing the greatest access consistent with the size of its resources. Consequently, before deciding on access limits, Executive Directors should try to obtain a clearer view of the extent to which the Fund might be able to borrow from official sources.

Even if access limits were set at 102 per cent of quota for one year or 305 per cent for three years, Mr. Grosche noted, the staff expected a financing gap of SDR 8-10 billion by early 1986. He fully shared the concerns expressed by Mr. Hirao, which to him were intensified by the widening commitment gap of FY 1983. The steps taken to close that gap would certainly have an impact on the Fund's future borrowing capacity after the Eighth General Review of Quotas had come into effect. Together with a clearer picture on future borrowing capacity, Executive Directors needed at least some indication of the extent to which the special facilities, including the compensatory financing facility, were likely to be used in the future. On that point he shared the views put forward by Mr. Polak. Finally, he agreed with other speakers that the present discussion should be no more than a preliminary exchange of views on future access policy. Executive Directors should return to the issue as soon as more information was available on the compensatory financing facility and the borrowing that was open to the Fund. On that point his authorities continued to have serious doubts about the advisability of the Fund's borrowing on private markets. They feared that the character of the Fund as an institution of international monetary cooperation might be endangered. Borrowing from the private markets could push the Fund into adopting some of the characteristics of a Eurobank, and its judgment on monetary issues might be impaired by banking considerations.

The staff had suggested, perhaps unwittingly, that the policy of enlarged access should become a permanent feature of the Fund, Mr. Grosche commented. Executive Directors would do well to bear in mind that when creating the extended Fund facility, the supplementary financing facility, and the policy on enlarged access, the Executive Board had always emphasized that those acts were responsive to exceptional situations. If the circumstances prevailing at the moment the decision had been taken ceased to exist, Executive Directors should adjust their responses accordingly. At present the Fund was dealing with several cases of heavily indebted countries that were in fact threatening the fabric of the international financial system. However, the continuing recovery in the industrial countries, a further decline in interest rates, the continuing low rate of inflation, and comparative stability of oil prices seemed to indicate an improvement that would call for a review of the special facilities in the near future. He was therefore sympathetic to an early phasing down of future access limits, as suggested by Mr. Wicks and Mr. Joyce, among others. Otherwise, the Fund would run the risk of being permanently involved in balance of payments financing that went beyond stabilization efforts.

Fund members whose balance of payments were fundamentally weak might have a need for assistance that could not be characterized as "temporary," so that it could not be met by the use of the Fund's resources, Mr. Grosche noted. Nevertheless, the Fund had made resources available to such countries in order to encourage orderly economic management. The Fund should be most cautious in entering into a series of stand-by arrangements, even if each was small, with such members, and should ensure that the "temporary character" of its resources was not being abused. The consultation with Mauritius at EBM/83/71 was a case in point. Economic management in many low-income countries suffered from incomplete collection of data and poor performance by the tax collection authorities. The best approach to those problems would be support through more technical assistance.

The staff seemed to advocate the heavy front-loading of programs in emergency cases, Mr. Grosche observed. Indeed, the staff's language on page 15 of EBS/83/79 gave the impression that it believed that the Fund's assistance should be comparable to the amount raised by commercial bank financing. He on the other hand believed that the Fund's role could only be that of a catalyst. Even at a time when the absolute amount of Fund resources had been proportionately substantial, the relative share in balance of payments financing had in most cases been modest; it seemed likely that it would continue to remain so. To increase the Fund's participation substantially was neither feasible nor, probably, desirable. The Fund's role was to help to tailor a suitable adjustment program that would encourage commercial banks to provide sufficient capital to enable adjustment to occur in an orderly manner. The front-loading of programs in exceptional circumstances also involved another possible difficulty.

If it disbursed a substantial proportion of a loan, the Fund would lose its only effective control, namely, step-by-step disbursement. While there were cases that could justify heavy front-loading, he would prefer to see a narrow definition of the term "exceptional circumstances."

On the more technical issues, a change in the mix in favor of more borrowed resources would prevent the Fund from quickly exhausting ordinary resources, Mr. Grosche conceded. However, the demand for borrowed resources would increase, and recourse to private markets might be necessary, something that he wished to avoid. Such a course was not compatible with the principle of quotas' being the primary source of Fund financing. With reference to the third paragraph on page 29 of EBS/83/79, he did not favor substantially increasing the proportion of purchases financed by borrowed resources. He opposed the unification of charges on ordinary and borrowed resources. The exceptional character of drawings financed from borrowed resources should be reflected in higher charges. Nor did he favor the proposal for unifying the repurchase period by extending the repurchase period for stand-by arrangements. On the other hand, the suggestion put forward by the staff for simplifying operational procedures seemed worth considering. The impact of the proposed changes on the liquidity of the Fund would of course have to be further examined. He had no strong feelings about "catching up."

