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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/111

3:00 p.m., July 25, 1983

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

Executive Directors	Alternate Executive Directors
	W. B. Tshishimbi
J. de Groote	H. G. Schneider
B. de Maulde	
	M. Teijeiro
R. D. Erb	
M. Finaish	T. Alhaimus
T. Hirao	T. Yamashita
	Jaafar A.
R. K. Joyce	M. Casey
A. Kafka	C. Robalino
G. Laske	G. Grosche
G. Lovato	C. P. Caranicas
R. N. Malhotra	A. S. Jayawardena
Y. A. Nimatallah	J. E. Suraisry
J. J. Polak	
A. R. G. Prowse	K. G. Morrell
G. Salehkhou	
F. Sangare	
	J. L. Feito
J. Tvedt	A. Lindå
N. Wicks	C. Taylor
	Wang E.

L. Van Houtven, Secretary
S. J. Fennell, Assistant

Also Present

Asian Department: F. Le Gall, H. O. Roden, G. Szapary. European Department: T. R. Boote, P. C. Hole. Exchange and Trade Relations Department: C. D. Finch, Director; D. K. Palmer, Associate Director; S. Mookerjee, Deputy Director; J. Berengaut, K. B. Dillon, M. Guitian, D. A. Lipton, R. L. Sheehy. External Relations Department: H. P. Puentes. Legal Department: G. P. Nicoletopoulos, Director; W. E. Holder, Ph. Lachman. Middle Eastern Department: B. A. Karamali, L. A. Wolfe. Research Department: W. C. Hood, Economic Counsellor and Director; A. Crockett, Deputy Director; R. R. Rhomberg, Deputy Director; L. Alexander, K.-Y. Chu, A. Salehizadeh. Treasurer's Department: D. Williams, Deputy Treasurer; D. Gupta, Q. M. Hafiz, D. V. Pritchett, T. M. Tran, G. Wittich. Bureau of Statistics: T. Luu. Advisor to the Managing Director: E. W. Robichek. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: A. A. Agah, J. R. N. Almeida, C. J. Batliwalla, S. E. Conrado, J. Delgadillo, S. M. Hassan, H.-S. Lee, I. R. Panday, P. D. Péroz, P. Péterfalvy. Assistants to Executive Directors: E. M. Ainley, L. Barbone, R. Bernardo, J. Bulloch, M. Camara, M. B. Chatah, T. A. Connors, M. Eran, G. Ercel, I. Fridriksson, G. Gomel, H. Kobayashi, M. J. Kooymans, P. Leeahtam, W. Moerke, V. K. S. Nair, Y. Okubo, J. K. Orleans-Lindsay, J. G. Pedersen, G. W. K. Pickering, E. Portas, M. Z. M. Qureshi, J. Reddy, J. Schuijer, Shao Z., Wang C. Y., J. C. Williams.

1. ACCESS TO FUND RESOURCES - REVIEW

The Executive Directors continued from the previous meeting (EBM/83/110, 7/25/83) their consideration of two papers for the review of the policy on access to the Fund's resources: one on general considerations (EBS/83/132, 6/27/83; Cor. 1, 6/28/83; Cor. 2, 7/11/83; and Sup. 1, 7/18/83) and one on financial considerations (EBS/83/133, 6/28/83).

Mr. Polak remarked that the staff's statement at EBM/83/110 had, first, clarified its position as stated in EBS/83/132 and, second, related the present discussions to the Executive Board discussion in April 1982 (EBM/82/42) and the staff papers prepared for that meeting. There was clearly a need for more precise guidelines on the use of the compensatory financing facility, but that question could be addressed in early September 1983.

The staff had not chosen appropriate terminology for referring to "conditional" and "special" facilities, Mr. Polak considered. The special facilities were not unconditional, as was implied by those terms. Perhaps the facilities should be referred to as general and special facilities, or even general and commodity facilities.

The staff had tended to focus on maximum access limits, Mr. Polak observed. It would be equally important to define the circumstances that qualified a country to make drawings of the maximum amount and those in which a relatively lower level of access might be appropriate. The staff analysis in Section IV--The Scale of Access in Individual Cases--of EBS/83/132 was useful in that respect. It might be desirable to consider setting access limits in terms of various categories of use, rather than only in terms of a maximum limit, or, as Mr. Wicks had suggested, a maximum and supermaximum limit.

A new enlarged access limit of 102 percent of quota suggested by some Directors was too low and would impose too many constraints on member countries, Mr. Polak considered. On the other hand, a limit of 125 percent was too high with respect to the Fund's liquidity position; the difference in the use of resources between the two would amount to about SDR 6 billion. He could not support the view that, when determining access limits, the staff should start from the resource requirements of members and rely on borrowed resources to finance a liquidity gap. Even if the liquidity gap could be financed in the short run, the Fund could not lower its liquidity ratio to the vanishing point and still count on members to put their reserves at the Fund's disposal--in the form either of quota increases or of loans. He found it disturbing that the staff, after having indicated that the liquidity ratio should not be allowed to fall below 25 percent, had later stated that the ratio should perhaps not fall below 10 percent.

He agreed with Mr. Wicks that a grandfather clause was highly undesirable and, perhaps, illegal, since it would apply past quota limits to present policies, Mr. Polak stated. A possible solution to the problem of maintaining access in absolute terms would be to adopt an access limit that was somewhere between the two extremes of 102 percent and 125 percent of quota. He had suggested an access limit of 110 percent of quota at an earlier meeting, but he could go along with Mr. Wicks's proposal of 112.5 percent of quota. Another solution suggested by Mr. Wicks would be to have a second tier of exceptional additional limits. If a two-tier system was introduced, the Fund should ensure that the upper limit--of say 125 percent--did not become as generally applicable as the current 150 percent of quota.

Regarding the phasing down of enlarged access limits, he again shared the views of Mr. Wicks, Mr. Polak remarked. It was impossible to predict developments in the world economy and it would be wrong to establish the method or timing of the phasing down very soon. The enlarged access limits should be reviewed on an annual basis and the Executive Board could postpone most of the discussion of that issue until the first of those reviews. However, there was one question that would need to be settled in advance. Could the Fund introduce a clause limiting access in the later years of stand-by arrangements to any reduced limits that might have been adopted by the Fund in the meantime?

As to quota limits on the special facilities, he favored limits of 75 percent for both the compensatory financing facility and the cereal decision, with a combined limit of 100 percent for overall access, Mr. Polak indicated.

The question of a comprehensive ceiling should be considered in the light of decisions on separate ceilings, Mr. Polak stated. There were two reasons for having an overall ceiling that was less than the sum of the individual ceilings. First, since financial resources available to the Fund were not infinite, it would be necessary to introduce some restraint on access under all facilities. Second, such an overall ceiling would ensure some degree of equity among member countries experiencing different balance of payments problems. He was surprised by the reaction of some Directors to the concept of an overall access limit that was less than the sum of the limits for the individual facilities. Such a ceiling already existed for combined access under the compensatory financing facility and the cereal decision: 125 percent of quota--as opposed to the sum of the separate access limits of 200 percent of quota--which was much more restrictive than the comprehensive ceiling proposed by the staff.

The higher the quota limits under the individual facilities, the greater the need for a comprehensive limit on total access, and he shared the staff view that 500 percent of new quotas would be suitable, Mr. Polak commented. It was true that such a limit would not be very stringent if maximum access was set at 102 percent. However, if Mr. Wicks's suggestion of a two-tier access limit under the credit tranches was adopted, a comprehensive limit of 500 percent of quota would help to restore balance among members by not favoring unduly the countries that were eligible for the higher-tier access limit.

Mr. Teijeiro indicated his opposition to any major changes in access policy; in particular, to the establishment of a comprehensive limit for access to all facilities, to any significant reduction in the annual and cumulative limits for the conditional facilities, and to any decision on future reductions in access limits. Furthermore, given the difficult world economic situation and the behavior of the capital markets, the role of the Fund should not be limited by liquidity considerations. As the Interim Committee had recognized at its meeting in February 1983, if the resources of the Fund were insufficient to meet the needs of its members, they should be increased. The decision adopted by the Executive Board should be consistent with the decision of the Interim Committee.

Access limits should be maintained in relative terms, Mr. Teijeiro stated. It was possible to argue, as the staff had done, that the liquidity position of the Fund was a binding constraint. He did not believe that liquidity considerations should be a binding constraint; however, since decisions on quota increases under the Eighth General Review of Quotas and on the General Arrangements to Borrow (GAB) had already been reached, the Fund's liquidity position had to be considered when formulating access policies.