Mr. Kabbaj commented that the decision to be taken by the Executive Board on access by members to the Fund's resources was as important as the preservation of the Fund's ability to play an effective role in the monetary system. The staff had dealt extensively with Fund liquidity in EBS/83/79, while it had paid much less attention to the maintenance of the present enlarged access limits in terms of multiples of quotas. Indeed, even the most generous of the alternatives put forward by the staff merely aimed at maintaining the absolute amount of access to members, although the Interim Committee had specifically invited the Executive Board to take into account the views of those favoring the maintenance of the present enlarged limits in terms of multiples of quotas. The mere maintenance of access in absolute terms was clearly insufficient in present circumstances. Not only would it result in a significant decline in members' real access to Fund resources, considering the extent of inflation in the world economy since the adoption of the present enlarged access limits in March 1981; it might also give the wrong signal to the world financial community at a time when the Fund was urging international banks not to reduce their exposure to indebted countries and was striving to secure a net inflow of resources to countries with balance of payments difficulties.

Considering the recent unfavorable developments in international financial markets and the greater than anticipated deterioration in the balance of payments position of developing countries in general, Mr. Kabbaj observed, first, the policy of enlarged access should be continued and, second, the maintenance of the present enlarged limits in terms of multiples of quotas was warranted. Such a level of access seemed all the more justified if it were borne in mind that the quota increase under the

Eighth General Review had been substantially below what most Executive Directors had considered appropriate. Maintaining access at the present limits would also ensure more evenhandedness in the Fund's assistance and result in a more uniform treatment of members, as it would reduce the need for waivers and exceptions to deal with special cases.

While the assessment of members' maximum access to Fund resources should obviously take into account the Fund's actual and prospective liquidity, Mr. Kabbaj considered, the decisive consideration should continue to be the potential needs of members in balance of payments difficulties, and the Fund contribution that was needed effectively to assist them in that connection. Fund liquidity should be adjusted to a member's need for assistance, not the reverse. The Fund should be ready to use all available sources of financing, including recourse to private capital markets.

Whatever new limits were agreed upon, Mr. Kabbaj remarked, the actual use of Fund resources was expected to remain significantly below the amounts available under maximum access; it would continue to depend on the particular balance of payments needs of the members, on the strength of the adjustment program involved, and on the prospects of rapid recovery in the world economic position. Consequently, maintaining the present enlarged limits in terms of multiples of quotas would not necessarily mean greater actual use of the Fund's resources by members; it would however provide management and the Executive Board with a safety net and the flexibility to cope with the needs of particular members in times of special or unusual difficulties. Larger maximum access would also be helpful to countries with small quotas whose financial needs generally went far beyond the limit set by their quotas.

On the technical aspects of enlarged access, Mr. Kabbaj said that, while he agreed with the staff on the desirability of standardizing and simplifying many provisions of the decision, he was not very happy with the proposals for changing the mix of resources. The desire to safeguard the Fund's liquidity by avoiding premature absorption of its ordinary resources certainly stemmed from sound and cautious management. However, any change involving the mixing ratio in favor of borrowed resources or the unification of the rate of change would need further study and consideration. In particular, Executive Directors should consider whether it would be appropriate to create an incentive for members to increase their use of Fund resources and whether members using supplementary access should bear all or only part of the cost of the extra financing. In any event, the staff suggestions regarding the terms of enlarged access, and their implications for both the members and the Fund, should be the subject of a further detailed staff paper. Any decision on access limits under the Eighth General Review of Quotas also needed further consideration, taking into account the position expressed by the Group of Twenty-Four, which had spoken in favor of the maintenance of the present access limits in terms of multiples of quotas.

Mr. Morrell stated that his authorities believed that there was a clear need in present circumstances for the enlarged access policy to continue, albeit as a temporary response to large-scale payments imbalances. Such a belief implied acceptance of a continuing need for borrowing by the Fund, consistent with the principle endorsed by the Interim Committee that quotas should remain the primary source of Fund resources. It was obviously unrealistic to expect any meaningful level of enlarged access to be funded wholly or largely from ordinary resources, a point at least implicitly recognized in the decision to augment those resources under the Eighth Quota Review.

However, Mr. Morrell went on, some way had to be found to reconcile the likely needs of members for Fund resources--based on difficult judgments about the scale of prospective payments imbalances, and on the pace of world recovery--with the financing constraints faced by the Fund. In particular, it was important for the Fund to maintain an appropriate financial balance and to ensure confidence in its financial strength. In present circumstances, it was important not to be too timid in deciding on access limits because of the risks involved. It should perhaps be borne in mind that the Fund did have options in raising finance that some of its members did not.

He would endorse the view that the enlarged access limits represented ceilings rather than targets or norms to which the Fund should be moving over time, Mr. Morrell continued. He also agreed that it should be possible to exceed the limits in obviously exceptional circumstances. A large injection of funds in the early stages of a program should be exceptional in view of the need to preserve the conditionality of Fund lending by avoiding excessive front-loading. The Fund's more usual role of acting as a catalyst for external financing rather than as the sole or major supplier of funds should be preserved. He agreed that part of the Fund's leverage with banks derived from the amount of resources that it could itself commit to a program.

Access should continue to depend primarily on a member's need to draw and on the strength of the adjustment efforts aimed at achieving a viable balance of payments position over a reasonable period, Mr. Morrell considered. At present, subject to one important qualification, he took the view that new access limits should be set toward the high end of the range suggested by the staff, meaning that absolute levels of access should be maintained, at least for most members. Such a position implied that absolute access for the Fund as a whole should be increased moderately. It was important that, whatever decision was taken, there should be scope for it to be reviewed in the light of developments in the Fund's liquidity position and of the size and distribution of payments imbalances. If new limits proved to be inadequate, there was scope for higher access in exceptional circumstances, perhaps in association with the activation of the General Arrangements to Borrow for a nonparticipant or, to meet a more serious inadequacy, an acceleration of the Ninth General Review of Quotas.

The view of the members of his constituency was that access limits of 125 per cent of quota in one year and 375 per cent in three years were likely to be adequate for the majority of members for the period immediately ahead, Mr. Morrell stated. However, it might be appropriate, as a number of speakers had suggested, to set a relatively early date for the review of the enlarged access decision reached in the present round of discussions; in that respect, he would endorse the views of Mr. Joyce and others. Some of the members of his constituency would be happy with a lower limit, while others would prefer higher figures. The limits did appear justified on the basis of likely payments imbalances, which were the key determinant, although it could also be argued that there would be advantages in avoiding an erosion in the real value of access and in providing members with some of the benefits of the quota increase. Lower access limits would mean that a considerable proportion of the membership would be paying more to receive less, a situation that would probably not prove viable. Most members after all had not yet agreed to the quota increase. A reduction in absolute levels of access for a large number of members could give the wrong signals to the market at the present stage.

One approach, Mr. Morrell observed, might be to set relatively low access limits and to rely on the flexibility provided by the "exceptional circumstances" clause to meet needs as they arose. However, like Mr. de Maulde at EBM/83/71, he would not support such a proposal; the formal limits would become meaningless, and there might be less than uniform treatment of members.

The qualification to which he had referred earlier was the lack of discussion in the paper of whether borrowing arrangements on acceptable terms could be arranged to support access on the scale envisaged by the staff, Mr. Morrell recalled. The projections of borrowing needs could prove to be on the high side. It was not immediately clear, for instance, why estimated commitments should rise as sharply as they did under the higher access assumptions. While a large part of the increase was attributed to developing countries in constrained external positions, commitments for developing countries with relatively high potential financing needs (Group II in Table 2 on page 19) were also projected to rise in proportion to the average increase in access limits. Since access limits were not supposed to be norms, he wondered how realistic such an assumption might be. Nevertheless, it had to be admitted that there was a need for borrowed resources to cover commitments for January 1984 to April 1986. The need would be considerable under any of the access limits canvassed by the staff; clearly, it would be larger the higher the access limits turned out to be. Before any final decision on access limits could be taken, there was need for a detailed analysis of the likely availability of borrowed resources from official channels and of any plans for market borrowing. The impact of the present borrowing guidelines should also be reviewed.

Commenting on some of the technical aspects referred to by the staff, Mr. Morrell said that he would agree in principle with the need to simplify the mixing arrangements and to maintain adequate ordinary resources for liquidity purposes; however, the borrowing implications needed to be made clear. He would also agree that it would be better to delay the introduction of any changes in mixing procedures until after all resources available under the supplementary financing facility had been disbursed, or the final disbursement date in February 1984 had passed. He would not favor the complete elimination of mixing, meaning that he did not support making resources available on uniform terms for charges under all facilities irrespective of the source of funding. To do so would involve a departure from the concept of normal access under the credit tranches at relatively favorable rates of charge, and greater access in special circumstances supported by temporary Fund borrowing at higher rates, subsidized in appropriate cases. As the staff had noted, separate schedules of charges derived from the view that it was appropriate for members requiring supplementary access to the Fund's resources to bear the cost to the Fund of acquiring the extra financing. Finally, it would be difficult on the basis of the information provided in EBS/83/79 to form a view on the standardization of repurchase terms. That was a topic to which the Executive Board would have to return in the light of the experience with the maturity transformation of Fund borrowing, and of the implications for liquidity.

Mr. Malhotra remarked that the staff had effectively argued the case for continuation of the enlarged access policy after the coming into effect of the Eighth Quota Review, and had rightly emphasized that the Fund should continue to play an active role in financing. He wholeheartedly endorsed the staff's views on those points. As the staff had pointed out, developments in the international financial markets had been less favorable than expected at the end of 1980 when the enlarged access policy had been formulated. Similarly, the payments situation of non-oil developing countries in 1980-81 had been worse than foreseen. Net lending by private banks to non-oil developing countries had contracted from $53.5 billion in 1981 to $25 billion in 1982 and was expected to decline further to $20 billion in 1983. International banks would thus play a much smaller role in financing deficits. The rising level of external bank debt and increasing debt service burden would create major problems for developing countries in the near future. According to staff estimates, the repayment of principal at present amounted to 12.15 times the respective country quotas, well above the ratio of 1979. The staff recognized the difficulties that could arise from a crisis of confidence, and had rightly stressed that it was the Fund's responsibility to be ready to prevent abrupt shocks to the financial system. Accordingly, it had suggested that there was need for the Fund to increase its exposure in line with what it was asking of other lenders. The staff had also said that annual access limits had to be sufficiently large to allow for a net contribution to the financing of a member's balance of payments. It had cautioned that lower access limits could be construed by the financial community as a turning away of the Fund from an active role in overseeing adjustment.