The tables included in the staff paper on financial considerations indicated a high sensitivity of total commitments to alternative access limits, Mr. Teijeiro considered. New commitments increased from SDR 13.8 billion under access of 102 percent of quota to SDR 24.5 billion under access of 150 percent of quota. The measures for the sensitivity were twofold. First, the commitment estimates for Category I countries--members in a very constrained external position--were based on the assumption that the most important Fund-supported programs under way in those countries could be adjusted to the new cumulative access limits. The commitment estimate for that group was therefore secure and it was unlikely that it could be surpassed. Second, the staff had started from the assumption that the need for Fund assistance by member countries--based on estimates from area departments--would increase in proportion to potential access.

There were two possible explanations for making such an assumption, Mr. Teijeiro continued. One would be that it was the natural outcome of the guidelines in the paper on general considerations. However, in that paper the staff had emphasized that the important criteria for determining a country's level of access to Fund resources were the country's need and its capacity to make repurchases on schedule, as determined by the expected improvement in the balance of payments position. By mechanically projecting estimated commitments under alternative access limits, the staff was perhaps inflating the estimated needs of member countries or assuming that the Fund would lend beyond a country's ability to repurchase. Another explanation for assuming the increase in commitments was that maximum access operated as a target for individual access. If that were the case, a member's need or its capacity to make repurchases would not be relevant criteria for determining access. Under that alternative explanation, his position was that if maximum access had operated in the past as a target for individual access, there was no reason why it should continue to work in that way.

Any limits placed on the demand for Fund resources should be considered a maximum, Mr. Teijeiro stated. Given the serious world economic situation and the diversity of circumstances affecting different countries, it was important to maintain access to Fund resources. If necessary, the guidelines--which were vague at present--could be improved so as to ensure that the limits really were maxima.

In stating that the sensitivity of commitments to maximum access should be lower, Mr. Teijeiro remarked, he was not implying that the needs of members below maximum access should be nearer column 4 than column 10 of Table 1 (EBS/83/133). The staff estimates implicitly assumed that the level of usable ordinary resources would be only about SDR 32 billion--35 percent of total quotas--by April 30, 1986. The staff considered that in order to meet the estimated commitments under access limits of 150 percent, it would be necessary to ensure that by April 30, 1986, usable ordinary resources amounted to SDR 36 billion or 40 percent of total quotas. That level seemed low by previous standards. If, in fact, the level of usable ordinary resources proved low and total commitment exceeded present estimates, it could only be because the world economic situation had deteriorated further, in which case it would be necessary to revise the policy on quotas and borrowing. In conclusion, he agreed with the thrust of Mr. Kafka's statement, and in particular his final comments to the effect that increased borrowing would be appropriate in order to preserve the level of usable ordinary resources.

Mr. Lovato said, with respect to the phasing down of enlarged access limits, that he opposed the staff proposal. Although there was no doubt that the enlarged access policy was of a temporary nature, it would be unwise to decide at present on a timetable for phasing down access limits. Despite the hope that the world economic situation would improve substantially in the future, a reduction of access limits at the present time would amount to a reversal of cause and effect, by phasing out a policy before the conditions that had prompted its inception had disappeared. Given recent developments in some member countries participating in Fund programs, the Fund should be extremely cautious before giving an indication that its support might be weakened. Rather than taking a decision at present on the timing of the phasing down of the limits on enlarged access, the Executive Board should re-examine the policy as a whole in a year's time.

In determining the level of access there were two, often conflicting, considerations, Mr. Lovato stated; namely, that of ensuring the revolving character of Fund resources, and that of supporting member countries with legitimate balance of payments needs. It seemed appropriate to relate the level of Fund assistance to the expected improvement in the balance of payments position. However, the world economic situation was not predictable and was subject to random shocks; hence, failure to reach a viable balance of payments position within the expected period did not necessarily imply that Fund resources had been used unwisely. Nevertheless, perhaps stricter Fund surveillance should be enforced for those countries that had received Fund resources continuously for a long period.

He supported the flexible approach toward access limits put forward by the staff, Mr. Lovato said, but Mr. Wicks's proposal of a two-tier access limit did merit some attention. However, it might be redundant to formally incorporate a two-tier access limit since that policy could be implemented by the management and the Executive Board. By explicitly formalizing such a decision, the Fund would be giving the wrong signal to the international community. As Mr. Wicks had made clear, it was the administration of those access limits, rather than the hypothetical use of resources, that was the key variable in ensuring a viable financial position for the Fund. He appreciated the staff suggestion to include in future staff papers a discussion of the reasons that had led to the determination of the amount of resources made available to a member country.

With respect to the relationship between the more conditional and the special facilities, Mr. Lovato remarked, he was concerned that the staff paper seemed to imply that the relative importance of the special facilities should be reduced. The compensatory financing facility responded to particular and reversible problems and it therefore warranted a different type of conditionality. Even though all recent requests for use of Fund resources in the upper 50 percent of quota under the compensatory financing facility had been accompanied by Fund-supported adjustment programs, such a practice should not be interpreted as Fund policy. The degree of discretion enjoyed by the staff when dealing with specific programs should not be carried so far as to constitute a change in policy.

Access under the special and more conditional facilities should be determined on individual merit, Mr. Lovato went on. He was prepared to accept a modest reduction--possibly to 85 percent--in access under the compensatory financing facility. While a reduction of that amount would not constitute a substantial improvement in the Fund liquidity position, it would have the advantage of maintaining the balance of access to the special and the more conditional facilities.

A number of Directors had suggested that the compensatory financing facility should be considered as a bridging facility, Mr. Lovato recalled. The timely disbursement of resources under the compensatory financing facility was a positive feature, but that facility--which was designed to cope with very specific problems--should not be used as a bridging facility.

He did not hold very strong views with respect to a comprehensive limit for all Fund credit, Mr. Lovato stated. The staff noted correctly that very few members would be expected to reach the maximum limit on resources available under all facilities. The staff had also illustrated that no country would be constrained by a comprehensive limit of 500-550 percent of quota. On the other hand, the staff had indicated that there might be some problem in phasing disbursements under a multi-year program if a comprehensive limit was introduced. It therefore seemed better to stick with current practices.

The staff analysis in the paper on financial considerations was welcome, Mr. Lovato stated. The projections included in Table 3 were useful, although they would probably need to be revised shortly in view of the reassessment of the Fund's liquidity position that was currently being undertaken. Nevertheless, the borrowing needs of the Fund would definitely be great in the period ahead. His authorities would appreciate a more detailed discussion of the possibility of enlarging the GAB, which was only mentioned as a footnote in the relevant tables. As Mr. de Groote had said, it would be unfortunate and counterproductive if, after a quota increase, overall access was reduced in absolute terms for many members; an annual limit of 125 percent of quota should, therefore, be considered an appropriate level of access. Finally, his authorities supported the staff appraisal with respect to the technical aspects discussed in EBS/83/133.

Mr. Sangare remarked that the staff analysis in the two papers was based on the assumption that there was a fixed supply of Fund resources and that the Fund would be facing a weak liquidity position in the immediate future. On that basis, the staff had suggested a revision of access limits. Before commenting on the specific issues addressed in the papers, he would make some general observations.

First, the assumption that the Fund would be facing a weak liquidity position was highly questionable in view of the Eighth General Review of Quotas, the role of the Fund in the international financial system, and previous experience with regard to the Fund's ability to raise funds from its own and borrowed resources, Mr. Sangare commented. Moreover, the staff had indicated that the Fund's liquidity position might improve considerably after 1986, which implied that the assumed weak liquidity position might be, in fact, only a temporary constraint.

Second, the staff did not give much weight to the question of the needs of member countries, Mr. Sangare observed. In view of the external imbalances prevailing in many member countries, a more appropriate approach would have been to assess the genuine needs of members and then to address the question of how those needs could be met. Common sense as well as the historical evolution of the institution indicated that the Fund's liquidity position should be adjusted according to the needs of the world economy, not vice versa. By overlooking the question of need, the staff had presented only a partial view of the problem.

Finally, the staff projections of demand for Fund resources suggested that there was a need to bring about a substantial increase in the Fund's quotas if they were to remain the principal source of financing, Mr. Sangare continued. If quota increases were inadequate, the Fund would have to borrow from either official sources or from private financial markets.

On more specific issues, the thrust of the two papers was to restrain members' access to Fund resources through a reduction of access limits and an increase in the relative importance of the more conditional facilities, Mr. Sangare observed.

The staff had suggested that a comprehensive limit on access to Fund resources should be introduced and that the present access limits should be reduced after the new quotas came into effect, Mr. Sangare went on. Given the present world economic situation, there was an even greater need for the Fund to provide balance of payments financing than had been envisaged at the time that the current guidelines had been determined. Furthermore, the difficult external position of many Fund members--particularly the low-income countries--had been aggravated by the recent tendency of commercial banks to reduce their exposure in those countries, thereby reducing the inflow of financial resources. At a time when many members were undertaking strict adjustment programs, which the Fund itself was encouraging, was it not inappropriate for the Fund to reduce access to its resources?