The cumulative loss of many countries in terms of trade over the past three or four years had been great, and whatever small improvements were foreseen were, in comparison, quite insignificant, Mr. Malhotra considered.

In addition, countries had accumulated a great deal of short-term debt, which meant that debt servicing over the next three or four years would be heavy.

The position of low-income developing countries continued to be extremely difficult, Mr. Malhotra stated. Their rates of growth had fallen, and their reserves were low. The Executive Board, during consultations, was frequently being informed of countries whose reserves were equivalent to no more than 15-30 days' imports.

No Executive Director had suggested during the present discussion that the position had improved since early 1981, Mr. Malhotra commented. In short, the position was more difficult at the present time than it had been in 1980, when the Executive Board had taken its decision on access limits under the enlarged access policy. Even though management had averted an immediate crisis in 1982, all was not yet plain sailing, and the need for the Fund to play an important financing role had increased rather than decreased. It would therefore be surprising if the Executive Board came to the conclusion that access needed to be reduced.

Referring to liquidity ratios, Mr. Malhotra said that while they were a relevant index, they ought not to be viewed in isolation of the Fund's special character and standing. The purpose of the Fund was to provide adequate balance of payments support to members with a view to helping them to bring about adjustment on external account, without interrupting growth on bringing about a general contraction of activity in the world. Only through such support could the Fund maintain its credibility.

It was clear, Mr. Malhotra considered, that the enlarged access policy had been evolved because quotas had been inadequate for many years. The enlarged access policy, by its very nature, involved the use of borrowed resources. Developing countries were not enamored of the Fund's using borrowed resources because it put up the cost of Fund financing. However, they would prefer the Fund to operate on borrowed resources than to be unable to meet the needs of its members. Having allowed quotas to lag seriously behind requirements, it would be circular to argue that the Fund should not increase recourse to borrowing on the ground that its cooperative character would change. Further, the argument that there would be less need for access to the Fund's resources in 1984 and 1985 was based on pure conjecture; policies should not be altered on the basis of such speculation.

Ministers of the Group of Twenty-Four had called for maintenance of access in terms of multiples of quotas even after the entry into force of the Eighth Quota Review, Mr. Malhotra recalled. They had done so because they foresaw that any other arrangement would reduce access in real terms considerably. The increase in the quotas of potential users had been well below the average increase in quotas, and to talk only in terms of maintaining potential absolute access ignored the fact of inflation. It would hardly be consistent for the Fund, which had been greatly preoccupied with high rates of inflation, to overlook the impact of inflation on the quotas of members. While the staff had made out a good case for continuing the policy on enlarged access, none of the suggested alternatives would maintain access in real terms. He could not, therefore, agree entirely with the staff approach, he said that present access in terms of multiples of quotas should be maintained.

Developing countries were unable to understand why the Fund should play a smaller role in providing finance in the future than it had in the past, Mr. Malhotra mentioned. It was for that reason that the Interim Committee had written into its most recent communiqué a request that the Executive Board should consider the view that access be maintained in terms of multiples of quota. It was unfortunate that the staff had not even considered that particular option. When a request of that nature was made by the Interim Committee, the staff had to respond. The option should now be specifically examined; otherwise, it would be embarrassing to report to the Group of Twenty-Four Ministers that their unanimously held view had not been considered.

As he understood the situation, Mr. Malhotra went on, the upper limits of access did not have much effect on the use of the Fund's own resources. Even under the present policy of enlarged access, the use of the Fund's ordinary resources was limited to 140 per cent of quota, while total access could be as much as 450 per cent of quota. Consequently, so far as the use of Fund's own resources were concerned, there would be little difference in impact between fixing the annual limit at 125 per cent or 150 per cent of quota. If the need for borrowing was to be reduced, the Fund would have to consider accelerating the Ninth General Review of Quotas. Meanwhile, in order to have sufficient resources to adequately support its members in need, it would have to undertake the requisite amount of borrowing. Indeed, at the time of the last meeting of the Interim Committee, its Chairman had suggested that increased quotas, together with the enlargement of the General Arrangements to Borrow, amounted to a substantial increase in the Fund's resources. Those arrangements were obviously put together to meet the perceived needs and should be activated and made available to members in need of Fund financing.

The access limits were evidently ceilings, not norms, Mr. Malhotra observed, and the Fund had been prudent in administering the policy. There were few cases in which countries had borrowed from the Fund up to the limit. However, where need for maximum access was established, and if members were prepared to pay the higher charges because more borrowed resources were included in the package made available to them, he could see no reason why the requisite borrowing should not be resorted to. He hoped that the next quota review would be accelerated, that the Fund's own resources would be supplemented by activating the General Arrangements to Borrow and access to markets, and that it would be possible, if there were a major improvement in the world economy, to restore the situation to the point where the Fund would rely mainly on its own resources. However, in present circumstances, which were clearly the corollary of inadequate quota increases, Executive Directors should not restrain the need for borrowing for financing member countries.

On most of the technical points regarding the mix and terms of the Fund's own and borrowed resources mentioned in SM/83/89, Mr. Malhotra remarked that the staff ought to submit papers showing their implications before inviting Executive Directors to express their views formally. At first sight, he would be greatly opposed to front-loading of borrowed resources into Fund disbursements. Several programs had broken down after their adoption, so that many countries would be paying higher charges even when unable to make use of the resources originally envisaged in a Fund program. Moreover, during the next five or six years, debt service was likely to be high. In those circumstances, any proposal that had the effect of increasing the amount of repayments--which would happen if loans front-loaded with borrowed money had to be repaid in shorter periods than at present--would have the effect of increasing debt service. Developing countries would aim in favor of suggestions that the repayment period should generally be shortened. He was opposed to the suggestion that the extended Fund facility and certain other facilities should be financed entirely from borrowed resources.

Taking up the suggestion that there should be a single rate of charge for the Fund's own resources and borrowed resources, Mr. Malhotra maintained that the idea would be inadvisable. For one thing, it would lead to inequities, especially for members that used the Fund's resources in the credit tranches, or whose recourse to Fund resources was relatively small.

Mr. Erb said that, his comments, like those of others, would be of a preliminary and partial character. He agreed with other Directors that the subject was important as well as complicated. Involved were a number of issues relating to the application of the policy of enlarged access, including the circumstances in which enlarged access policy was applied in individual countries, the access limits, and actual access or the use of access within those limits. There were also issues related to the financing of enlarged access and to a series of operational matters.

The broad policy issues and choices concerning enlarged access were interrelated as well with other major policy issues, including in particular the breadth or scope of adjustment objectives served by the use of Fund resources, and the practical or operational meaning that was attached to the temporary and revolving character of Fund financing, Mr. Erb added. Other Directors had explicitly or implicitly recognized international relationships between all of those policy areas. Like them, he saw the discussion as one of a continuing series on the size and financial role of the Fund. Additional discussions on the policy of enlarged access and other major policy issues--including the priorities that should be attached to the various adjustment objectives that members asked the Fund to support with financial resources--would be necessary in the coming months so that the Executive Board could reach decisions and fundamental understandings on all of those interrelated matters. The Board should seek to do that some time during the summer of 1983.

A number of Directors had commented on the importance that they attached to giving the international community, including the commercial banks, a signal that the Fund would continue to play a central role in the system, particularly in present circumstances when a large number of countries needed to deal with payments maladjustments of a significant size, Mr. Erb recalled. His authorities agreed with that view; it was for that reason that they supported early implementation of the Eighth General Quota Increase, and were making an effort to obtain early approval for the increase not only of quota resources but of resources available under the General Arrangements to Borrow.

If Executive Directors would refer to his statements during the Board's earlier discussions of the size of the Fund, which had taken place before the current financial stresses had emerged, Mr. Erb observed, they would note the importance that his Government attached to the "shock absorber" role played by the Fund for individual countries and for the system as a whole. As it turned out, the Fund was very much fulfilling that role in the context of the current financial adjustments facing a large number of individual countries. At the time of that earlier discussion of the size of the Fund, he had not been predicting the current stresses; indeed, he had been attempting to underline the importance of the Fund's role and to generate additional staff work and Board discussion on that role.

In the judgment of his authorities, Mr. Erb stated, the magnitude of both the quota increase and the expansion in the General Arrangements to Borrow were practical in terms of obtaining legislative support as well as being adequate to meet members' current and near-term adjustment pressures, especially in light of the economic recovery under way. His authorities' thoughts about the future and about the prospects for the Fund's resources were shaped by a judgment that that recovery would continue and that current adjustment efforts would contribute to a strengthening of the payments positions of many countries. They also recognized that those developments might not materialize, and Secretary Regan had explicitly stated before the Interim Committee, and more recently in response to a question when testifying before the U.S. Congress, that if the world economic situation deteriorated further and it became necessary, additional steps might have to be taken. But in present circumstances, and with the expectation of continued recovery, his authorities believed that the signal that ought to be sent was that all countries--including those that did not have programs with the Fund as well as those that did--should be undertaking the necessary economic adjustments now and not later. At the same time, his authorities believed it was important to send a signal to the commercial banks and to governments that Fund financing over time would not be substituted for commercial or other sources of financing.

He agreed with Executive Directors who had commented that the credibility of the Fund depended on a variety of factors, including its surveillance activities, and its threefold catalytic role--in assisting countries in devising programs, in working with governments and other official institutions providing resources to countries with balance of payments problems, and in spelling out the financial requirements to commercial institutions--Mr. Erb remarked. At the same time, the credibility of the Fund depended importantly on its ability to live within its available resources, and he would place particular emphasis on a resource base that governments could support. His authorities continued to believe that any official borrowing that might be necessary, or for that matter any private market borrowing that might be contemplated at some point, should be temporary and limited and not used as a continuous source of liquidity to finance expanding activities of the Fund as envisaged in the staff paper.