While he agreed that it was prudent to ensure that the Fund maintained an adequate liquidity position, Mr. Sangare said, it seemed unacceptable to consider that liquidity could only be achieved by restraining access to resources. A more acceptable approach to the Fund's liquidity problem would be to expand the resources available to the Fund. The introduction of a comprehensive limit was unnecessary as the current overall access limit had rarely been reached. Furthermore, the introduction of a comprehensive limit that was less than the sum of access under the individual facilities would primarily reduce potential access to the special facilities; those countries making drawings under the special facilities were members that required Fund resources most urgently. The staff had also noted that any reduction of access would limit the Fund's ability to respond to members' needs. Was a reduction in access consistent with the objective of the recent increase in quotas under the Eighth Quota Review? If a comprehensive limit was introduced it should not be less than the present cumulative limit.

The staff had observed that Category I countries--members in very constrained external positions--needing Fund resources the most, would be most affected by changes in access limits, Mr. Sangare remarked. On the contrary, one would expect that an increase in quotas would result in an increase in real access for all Fund members.

The level of uncommitted ordinary resources was important for the confidence both of members with a reserve tranche position and of lenders to the Fund, Mr. Sangare considered. The volume of usable ordinary resources projected for April 1986 was small and demonstrated the need to advance the Ninth General Review of Quotas.

He was particularly concerned about the restrictive tendency expressed in the staff papers regarding the use of special facilities, Mr. Sangare commented. The coexistence of export shortfall problems with more general balance of payments problems was not a new phenomenon and had been well known at the time that the compensatory and buffer stock financing facilities were established. Those facilities had been introduced in recognition of the special problems faced by countries exporting primary products. His authorities considered any reduction in access to those special facilities, or increased conditionality in their use--whether by decreasing their relative importance or by reintroducing annual ceilings on disbursement--unacceptable. Access to the compensatory financing facility was already conditional in the upper 50 percent of quota; the question of preserving the relative importance of conditional assistance was therefore not meaningful. The statement by the staff at EBM/83/110 had implied that even if a country was experiencing temporary export shortfalls caused by factors beyond its control, it should nevertheless be subject to conditionality before it could use Fund resources under the compensatory financing facility since there would always be factors other than export shortfalls causing balance of payments problems. He could not agree to that interpretation; a country should have access to the compensatory financing facility without being subject to further conditionality if it had experienced a temporary export shortfall due to factors beyond the control of the authorities.

It appeared contradictory to discuss the phasing down of the enlarged access limits at a time when the need for financing was even greater than when the policy had been introduced, Mr. Sangare remarked. In determining the mix between ordinary and borrowed resources, the Fund should consider the needs of low-income countries. He had no problem with simplifying the administration of the enlarged access policy through the elimination of the "catching up" and "reverse catching up" provisions. Regarding the floating character of the first credit tranche in connection with extended arrangements, the present policy should be maintained.

Mr. Laske stated that, although he would not address the more technical issues, he was grateful to the staff for having drawn Directors' attention to those matters, which would require consideration before the formal decision on the enlarged access policy could be taken. He agreed with the objective of simplifying the provisions with regard to the mixing of ordinary and borrowed resources. Could the staff clarify its calculations presented on page 20 of EBS/83/133? The shift of ordinary and borrowed resources that would result from retroactive application of a 1:1 uniform mixing ratio appeared to be very large and would have a considerable impact on the magnitude of ordinary resources.

The enlarged access policy had been introduced on a temporary basis at a time when members' needs for Fund assistance were large in relation to their quotas, Mr. Laske recalled. His authorities had agreed to the enlarged access limit on that basis, and with the understanding that the policy would remain in effect until the quota increases under the Eighth General Review became effective. With that provision in mind, he was prepared to consider renewal of the decision if it contained a clearly defined expiration date. He could not support an open-ended extension of the enlarged access policy since he believed that the special circumstances that justified its prolongation would cease to exist in the future. Furthermore, the financial assistance provided by the Fund must, in principle, be based on the agreed quotas. Operations that could only be financed by more or less permanent recourse to borrowing would have to be phased out eventually.

The establishment of a comprehensive access limit might not be such an unattractive proposition as many previous speakers seemed to believe, Mr. Laske considered. Such a limit would have to be lower than the sum of the sublimits if it was to serve as an effective constraint on the overall use of Fund resources. At present, he was not fully convinced that the comprehensive access limit would be appropriate for that purpose, particularly since there appeared to be some technical difficulties in interpreting and managing such a limit.

The proportion of resources available under the conditional and special facilities deserved careful consideration, Mr. Laske stated. At EBM/83/105 (7/18/83) he had remarked that the use of special facilities in relation to total use of resources had assumed abnormal proportions in recent years. The quota limits for the compensatory financing facility, the cereal decision, and the buffer stock financing facility would have to be reduced when the new quotas became effective. On a related point, he supported the staff suggestion that annual ceilings for disbursements under the compensatory financing facility should be reintroduced.

A succession of Fund-supported adjustment programs might be necessary in a few cases where the balance of payments problems proved to be more severe than had been envisaged at the beginning of the first program, Mr. Laske said. Such a succession should not, however, lead to a situation where Fund resources were used permanently, going well beyond the maximum repurchase period provided for under the present provisions. He was surprised to see from the staff paper the magnitude of the extended use of Fund resources. Could the staff provide the Executive Board with a paper on the particular circumstances in which a member had used Fund resources over an extended period of time?

A date should be fixed for the Executive Board's consideration of the enlarged access policy, Mr. Laske noted, at which time the Executive Board should decide, in the light of prevailing circumstances, the timing and pace of the phasing out of that policy.

The borrowing needs of the Fund for the period January 1984-April 1986--as presented in Table 2 of EBS/83/133--demonstrated that access limits applied to the new quota increases would have to be significantly lower than present access limits, Mr. Laske observed. Given the financial constraints facing the Fund, access in excess of 102/305/407 percent of quota would not be viable. The staff's projections of borrowing needs assumed that the commitment gap existing at present and the commitments likely to be entered into during the remainder of 1983 would be covered by new lines of credit. However, those lines of credit had not yet been secured, and there was also some risk that the borrowing needs under an access limit of 102 percent might be even higher than was shown in Table 2. It was therefore advisable to establish future access limits with great caution.

He supported new access limits that would result in a number of member countries being confronted with a reduction of nominal access after the new quota increases became effective, Mr. Laske observed. Such a reduction would not create serious problems for most of those countries, but perhaps the suggestion put forward by Mr. Wicks of a two-tier access limit would allow somewhat higher access limits in individual cases.

Of the three suggestions put forward by Mr. Wicks to bridge the two viewpoints on future access limits, he would support the third, Mr. Laske remarked, since he was not sure of the legal basis of the second suggestion, which might be against the principle of equal treatment of members. The staff projections of estimated commitment and net increase in use of Fund resources under alternative access limits, although useful, were very complex and he needed more time to study the figures in detail. However, from a brief examination of Table 6 on page 15 of the paper on financial considerations, he would favor Method B over Method A for the reasons mentioned by the staff. Finally, he could not support any suggestion that the Fund should increase its use of borrowed resources in order to supplement ordinary resources.

Mr. Joyce said that there were four considerations with respect to the question of limits on access. First, access limits had to be set in relation to expected demand for Fund resources. However, to be realistic, those limits would have to be consistent with the resources that could be made available through quota subscriptions, the GAB, and Fund borrowing. Second, neither overall nor individual limits should be set in a way that would undermine the degree of conditionality of Fund lending. Third, the special facilities should remain special; drawings under those facilities should not be considered if the shortfall was not expected to be reversible and if it was largely or wholly due to the pursuit of inappropriate policies. Fourth, in general, financing under the more conditional facilities should only be considered appropriate in circumstances where it was expected that a sustainable balance of payments position, or, at the very least, a substantial improvement in a member's balance of payments position, could be achieved in the medium term. If that was not the case, longer-term assistance would be more appropriate and should be provided by national or international agencies more suited to that purpose.

He was therefore concerned with the view expressed by the staff that in certain circumstances Fund financing might need to be provided even if the balance of payments position was so weak that no substantial improvement could be expected over the medium term, Mr. Joyce explained. However, he recognized that the Fund should be ready to assist all its members, and he could support the view that in some cases Fund financing on a small scale could be justified if the member was taking appropriate steps to deal with the situation and if a continuous or gradual improvement in its balance of payments position was expected. Nevertheless, in those cases--usually low-income countries--the bulk of the balance of payments financing should come primarily from other sources.