He agreed fully with what one Director had said at the previous meeting, that the Fund should practice what it preached, Mr. Erb went on. The message that the Fund had been conveying to members was that governments needed to live within their means and to set order and establish priorities in the objectives that they were pursuing. In the same way, official institutions like the Fund needed to set priorities and provide financing in a way consistent with its underlying resource base. If the Fund extended its objectives broadly to areas that could not be supported by governments, or if the Fund's projected financing expectations could not be sustained by quota increases or by a limited level of official borrowing in the near term, its credibility would be called into question.

One issue relating to enlarged access had not been taken up so far, Mr. Erb stated. In examining each of the issues, his authorities had given considerable attention to the circumstances in which the enlarged access policy was to be applied to decisions on use of resources by individual countries. The staff's review of that issue had not been as extensive as it should have been. Those circumstances were stated in Decision No. 6783-(81/40) establishing the policy on enlarged access. Paragraph 1 of that decision stated "...the Fund will be prepared to provide balance of payments assistance to members facing serious payments imbalances that are large in relation to their quotas..." Paragraph 3 stated that "a request will be met only if the Fund is satisfied: (i) that the member needs financing from the Fund that exceeds the amount available to it in the four credit tranches or under the extended Fund facility and its problem requires a relatively long period of adjustment and a maximum period for repurchase longer than the three to five years under the credit tranche policies; and (ii) on the basis of a detailed statement of the economic and financial policies the member will follow and the measures it will apply during the period of the stand-by or extended arrangement, that the member's program will be adequate for the solution of its problem and is compatible with the Fund's policies..."

It was made clear in paragraph 4 of the decision, Mr. Erb added, that the Fund could approve a stand-by or extended arrangement providing for enlarged access at any time until "the Eighth General Review of Quotas becomes effective, provided that the Fund may extend this period"; the proviso of course went without saying. Lest there be any doubt that that paragraph did in fact reflect the temporary nature of the policy and an explicit link to the availability of financing, he would quote from the staff's explanatory notes on the decision establishing the policy, explaining that "paragraph 4 would establish the temporary character of the enlarged access policy. Nevertheless, in view of the uncertainties concerning the period during which there would be a need for this policy, it is made clear that the period of the decision could be extended. As in the case of the supplementary financing facility, the Fund would approve arrangements under the enlarged access policy only to the extent of the available financing" (EBS/81/42, 2/23/81). He wished to emphasize that latter proviso because it was an important aspect of the policy of enlarged access that other Directors had noted as being important; in other words, the availability of financing had to be taken into account in applying the enlarged access policy.

Paragraph 11 of the decision stated that the Fund would be prepared to grant a waiver of the limitations set forth in Article V, Section 3(b)(iii) concerning the Fund's holdings of a member's currency, Mr. Erb continued. That section of Article V precluded any member from drawing, if as a result, Fund holdings of the member's currency would exceed 200 per cent of quota. Section 4 of that Article provided for the possibility of a waiver of that provision; his authorities believed it would be useful to review the application of that section in conjunction with enlarged access. Section 4 stated in part that "the Fund may in its discretion, and on terms which safeguard its interests, waive any of the conditions prescribed in Section 3(b)(iii) and (iv) of this Article, especially in the case of members with a record of avoiding large or continuous use of the Fund's general resources. In making a waiver it should take into consideration periodic or exceptional requirements of the member requesting the waiver."

Those basic concepts, principles, and requirements contained in the Articles and in Decision No. 6783-(81/40) raised many questions that his authorities considered merited examination, Mr. Erb observed. He hoped that the staff could take them up in the further work that would be necessary before any final decision on enlarged access could be reached. Some of the questions in the mind of his authorities included: first, whether programs had consistently been judged to be adequate to achieve viable payments positions over the foreseeable period of time; second, whether enlarged access had been used to preserve the revolving character of Fund resources, and had the Fund assured itself that the resources could be repaid without causing the country undue hardship; third, whether the requirement that members using enlarged access "face serious payments imbalances that are large in relation to their quotas" had always been met; fourth, whether payments problems had in fact required relatively long periods of adjustment in connection with all the programs under the enlarged access policy; fifth, whether Executive Directors had been given sufficiently detailed statements of economic and financial policies, as required in the decision.

Those were extensive and difficult questions, Mr. Erb recognized. Obviously, whether or not all the criteria, concepts and principles had been followed was a matter of judgment. But it was incumbent on Executive Directors to look into those questions and issues in connection with the present review. The Executive Board should consider whether the criteria and principles, based on the experience of the past, needed to be amended, extended, or applied differently. For their part, his authorities had had doubts, which they had raised in the context of many specific country programs, whether the criteria for enlarged access had been fully and rigorously applied in all cases.

A closely related question was how the access limits had been applied in practice, Mr. Erb considered. He recognized, as others had, that the access limits had not been treated as norms, and that actual access for most countries had been below the limits. The discussion in the staff paper on the extent to which the access limits should be applied was especially interesting; on pages 3-4 of EBS/83/79, the staff discussed different ranges of access related to the nature and duration of a country's payments problem. Access to current maximum limits, for instance, had been considered when, inter alia, a member had a program representing a determined and substantial effort to reverse the course of policy of earlier years, and when completion of the greater part of the necessary adjustment was expected within three years. Access in the range of 75-100 per cent, on the other hand, was discussed for times when, inter alia, a program was regarded as only one stage in a longer-term effort. Other access levels were discussed for yet other situations involving, for instance, relatively small needs. That brief discussion, and the present retrospective examination of the application of enlarged access in light of the principles of the policy, suggested that it would be helpful to expand the review in that connection.

The discussion on pages 6-7 of staff paper on the length of arrangements was also helpful, Mr. Erb stated. It gave a clear explanation of circumstances in which consecutive shorter-term arrangements had worked to the benefit of both the Fund and the member. For instance, when a country's medium-term prospects were highly uncertain or undefined, it would seem prudent for the Fund to apply significantly lower access figures.

As he had already mentioned, Mr. Erb went on, some of those issues had been raised by him in relation to specific programs, but he had taken the opportunity to set them out in relation to the circumstances in which the policy of enlarged access was to be applied.

As to the access limits themselves, Mr. Erb considered that it would be premature to attempt to reach final judgments until later in the summer when the Executive Board could give a clearer indication of the adjustments to the limits that it considered appropriate. The preliminary thinking of his authorities was that initially, upon the activation of the Eighth Quota Review, the adjustments should offset the overall quota increase; but it was as important, they believed--along the lines of what other Directors had suggested--that there should be an explicit agreement on a phased reduction in the access limits over time. The notion that that matter should be reviewed by the Executive Board at some later stage would present his authorities with problems. They believed rather that much greater attention needed to be paid to agreeing in the coming discussion on how the access limits would be phased down over time. In the considerable thinking that his authorities had devoted to that objective, which would not be easy to accomplish, they had found that it would be better to plan well ahead so that countries and the Fund could adjust and adapt their expectations to the future phasing down of access limits.

There were also other issues related to the financing of enlarged access to which he would come back in a later discussion, Mr. Erb commented, and he would also like to make a more explicit response to the series of operational issues that the staff had brought forward. Those issues were complicated, and the resolution of some of them would depend partly on what other adjustments were made, not only in the current access limits but also in the way in which they would be phased down over time. However, as a general proposition, he had serious problems on the operational issues with the idea of blending ordinary and borrowed resources; he agreed with other Directors that it would be better to keep them separate rather than to combine them. But to the extent that it was possible to simplify the way in which ordinary and borrowed resources were combined, he would be quite amenable to that approach. The more Executive Directors could do to make it easier to understand the adjustments, the better it would be for national authorities.

The Director of the Exchange and Trade Relations Department stated that he would reflect on the questions raised and return with a balanced response to the various suggestions that had been made. On the proposal for a cumulative limit that would include the use of the compensatory and buffer stock financing facilities, the staff would look at a number of aspects that were relevant to the setting of such a limit. For example, there were differences in policy commitments associated with stand-by and extended arrangements, on the one hand, and compensatory financing and the buffer stock facility, on the other. The staff would also like to set out more systematically the guidelines on access within the limits, as mentioned by Mr. Erb and several others. Another suggestion that might be dealt with in a subsequent staff paper was how future revisions of the annual access limits were to be made. It was perhaps important to go beyond fixing access limits for some period in the future, and agree on a way in which the Executive Board could reach a decision on revising the access limits.

On a rather different topic, the Director of the Exchange and Trade Relations Department recalled that one Executive Director had suggested that the staff was pressing for more front-loading. On the contrary, on page 15 the staff had inserted a paragraph primarily to explain that for the period of the Fund program there were often insufficient resources available on a net basis. For instance, in Mexico, once account was taken of the official finance that was being withdrawn, the whole of the Fund's assistance went to repay the Bank for International Settlements and other lenders. Consequently, the authorities, who were making major adjustment efforts, did not have the resources that they might reasonably have expected would be available to them. On page 16, the staff had raised an issue that was particularly relevant to the use of the enlarged General Arrangements to Borrow, namely, that in exceptional circumstances there could be particular need for large amounts to be committed quickly.

The Treasurer stated that he would respond to technical questions outside the meeting. More generally, he had noted the desire by Executive Directors for a clearer view of the borrowing possibilities open to the Fund from official or private sources. It was of course possible to distinguish between the capacity of the Fund to borrow, the technical means to be used by the Fund in borrowing, and the general limitations on Fund borrowing of a nontechnical kind. The Fund's capacity to borrow was a matter on which there had been a preliminary investigation in relation to the guidelines for borrowing. At that time, Executive Directors would recall, the staff had come to the conclusion that the Fund's borrowing capacity in the technical sense of the term, while depending on many factors, was very large. Whenever the need to borrow had arisen, the staff had reviewed the various techniques that would respond to the Fund's needs and to the requirements of lenders at any particular moment; there was virtually no limit to the number of techniques that could be combined. However, whatever the technical capacity of the Fund to borrow, as Mr. Erb had explained, there was a political limit on the Fund's borrowing operations. There were only so many resources that the members of the Fund wished to devote to the institution, and only so much that they would like to see it borrow in capital markets. Naturally, those limits were closely related to what members considered to be the legitimate role of the Fund. On such a point, the staff could only give advice; it could reach no conclusions.