With respect to the overall cumulative limits on access to the Fund's conditional facilities, his authorities would not be willing to accept a limit that was less than 500 percent of quota, Mr. Joyce remarked. Such a figure seemed to be the minimum appropriate level given the current world economic situation and the need to send appropriate signals to commercial banks regarding the role that the Fund intended to play over the coming few years. In fact, his authorities did not favor a comprehensive limit on all facilities, although it might be wise to have a combined access limit for the special facilities, which might initially be set at 100 percent. His authorities suggested that an annual limit should be set at 125 percent of new quotas, which would ensure that access was not reduced in absolute terms for the vast majority of members. It was not politically or economically acceptable to expect member countries to contribute more--in terms of quota increases--in order to receive less.

He had listened with interest to Mr. Wicks's suggestions, Mr. Joyce said, which would, in general, reduce access for members precisely at a time when those members' needs were likely to be at their greatest. He did not find Mr. Wicks's proposals particularly attractive, although he looked forward to studying them in more detail. A grandfather clause was not necessarily the most appropriate way to ensure that there was no loss of absolute access, and the legal basis of such a proposal was questionable.

As to financial considerations, Mr. Joyce said, he shared the staff view that it would be prudent for the Fund to aim for a level of uncommitted ordinary resources of SDR 8-10 billion by April 1986. With an access limit of 125 percent of quota, the Fund would require an additional SDR 19-20 billion over the coming two years, of which SDR 6 billion was needed to close the commitment gap until the quota increase under the

Eighth Quota Review came into effect, and SDR 13 billion for the period through April 1986--assuming mixing proportions of 1:1 for ordinary and borrowed resources. The Fund would have to increase the level of borrowed resources to meet the expected heavy demands through 1986, after which inflows of resources would start to boost the Fund's liquidity position. However, it remained to be seen whether the world economic situation would evolve in such a way that financing of that magnitude was, in fact, required and whether the Fund could increase the level of borrowed resources.

It was premature to reach a decision with respect to the phasing down of the enlarged access policy, Mr. Joyce remarked. As it was difficult to know with any certainty what the economic situation would be in 1986, it was inappropriate to decide on a termination date for the policy. At the same time, both lenders and borrowers needed a clear indication from the Fund that its lending would be maintained within reasonable limits and that the enlarged access policy would remain a transitional policy. The Fund should declare to the international financial community that it was contemplating the phasing out of the enlarged access policy over a two-year period, starting in 1985 at the earliest. He would be prepared to support such a phasing out provided that the starting point was an access level of 125 percent of quota, that the degree of phasing out would be open to review each year during the phaseout period, and that it was understood that the rate of phasing could be decelerated or accelerated at the time of the reviews in the light of prevailing circumstances.

It was not necessary to reach a decision at the present time on the way in which the phasing out would be effected, Mr. Joyce considered, but of the two basic methods suggested by the staff, he would prefer Method B. The effect of Method A would be to provide members with an incentive to request programs earlier and for longer terms than might otherwise be the case. In contrast, Method B would reduce annual limits irrespective of the year in which the program was agreed. It was difficult to be more specific since the staff had not considered in any depth the impact on individual members of the various methods of setting cumulative access limits. Finally, like Mr. Wicks and Mr. Polak, he would withhold his comments on the related matters raised by the staff until a later date.

Mr. Tvedt stated that the enlarged access policy should be maintained in the period following the new quota increases under the Eighth General Review. In spite of the various positive economic signs that had emerged in recent months, large balance of payments problems remained and there was great uncertainty regarding the strength and the durability of the world economic recovery. Eventually the enlarged access policy would have to be terminated, but given the prevailing circumstances it was not possible to set a date for its elimination. For the same reason, his authorities could not support a predetermined phasing down of access limits, but they would support a periodic review of those limits in light of changes in the world economy and the liquidity position of the Fund.

In view of the Fund's tight liquidity position in the period ahead, access limits would need to be lowered to about 110-330 percent of quota, Mr. Tvedt remarked. Limits below that level would make it difficult for the Fund to play an active role in the financing of balance of payments deficits and would entail a reduction in the absolute access of a substantial number of countries. On the other hand, higher access limits would necessitate larger borrowing than the Fund might be able to undertake. A three-year access limit that was lower than three times the annual limit should be considered.

His authorities favored a lowering of access limits under the special facilities in proportion to the reduction agreed upon for the enlarged access policy, Mr. Tvedt continued. There should be no change in the relative importance of the ordinary and special facilities. Access to the compensatory financing facility should continue to be divided into drawings below 50 percent and drawings above 50 percent of quota. On a related point, the definition of cooperation with the Fund appeared to be rather unclear and the staff might have paid greater attention to that question in the papers. Drawings below 50 percent of quota under the compensatory financing facility should be more or less automatic, provided that the member country was following policies that would enable it to make repurchases in the postshortfall period. Access to the upper 50 percent of quota should be somewhat tighter, although the existence of a Fund adjustment program should not be an absolute precondition. Requests by member countries should be considered in a flexible manner and on a case-by-case basis, and in that respect the staff might be helped by the broad classification of countries suggested by the Economic Counsellor at EBM/83/105.

His authorities were not convinced of the feasibility of establishing a comprehensive access limit that was lower than the sum of the individual access limits, Mr. Tvedt indicated. If a comprehensive access limit was agreed upon, a sharp reduction in individual limits would be less pressing. A comprehensive limit of 500-550 percent of quota, as suggested by the staff, seemed appropriate, but it ought to be assessed in the light of expected future developments. The risk of speculation or of switching between various facilities needed to be carefully studied.

He supported the guidelines suggested by the staff for determining the level of access in individual cases, Mr. Tvedt remarked. In applying those guidelines, the balance of payments needs and the authorities' adjustment efforts should be assessed in such a way as to avoid the member becoming a chronic user. His authorities also welcomed the staff's suggestions relating to more explicit criteria governing the amount of drawings, as well as those relating to the assessment of the prospective balance of payments situation at the time when repurchases fell due.

He supported the proposed technical simplifications regarding the elimination of the catching up requirement, the introduction of the uniform mixing ratio, and the elimination of the use of borrowed funds for drawings in the first credit tranche, Mr. Tvedt commented.

The Fund's liquidity position was very tight, both in the short term and in the medium term, Mr. Tvedt considered. He hoped that there would be an early conclusion of the negotiations under way with official creditors. However, borrowing provided only a temporary solution to the Fund's liquidity problem and, consequently, work on the Ninth General Review of Quotas should be started early. His chair had continuously emphasized that the Fund should, as much as possible, base its lending policy on ordinary resources; but, given the lack of ordinary resources, it might be necessary to borrow limited supplementary resources on private capital markets to strengthen the Fund's potential resource base in expectation of further quota increases.

Mr. Hirao commented that the issues discussed in the staff papers had an important bearing, not only on the enlarged access policy, but also on the role of the Fund in the current difficult and uncertain world economic circumstances. The enlarged access policy had been a temporary measure introduced in 1981 to cope with growing difficulties, when a number of countries were experiencing external imbalances that were large in relation to their quotas. That policy was expected to remain effective until the quota increases under the Eighth General Review became effective. Over the previous two years, significant progress had been made. First, the external payments imbalances had gradually improved, reflecting adjustment efforts by many member countries. Where external balances still remained large, further improvement was anticipated and according to the World Economic Outlook papers, current account deficits for non-oil developing countries were expected to decline further in 1983 and 1984. Second, the Eighth General Review of Quotas had been accelerated and members' quotas, which would become effective toward the end of 1983, would increase by 47.5 percent on average. During the course of the Eighth Review, it had been stressed that the Fund should continue to rely on quota subscriptions as the main source of its finances. Based on that principle, efforts should continue to be made to reduce the Fund's reliance on borrowed resources. According to the staff paper on financial considerations, there were two ways to reduce the borrowing needs in the period from January 1984 to April 1986: access limits could be controlled or the proportion of ordinary resources used in purchases could be raised, which would involve a rapid depletion of ordinary resources.

Given the average increase in members' quotas, the annual quota limit could, in principle, be reduced to 102 percent of quota, with a three-year limit of 305 percent, and a cumulative limit of 407 percent, Mr. Hirao observed. For those members whose absolute access limits would be reduced, the absolute level of access could be maintained on a temporary basis if a grandfather clause was introduced. Could the staff explain whether such a clause was consistent with the principle of the uniform treatment of members?

Further consideration of the phasing down of access limits under the enlarged access policy will be necessary, Mr. Hirao went on. He fully shared Mr. Wicks's view that it would be advisable to review that policy at a future date, rather than fixing a timetable at present.

The staff had indicated that the annual rates of access under most stand-by and extended arrangements had been less than the maximum limit in 1982 and 1983, with 40 percent of the arrangements having an annual rate of access between 50 and 75 percent of the maximum allowed, Mr. Hirao noted. Actual access had been determined appropriately by consideration of the relevant factors on a case-by-case basis: maximum access limits had in no way been regarded as targets. That practice would suggest that the maintenance of absolute access would not unduly constrain potential borrowers under normal circumstances. Nevertheless, it was possible that a country facing exceptional circumstances would need to exceed such limits; in which case the Fund might allow the access limits to be exceeded in order to support an unusually strong adjustment effort that clearly laid the basis for early restoration of a sustainable balance of payments position. It would be sensible for the Fund to make provisions to deal with such exceptional cases should the need arise. The additional resources necessary to extend such assistance could be secured through activation of the enlarged GAB.

With respect to the comprehensive limit on access to the conditional and special facilities, as the staff had pointed out in the Annex to EBS/83/132, there were some technical issues that would need to be considered, Mr. Hirao commented. Access to the special facilities should be reduced in proportion to the reduction in access under the more conditional facilities. Finally, he agreed that the present procedure for mixing ordinary and borrowed resources was too complex and he was prepared to consider some simplification. In addition, he could support the elimination of the floating character of the first credit tranche in connection with the extended arrangement.

Mr. Tshishimbi said that the staff had made no attempt to discuss how the supply of resources available to the Fund could be increased in the years ahead in order to meet the financing needs of member countries. The staff had assumed that Executive Directors considered that the availability of resources to the Fund should be the major constraint determining the use of resources. Obviously, the Fund's liquidity position was of great importance to all Executive Directors, and it should be taken into consideration when projecting demand on Fund resources, but for the staff to conclude that access to Fund resources should be reduced and that access limits should be used as a rationing device on credit was not justified. Turning the staff argument around and using exactly the same logic, would the staff advocate higher access limits with no regard to financing needs if the Fund's liquidity position increased substantially?

At the time of the Executive Board's discussion of the Eighth General Review of Quotas, most Executive Directors had stated that the

Fund should normally finance members' needs through holdings of ordinary resources rather than through borrowed resources, Mr. Tshishimbi recalled. That principle had been restated by the Interim Committee at its meetings during the previous year. In order to ensure a sufficient level of Fund resources, many Directors had supported a substantial increase in quotas, but the outcome of that debate had fallen short of expectations. It had become clear that in order to meet the financing needs of its members the Fund would have to undertake large-scale borrowing. Borrowed resources would inevitably raise the average cost of Fund resources, which was an unhappy outcome for many developing countries, particularly those in his constituency. Nevertheless, if recourse to borrowing by the Fund was the only option, some plan would have to be found for easing the burden of increased charges on the least developed countries.

More ways of solving the Fund's liquidity problem should be explored, Mr. Tshishimbi considered. The Fund should consider accelerating the Ninth Review of Quotas in the hope that such a review would result in larger increases in the Fund's resource base. In addition, the Executive Board should give prompt and serious consideration to the allocation of SDRs in the fourth basic period.

Given the Fund's crucial role in preventing the collapse of three major debtor countries by persuading the commercial banks to share in refinancing, the Fund should not now send a wrong signal to the banking community by reducing access to Fund resources, Mr. Tshishimbi went on. Such a signal would be construed by the international financial community as a desire by the Fund to turn away both from its responsibility of financing the balance of payments requirements of member countries and from its surveillance role, which would clearly be damaging to the credibility of the institution.

He supported the maintenance of access limits at 150 percent of quota a year and 450 percent of quota for a three-year period, Mr. Tshishimbi indicated. Recent experience demonstrated that those limits had not often been reached, nor had they been considered a norm. However, they provided a margin of flexibility for the Fund to meet the unusually large financing requirements of particular countries.

The staff had suggested that a comprehensive limit on overall access under all Fund facilities should be less than the sum of the individual limits, Mr. Tshishimbi noted. The current limit of 775 percent of quota would be reduced to about 500 percent of quota. The staff report claimed that such a comprehensive limit would not be more restrictive than current separate limits since member countries would be able to use resources more intensively by trading unused margins from one facility to another. His chair was opposed to such a comprehensive access limit and supported the maintenance of the current overall limit. Any reduction of overall access from the present level would favor only those countries that had benefited from larger increases in quotas, which were not the countries most likely to use Fund resources in the near future. A reduction in overall access limits would clearly be detrimental to countries that were producers of primary products. Could the staff explain the reason for the changes it was proposing?

He was opposed to any reduction in individual limits under the special facilities, Mr. Tshishimbi remarked. Those facilities were very important to his constituency, particularly in view of the speed with which resources could be made available. The main purpose of the special facilities was to help member countries experiencing temporary balance of payments difficulties of a reversible nature. Repurchasing posed no problems and the revolving character of the Fund's resources was preserved. The staff's argument that it was difficult to distinguish between balance of payments difficulties that were self-reversing and those that required adjustment was surprising. The staff tended to consider that all balance of payments difficulties required adjustment, which perhaps explained why the test of cooperation was becoming increasingly difficult to meet for any country not entering a Fund program; but he was confident that the staff would always be able to recognize when difficulties were reversible. On a related point, he was opposed to the introduction of phasing into the disbursement of resources under the special facilities, since to do so would only serve to offset the expeditious character of those facilities and therefore introduce additional conditionality.

He saw no need to decide on a timetable for a phasing down of access limits under the enlarged access policy at the present time, Mr. Tshishimbi said. Finally, his chair did not have a position on the many technical issues presented by the staff because the merits of the proposals were rather unclear. He agreed that a simplification of the procedures for mixing ordinary and borrowed resources was desirable. In addition, he agreed with the proposal to eliminate the "catching up" and "reverse catching up" requirement.

Mr. Finaish stated that the case for the comprehensive limit on total access--which was less than the sum of access under the individual facilities--seemed to rest mainly on two arguments. First, that such a limit would restrain members' access to the Fund more effectively and would bring the demand for Fund resources into line with financing possibilities. Second, that it would clearly indicate the maximum amount of assistance that the Fund was prepared to provide to each member. Those arguments were not convincing; the demand for Fund resources could be brought into line with financing possibilities by adjusting the existing limits on separate Fund facilities, which would provide a clear indication of the maximum level of financing that a member could receive from the Fund. A comprehensive limit did not seem to be necessary. If, however, it was considered as an alternative to reducing access limits on individual facilities, such an overall limit might merit further consideration. In any case, one could argue that separate limits on conditional and special facilities better reflected the different nature of the two types of facilities than would a comprehensive limit. From that standpoint, it might seem rather artificial to impose a comprehensive limit on the two facilities that was lower than the sum of the individual limits. Inherent in a comprehensive limit would be the notion that resources could be substituted between the two types of facilities, which by their very design were not substitutable.

On the issue of conditionality under the compensatory financing facility, Mr. Finaish noted first, that the staff statement at EBM/83/110 had been helpful in clarifying the distinction between types of conditionality attached to drawings in the lower and upper 50 percent of quota under the compensatory financing facility--a distinction that appeared to have been blurred in the paper on general considerations. The compensatory financing facility decisions were clear on the issue of conditionality, and the Executive Board should not lose sight of that distinction.

Second, it had been a coincidence that all drawings in the upper 50 percent of quota under the compensatory financing facility since 1981 had been made by members who had at the same time upper credit tranche arrangements with the Fund, as a result of the special economic circumstances of the period, Mr. Finaish observed. The existence of a Fund arrangement was certainly not a necessary condition for requesting compensatory financing, nor should it be considered as such.

Third, the relatively low conditionality attached to drawings under the compensatory financing facility was directly linked to the specific nature of the payments difficulties that the facility was supposed to address, Mr. Finaish noted. Requests for drawings under the facility were tested against established criteria, which were intended to determine whether the nature of the payments difficulty merited compensatory financing.

On a related point, a number of Directors had suggested that the balance between the special and the conditional facilities should be changed in favor of the conditional facilities in order to maintain a closer link between the use of Fund resources and the implementation of adjustment programs, Mr. Finaish recalled. Such a change did not appear to be warranted. In discussing the balance between facilities, it was important to distinguish between the compensatory financing facility, which was a permanent facility, and the enlarged access policy, which had been established to meet special needs. If the policy of enlarged access was to be phased down over a period of time, a reduction in access limits under that policy would be involved; however, such a reduction could not be used to justify an equivalent reduction in access to the compensatory financing facility, much less a larger one, since the policy of enlarged access had not been matched in the past by a simultaneous enlargement of access to that facility. If anything, one should expect the balance to shift gradually in favor of the compensatory financing facility in the process of a possible future phasedown of the policy on enlarged access. In view of the particular nature of payments difficulties addressed by the compensatory financing facility, it was not appropriate to phase down drawings under that facility. Furthermore, he could not agree with the proposal that part of the drawings under the compensatory financing facility should be financed by borrowed resources, given the permanent nature of the facility and the policy of using borrowed resources only as a temporary source of finance.