The staff had an obligation to bring to the Executive Board a paper on guidelines for borrowing after the Eighth General Review of Quotas came into effect, the Treasurer recalled. Perhaps that paper could be a framework within which to deal with the issues that had been raised in the present meeting. The staff had already indicated the balance of demand on the Fund's resources that it foresaw for the next two years, allowing for the many inevitable uncertainties. The staff had even tried to relate that demand to different access limits and different assumptions about the potential uses that would be made of Fund resources within those access limits. It had concluded that the Fund would not be in a much better position in terms of liquidity, or of the tension between the demand for its resources and the supply of resources to it, than it had been before the Eighth Quota Review, unless the world situation became a great deal more favorable than seemed likely. In that connection, it was important to pay growing attention to the Fund's liquidity ratio. The Fund was an institution in which the creditor obtained a reserve asset in return for the support it extended through the Fund to other members, debtors, who had balance of payments deficits. The creditors had had claims on the Fund that represented reserve assets for those members holding claims on the Fund in the event that they fell into balance of payments difficulty. If insufficient regard were paid to the liquidity ratio, there was a risk that assets in the Fund would be regarded as illiquid by those who made them available either through the quota mechanism or through additional lending, and that the perception of the Fund as a short-term temporary balance of payments financing institution would be negatively affected.

He had noted the suggestions that the staff should see whether the repurchase period should not be shortened, depending on the period for which the Fund could borrow, the Treasurer stated. He had also noted the suggestion that the Fund should borrow longer-term resources as a better safeguard against encashment risks.

Commenting on the General Arrangements to Borrow (GAB), the Treasurer remarked that while it was true that the staff had not devoted much space to the GAB, it had examined the additional liquidity that would be available from raising the GAB to SDR 17 billion, together with the associated arrangement that the Executive Board would be asked to approve shortly. The conclusion was that the amount of resources available from the enlarged GAB would be about SDR 12 billion. Comparing that figure and the resources available from the increases in quotas with potential demand under the existing policy of enlarged access and any continuation of that policy, the implication was that the ordinary resources of the Fund would tend to be used rather fully in a short time.

One reason why the staff had not written more about the GAB was that it was not in a position to judge the exact conditions on which they would be activated, the Treasurer explained. In the first place, the staff did not wish to presume that once the GAB went into effect, they would immediately be activated. It was for that reason, among others, that the staff had hesitated to say that the Fund could cover a considerable part of its potential needs of ordinary and borrowed resources after the quota increase while retaining the policy of enlarged access by activating the GAB. At present, if a participant in the GAB were to draw on the Fund, the conditions for activation would be met, in his view; the Fund's liquidity was extremely low, and there was an impairment in the world's monetary system that would allow the Managing Director to ask for an activation of the GAB if a participant in the GAB had a need to draw on the Fund. If for some reason the revised GAB could not be activated and there were legitimate demands that ought to be financed in the opinion of the Executive Board, and the Fund's ordinary resources were insufficient, the Fund would have to see what techniques were available to it to supplement those resources through other borrowing.

The Chairman commented that Executive Directors had mentioned a large number of principles on which there could be a broad consensus. Naturally, a number of different views had been expressed on such topics as the needs of member countries in future years, the importance to be attached to the availability of Fund resources to meet those needs, and the limits on enlarged access. As Executive Directors had decided that the present discussion should be preliminary, he would not say anything that might be taken as an expression of policy until Executive Directors were ready to take a decision. Certainly before the Executive Directors' unofficial recess, he would bring the topic back to the agenda. The forthcoming paper on the World Economic Outlook would provide a forward-looking approach toward the balance of payments and financing problems of the next few years. Executive Directors would also be discussing the position of the capital markets and the probable contribution of bank financing, as well as the compensatory financing facility and the question of borrowing to meet the inevitable commitment gap.

Naturally, all the topics were intertwined; the staff would reflect carefully on what had been said and prepare some additional studies, the Chairman observed. Nevertheless, he would urge Executive Directors to consider the matter with some sense of urgency. Although the policy of enlarged access would continue in force with the entry into effect of the Eighth General Review of Quotas, the Interim Committee had asked Executive Directors to look into the matter, and it was important for the Fund to demonstrate a sense of firmness in its decisions.

The Executive Board concluded its preliminary discussion of the policy of enlarged access to the Fund's resources. 1/

APPROVED: October 12, 1983

LEO VAN HOUTVEN
Secretary

1/ Paragraph 15 of Decision No. 6783-(81/40) of March 11, 1981 establishing the policy on enlarged access requires a review of the decision not later than June 30, 1983, and annually thereafter so long as the decision remains in force. The decision concluding the review for 1983 was taken by lapse of time and is recorded in EBM/83/76, May 27, 1983.