The staff paper was useful on the question of the scale of access, Mr. Finaish went on. The staff's indication that in the future, when presenting requests for the use of Fund resources, it would be more explicit as to the way in which those amounts were determined was welcome. With respect to a revision of access limits beyond 1984, it would be preferable to wait at least one year after the new quotas became effective to determine whether a change in access limits was justified.

A major difficulty in addressing the question of access to Fund resources in the coming period was the great uncertainty regarding the level of borrowing, Mr. Finaish commented. The staff paper on financial considerations provided a useful analysis of the liquidity implications under various access limits. The staff projections indicated that the liquidity problem facing the Fund was a temporary one, concentrated in the following three years. Therefore, any additional borrowing by the Fund over that period could also be considered temporary in nature.

In assessing access and borrowing in the coming period, the staff paper had emphasized the level of uncommitted resources that would be needed in April 1986, Mr. Finaish noted. It was not unlikely, however, that the need for such resources in that year would itself depend inversely on the degree to which the Fund was able to assist members in their adjustment efforts during the intervening period. In judging whether a certain liquidity ratio was adequate, one could not completely ignore the economic conditions existing during the period in question. Of course, a lower than normal ratio would be expected during a period of unusual demand for Fund resources. Indeed, the staff paper indicated that the liquidity ratio might improve substantially in the three years following April 1986 when world economic conditions were expected to improve. On the basis of those considerations, as well as others that he had discussed in the Executive Board on May 18, 1983 (EBM/83/71) and July 18, 1983 (EBM/83/104), he reiterated the position of his chair: there should be no reduction in the existing access limits at the present time. If, however, a reduction in those limits was considered necessary, at least the present absolute access should be maintained for all members. He also noted that staff calculations demonstrated that access limits that would prevent a reduction in absolute access for all members while maintaining the present mix of ordinary and borrowed resources, would generate a liquidity ratio close to 10 percent in April 1986, which was the minimum figure suggested by the staff.

Finally, he shared the concern expressed by the Saudi Arabian authorities and Mr. Nimatallah about some of the remarks made at the Executive Board meeting on July 18, 1983, which appeared to cast doubts on the consensus reached in the Board previously that requests for compensatory financing from oil producing countries, like those from other members of the Fund, would be treated on a case-by-case basis. Some Directors had seemed to suggest that requests for financing by oil producing countries should be subject to extra scrutiny. The Saudi Arabian authorities' concern at that suggestion was understandable given Saudi Arabia's position as the largest oil exporter, and its special relationship with the Fund. However, Mr. Laske and Mr. Erb had subsequently clarified their remarks, and he had been reassured by the Chairman's statement that requests from oil exporting countries would be treated in an evenhanded and nondiscriminatory way, in keeping with the principles of the Fund, and that the matter should be considered settled.

Mr. Prowse stated that the views of the various authorities in his constituency were not mutually consistent. The Executive Board had not yet agreed on where the analysis on access to the Fund's resources should begin; some Directors wished to begin with a review of the need for Fund resources, while others wished to start with a review of the availability of Fund resources. The Executive Board had, however, already reviewed the role of the Fund and member countries' need for resources, and had taken decisions with respect to the Eighth Quota Review and borrowing policy. There were, of course, some variables that would require further discussion, including the access ratio.

Fund policy indicated that borrowing should be a temporary and relatively minor part of the Fund's pool of resources, Mr. Prowse noted. However, it was evident from the figures on page 7 of EBS/83/133 that whichever annual access limit was adopted--in the range of 102-125 percent of quota--outstanding borrowing by the Fund in April 1986 would be SDR 32-37 billion, an extremely large amount, equivalent to about 35-40 percent of the total of new quotas. Was that level of borrowing consistent with existing Fund policy? Had the policy on borrowing been allowed to evolve, and should the Executive Board simply recognize the fact that policy on borrowing was changing and that a new position would need to be formalized?

On a more specific point, he wondered whether the 1983 commitment gap of SDR 7-8 billion was included in the staff's projection of borrowing needs, Mr. Prowse inquired. In Table 3 of EBS/83/133, the Fund's borrowing needs--which would reach SDR 19 billion under an access limit of 150 percent of quota--had not included the SDR 7-8 billion required to bridge the 1983 commitment gap.

The Deputy Treasurer responded that Mr. Prowse was correct; the staff had assumed that the present commitment gap--estimated to be about SDR 6 billion rather than SDR 7-8 billion--would, in fact, be filled before the new quotas came into effect.

Mr. Prowse stated that it could not be assumed that the 1983 borrowing needs would be met, and at present the amount of Fund borrowing necessary to bridge the commitment gap, depending on the mixing proportions and the access limits, could be as much as SDR 27 billion. Given that large amount, recourse to borrowing from the private capital markets would be inevitable. The Executive Board should therefore recognize that the policy on borrowing was changing significantly.

The Chairman noted that the commitment gap of SDR 6 billion for 1983 had developed as a result of a previous policy of enlarging access in 1981-83. It was most relevant to focus on the future commitment gap of SDR 19 billion that would develop as a result of future use of Fund resources.

Mr. Prowse agreed with the Chairman, but considered that the ability to raise the SDR 6 billion would affect the Fund's ability to raise the following SDR 19 billion.

He could understand the view of those Directors who indicated that the staff should first consider the demand by members for financial assistance, Mr. Prowse said. However, since even after the Eighth Quota Review the Fund would have to borrow substantial amounts, it should now "cut its coat according to its cloth."

The staff had based its projections on the resource base available from quota subscriptions and borrowed resources, Mr. Prowse observed; it had also considered that it was necessary to maintain a balance of ordinary resources of SDR 8-10 billion through the end of 1986. While his chair agreed with the logic of those considerations, there was a considerable degree of uncertainty with respect to estimations of demand for Fund resources, and it was therefore difficult to determine appropriate access limits. However, where a range of choices existed, the staff had suggested the prudent end of the range. Of the countries within his constituency, the Australian authorities favored annual and triennial access limits of 102 percent and 306 percent of quota, respectively; the New Zealand authorities favored access limits of 125 percent and 375 percent of quota; and other members of his constituency--notably, Korea and the Philippines--supported the maintenance of existing access limits. The authorities in his constituency would probably not be completely inflexible; they would certainly wish to assist in reaching an agreement, even if it involved compromising their views.

The Australian authorities would like the lower access limits to be adopted immediately after the Eighth Quota Review became effective, Mr. Prowse indicated. However, the other authorities in his constituency--including even the Australian authorities--would agree to phasing if that was the general view of Executive Directors. Furthermore, it would be acceptable to all of his constituency to adopt Method B of phasing down.

As to the balance between the special and the more conditional facilities, his authorities, with the exception of the Australian Government, favored the maintenance of the relative role of the special facilities, Mr. Prowse said. The Australian authorities supported the strengthening of the relative importance of the conditional facilities; at a minimum, they would like to see a proportional reduction in the special facilities, and the reintroduction of an annual limit of drawings under the compensatory financing facility. With respect to access limits under the compensatory financing facility, the Australian authorities favored an overall limit--including the cereal decision--of 85 percent; the New Zealand authorities believed that a limit of 75 percent--excluding the cereal decision--would be appropriate; and other authorities in his constituency supported the maintenance of existing limits.

None of his authorities would support a comprehensive limit on access to all facilities, Mr. Prowse continued. Some of them based their argument on the fact that such a limit would discriminate against potential users of the special facilities, while others believed that it would be better to control access through limits on individual facilities.

The section in the staff paper (EBS/83/132) on the scale of access in individual cases was comprehensive and instructive, Mr. Prowse considered. However, he had two questions on aspects of the staff analysis. First, the staff had stated that if the arrangement period exceeded one year, the bulk of the adjustment should take place at the beginning. It was not clear to him why that should be the case. Second, the staff had stated on page 8 that "since each one-year program is only part of a longer-term adjustment effort, and since the Fund expects to make a commitment to the country over a number of years, use of resources in each year should be well below the limit, at perhaps 50-70 percent of the maximum." The statement did not seem self-evident. The amount of resources outstanding in the name of a particular member was the important factor, since it was important for Fund resources to be repaid and for the revolving character of those resources to be maintained.

Mr. Wang stated that he had the impression that the staff was more inclined than before to suggest a lower access limit, although only illustrative figures were indicated in the paper. When deciding on new access limits, due consideration had to be given to the availability of Fund resources, which were likely to be under considerable strain in the years ahead. However, a reduction in access limits alone was not the correct answer. The difficulties must be faced in a more fundamental way. He therefore asked the staff to give more consideration to the needs of member countries and to explore various ways of increasing Fund resources; for example, by advancing the Ninth General Review of Quotas, promoting consensus on a new allocation of SDRs, and broadening borrowing.

Access limits under the compensatory financing facility should be maintained, Mr. Wang considered. A comprehensive limit on access that was less than the sum of the individual limits would restrict the use of the special facilities--especially the compensatory financing facility--by those countries with small quota increases or those countries producing primary products. Furthermore, the introduction of a comprehensive limit would make the already very complicated procedure even more confused. For the same reason he did not support the phasing down of the enlarged access limits. Finally, he supported the elimination of the "catching up" and "reverse catching up" provisions and the adoption of the same ratio for borrowed and ordinary resources under both stand-by and extended arrangements.

Mr. de Maulde considered that the Executive Board was at the beginning rather than at the conclusion of a difficult negotiation. He welcomed Mr. Wicks's suggestion with regard to bridging solutions. Directors' views still seemed to differ considerably. Several Directors had noted that the fundamental question was to determine how the Fund would continue to fulfill its role, as set out in Article I of the Articles of Agreement, after the Eighth Review of Quotas became effective. The overall thrust of the staff paper had been to safeguard the liquidity position of the Fund by constraining its lending activities, an approach that he believed would create great difficulties for both member countries and the Fund. It would no longer be possible for the IMF and commercial banks jointly to finance balance of payments deficits in countries with particular debt problems. Moreover, through its cumulative deflationary effects, the excessively rapid adjustment imposed on borrowers under the new access limits would aggravate economic difficulties in all other countries.

There was clearly a need at the present time for quick disbursement of Fund resources, Mr. de Maulde considered. If access limits were reduced, the revolving character of the Fund's resources would be endangered as the economic situation of borrowing countries would deteriorate. It seemed strange that the Fund should try artificially to lower its financing requirement at the very time that it needed to approach lenders. It was therefore desirable to maintain the present enlarged access policy, with an annual limit of 150 percent of quota.

On more specific points, Mr. de Maulde said, his authorities would be willing to accept an annual limit of 125 percent of quota under the enlarged access policy. They believed that the relative importance of the special facilities should be maintained. Although they did not agree on the establishment of a comprehensive limit for all facilities, they would be ready to accept the principle of periodic reviews, as Mr. Wicks had proposed. Finally, he was in full agreement with Mr. Polak's view that the Fund was paying the price of too small an increase in quotas; the timetable for the Ninth Review of Quotas should be reconsidered, since bringing it forward would give potential lenders reassurance that the Fund was attempting to solve its liquidity problems.

Mr. Malhotra said that he agreed with several Directors that the approach of the staff had been dominated by its perception of the Fund's liquidity position and that it had not attached due weight to the needs of member countries. He, therefore, shared the view expressed by Mr. de Groote that the paper on general considerations was incomplete since it did not deal with the larger question of the role of the Fund in the present circumstances. The staff paper was biased and reflected only one stream of opinion to the almost total exclusion of the other viewpoint expressed in the Executive Board.

The Executive Board should explore further the Fund's resources and its ability to meet its responsibilities in the current circumstances, Mr. Malhotra considered. Though an agreement on the Eighth General Review of Quotas had been reached and the resources that might be available under the GAB were known, the possibility of borrowing from the capital markets had not been considered. Until a further examination of that possibility was carried out, it was not possible for him to make any final judgments.

Like a large number of other Directors, he did not favor a comprehensive limit, since it would reduce access as well as be discriminatory, Mr. Malhotra said. He was a little intrigued by Mr. Polak's statement that there was nothing new about the idea of a combined limit since such a limit existed in the case of the compensatory financing facility and the cereal decision. He was glad to note that Executive Directors broadly agreed that a comprehensive limit would create problems.

A number of Directors had noted that world economic conditions were currently more difficult than they had been at the time of the introduction of the enlarged access policy, Mr. Malhotra remarked. There was no doubt that commercial bank financing was very constrained at the present time and that the debt service burden of a large number of countries would remain heavy. Given those difficult circumstances, it was not appropriate to take an advance decision on either the timing or the scale for phasing down of the enlarged access limits. Any such step would give a wrong signal to the international financial community. With respect to the question of access limits, if it was to fulfill its responsibilities effectively, the Fund must look for additional financing in order to meet the requirements of its members rather than reduce access.

He was dissatisfied with Section IV (EBS/83/132) on the scale of access in individual cases, Mr. Malhotra commented. At one point the staff had stated that in determining the amount of access in individual cases, it had followed the basic principles of the Fund. It had then proceeded to express several views, which it had tried to elevate to the level of principles. For instance, it had suggested that unless the bulk of the adjustment effort was concentrated in the first year, the member country should not have the benefit of financing up to the access limits. It was illogical to deal with the matter in that way. The degree of adjustment that a particular country could achieve in each year of the arrangement was a matter of its circumstances as well as of judgment; to require that the adjustment effort should be concentrated in the first year of the program was a distortion of the concept of the extended arrangement. On pages 7 and 8 of EBS/83/132, referring to annual stand-by arrangements in the context of medium-term programs, the staff had stated that "in most of these cases it is unlikely that the bulk of the necessary measures will be in place in the initial period and the achievement of a viable balance of payments may require the adoption of new adjustment measures in succeeding years. Since each one-year program is only part of a longer-term adjustment effort, and since the Fund expects to make a commitment to the country over a number of years, use of resources in each year should be well below the limit, at perhaps 50-70 percent of the maximum." Such a suggestion--which the staff had considered a principle--disturbed him.

He was also concerned about other statements made by the staff in which it suggested that in cases where the balance of payments situation might be weak, only a very small scale of financing should be allowed, even if countries concerned were taking appropriate steps to deal with the situation, Mr. Malhotra went on. At the same time, the staff had indicated that in countries where financing requirements were very large the Fund should be willing to provide resources beyond access limits. He did not follow the logic of those views. While he could understand that the international community should provide more long-term concessional funds to weaker economies, the Fund should, while trying to persuade other institutions to make available more assistance, be prepared to provide adequate financing.

Member countries with weak economies might not be willing to make requests for large amounts of Fund resources, Mr. Malhotra considered. However, when a member country requested Fund support and there was a balance of payments need, it was the responsibility of the Fund to provide the necessary resources.

With respect to the technical points raised by the staff, Mr. Malhotra said, first, that he was against the elimination of the floating character of the first credit tranche. Second, while reserving his final positions on other technical points that had been raised, he had a strong preference for maintaining the present arrangements whereby the Fund's ordinary and borrowed resources were distributed on a one-to-one basis up to a point, after which the remainder of the resources were provided from borrowed resources. He agreed with the principle that quota subscriptions should be the primary source of Fund resources, but, since the quota increase under the Eighth General Review had been inadequate, recourse to larger borrowing appeared inescapable. Furthermore, in the current difficult circumstances, it was becoming more urgent to take a decision on allocations of SDRs.

As the purchasing power of the SDR was declining with inflation and the quota increases of potential users of Fund resources had been well below the general quota increase, there was no case for reducing access limits in terms of multiples of quota after the new quotas became effective, Mr. Malhotra considered. Any decision to reduce access in real terms would give the wrong signal to the international financial community.

Mr. Salehkhou made the following statement:

At this late stage of the discussion, I will try to be brief. To begin with, I shall refrain from addressing the specific technical issues raised in the staff papers. I share the feeling of several other Directors that a meaningful and objective assessment of the specific proposals would need much more time and deliberation and that any hasty decisions are bound to be self-defeating, particularly in view of the fact that the end result of such decisions would extend well into the future and would thus unnecessarily pre-commit potential borrowers to rigid restrictive procedures in advance of future developments.

Within the above framework I would like to make some observations. First, I would draw the Board's attention to our various deliberations during the Eighth Review of Quotas, in particular with regard to the prevailing views on the inadequate size of total quotas. Despite established facts and figures to show that members' need would dictate greatly increased Fund quotas, it was decided to accept a low figure because of the views expressed that (a) the liquidity of the Fund was adequate, and (b) members' need could be accommodated by the private capital markets. Now that both these arguments have lost ground, there is an attempt to trim down potential demands to match the relatively reduced supply of resources. This in a sense is to ignore the basic problem and to seek piecemeal palliative solutions.

Second, I fail to see the urgency of deciding this issue prior to the Interim Committee meeting. Not only are many of the figures relating to the potential uses of Fund resources or the supply of ordinary and borrowed resources necessarily tentative--as stipulated by the staff--uncertainties regarding the definite date of the Eighth Quota Increases make it imperative that we should not unduly prejudge liquidity considerations in advance of future developments.

Third, the position of this chair has always been to encourage the Fund to effectively assume its all-important role at the center of the international financial system and, in effect, to guide and lead the various participants, including the commercial banks, rather than to be influenced by events and wait for problems to emerge before trying to find solutions. The Fund should formulate, or guide others in the formulation of, an appropriate modus operandi. Thus, a reduction in the access limits, with all the basic elements of balance of payments problems remaining intact or worsening, would be against the paramount position of the Fund and, in effect, would undermine that position. We should not, in other words, seek an answer to the problem that considers the case from the viewpoint of special interest groups, that is, countries that would, relatively speaking, benefit from certain changes in access rules, or others that would suffer from such changes, depending on whether they are high-quota borrowers or chronic debtors or oil producers. We should seek an all-embracing solution that tackles the basic issue, that is, the presence of large global imbalances and the ability of the Fund to provide assistance in times of need. This ability is not enhanced by reducing access limits at the time of persistent global imbalances.

The Director of the Exchange and Trade Relations Department explained that the staff papers prepared for the present meeting had been intended to supplement the previous staff paper reviewing enlarged access policy (EBS/83/79). The earlier paper had dealt with members' needs for financing; in the present papers, the staff had attempted to respond to some of the questions that had been raised by Executive Directors at EBM/83/71 and EBM/83/72.

In Section IV of its paper on general considerations governing access (EBS/83/132), the staff's approach had in no way discriminated against the poorer and smaller members, the Director stated. The staff had merely been describing the policy applied by the Executive Board in recent years, which, as the record showed, had not resulted in less cumulative access for such members. A country taking quick and decisive action with a high probability of timely repayment could have access to a large quantity of Fund resources relatively quickly. Other members had attained similar cumulative access levels through a succession of arrangements. In the case of members with a relatively slow expected improvement in their balance of payments, the practice had been to phase disbursement of Fund resources.

The Deputy Treasurer explained that Table 1 in the paper on financial considerations (EBS/83/133) had been derived from two sources: Table 1 of EBS/83/79 and estimated commitments as presented in EBS/83/59. The staff had adjusted the estimates of overall demand for Fund resources made in March 1983 from an absolute level of access to a percentage of the new quotas. The figures presented in Table 1 had been based on an assessment of prospective use and commitment of Fund resources within the present absolute amount of access to the Fund's resources. As footnote 2 explained, if the staff had assumed maximum use in all cases, overall estimated commitments would be increased by SDR 3-5 billion. It had not assumed maximum limits for all members because in some cases the balance of payments needs would not be very great, and in other cases members would not be eligible for full access to resources. In those respects, the analysis had started from the estimates of the demand for Fund resources, and had then led to an analysis of how that estimated demand might be financed.

The comment had been made that if the staff had assumed an access limit of 150 percent, the Fund would still have about SDR 8-9 billion of uncommitted usable resources by April 1986, the Deputy Treasurer recalled. However, three factors had been ignored: there was a commitment gap at present that might not be fully closed; there were compensatory financing drawings of about SDR 5 billion that had to be taken into account; and there were repurchases of a substantial amount that would be used to repay debt and that would reduce the level of reusable ordinary resources even further. Most important, maximum use had been assumed only when indicated by the estimated size of members' balance of payments needs up to the specified levels of access. Staff estimates indicated that access limits of 150 percent of new quotas would put the Fund in an even more serious liquidity position than suggested by Mr. Polak earlier in the meeting. Finally, the staff would complete a new liquidity review in the near future. The figures in Table 1 would be revised downward slightly because recent indications from the area departments showed a slight reduction in estimated commitments.

The Chairman made the following concluding remarks:

The Executive Board has held a most useful and constructive discussion of the staff papers reviewing the general and financial considerations of the policy on access to the Fund's resources. I would like to draw together in a preliminary way some of the thoughts and suggestions put forward by Executive Directors.

Comprehensive limit on total access

In general, Executive Directors did not support a comprehensive limit on total access for a variety of reasons, including reasons of flexibility, equality of treatment, and simplicity. They also expressed concern about international perceptions of the Fund's ability to meet the financing needs of countries experiencing particular difficulties.

Enlarged access limits

Views with respect to the enlarged access limits were developed on the basis of one or the other of two trends of thought. On the one side were those Directors who, noting the considerable balance of payments problems experienced by many countries and the reduced level of capital flows, considered that the Fund, in determining access limits, should start from the needs of member countries. Those Directors insisted on an early initiation of the Ninth General Review of Quotas because the quotas had been raised insufficiently under the Eighth Quota Review. Furthermore, they suggested strongly that the Fund should have recourse to borrowing as necessary to meet members' needs. They were concerned that the staff papers had given too heavy a weight to the liquidity considerations and insufficient emphasis on the needs of members.

On the other side were those Directors who considered that the Fund's liquidity position was a major constraint, since quota increases had only recently been decided upon at the Governors' level, and since the Interim Committee had stressed that the Fund should rely primarily on its ordinary resources. Those Directors were concerned that the Fund should not engage in too much borrowing and a number of them were particularly worried by some of the projections on borrowed and ordinary resources included in the staff report.

It is not surprising that the access limits suggested by Directors at this stage of the debate are rather divergent in view of their very different starting points.

Four Directors, including one whose constituency holds differing views--together representing about 33 percent of voting power--favored reducing access to 102 percent of quota.

Eleven Executive Directors--representing somewhat more than 33 percent of the voting power--favored the maintenance of the 150 percent annual limit based on the new quotas. Among this group, four Directors indicated that if the Executive Board were to agree on more restrictive access limits, they would insist that no individual country should lose access in absolute terms.

Seven Directors--representing a little less than 33 percent of the voting power--expressed views that represent a middle ground on access limits. Some favored access limits of 110 percent or 112.5 percent, and others of 125 percent. One Director suggested the possibility of a two-tier access limit with a lower tier of 102 percent and a second tier in certain circumstances to be defined with precision, possibly up to 125 percent of quota.

The Executive Board will have to bridge the differences expressed by Directors over the coming months, and arrive at a compromise solution that will be acceptable to all.

The staff will prepare a paper on the legal aspects of a grandfather clause alluded to by several Executive Directors.

Phasedown of enlarged access limits

Directors broadly agreed that it would be premature to decide on either a timetable or amounts for the phasedown of the enlarged access facility. A number of Directors underlined the temporary character of the facility, noting that it would lapse when the new quotas come into force if no other decision was reached. Some Directors suggested that the phasedown, or even the phaseout, should begin in 1984, but most Directors preferred to take the course of reviewing the facility, perhaps on a yearly basis, in the light of circumstances at that time in order to determine an appropriate form of phasing down.

The staff will address the question raised by some Executive Directors regarding the legal basis for introducing into stand-by arrangements a clause limiting access in the later years of such arrangments to any reduced limits that might have been adopted by the Fund in the meantime--a possibility mentioned by the staff and referred to by several Executive Directors.

Special facilities

In discussing access to the Fund's special facilities, I noted, in general, that those Directors who favored high proportional access under the credit tranches also favored higher limits for access to the special facilities. Some of those advocating reduced access under the credit tranches favored greater reduction in access to the special facilities.

Extending his remarks, the Chairman stated that he could understand why those Executive Directors whose constituencies were made up of countries that were suffering severely from the present world economic situation had been concerned about the liquidity-oriented approach taken by the staff. However, those Directors should note that both the Executive Board and the staff had already considered in detail the role of the Fund in the 1980s. The staff had prepared a remarkable set of papers on its assessment of the balance of payments problems, the liquidity problems, and the financing problems of the 1980s. After having discussed those papers, the Executive Board had proposed a set of quota increases that had eventually been adopted by the membership. Those issues did not need to be discussed again.

It had already been agreed that total quotas should be SDR 90 billion, the Chairman remarked. In addition, the General Arrangements to Borrow were in the process of being augmented. The Fund would therefore have to operate within those financial constraints, bearing in mind the present limitations on borrowing from the markets. He was actually working hard to try to obtain SDR 6 billion from the membership in order to cover the 1983 commitment gap. Assuming a 1:1 ratio of ordinary to borrowed resources, the Fund would have to borrow SDR 13 billion by April 1986 under access limits of 125 percent of quota, which would put uncommitted ordinary resources at a low level of SDR 8-12 billion. Borrowed resources totaling SDR 13 billion were not a negligible amount; they would represent more than the total resources available under the General Arrangements to Borrow, in terms of usable resources.

From the present discussion, it was clear that Executive Directors were still not agreed, the Chairman observed. The Ministers would be discussing the issues at a later date, but the present discussion and subsequent debate among Executive Directors would help to pave the way to a meaningful compromise.

The Executive Directors took note of the statement by the Chairman.

APPROVED: February 14, 1984

JOSEPH W. LANG, JR.
Acting Secretary