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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/127

3:00 p.m., August 31, 1983

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

Executive Directors	Alternate Executive Directors
	W. B. Tshishimbi
	H. G. Schneider
	P. D. Péroz, Temporary
	M. Teijeiro
R. D. Erb	
	T. Alhaimus
T. Hirao	T. Yamashita
	J. Reddy, Temporary
R. K. Joyce	
A. Kafka	C. Robalino
G. Laske	G. Grosche
G. Lovato	
R. N. Malhotra	
Y. A. Nimatallah	
J. J. Polak	
	K. G. Morrell
G. Salehkhou	
	E. I. M. Mtei
	S. E. Conrado, Temporary
J. Tvedt	A. Lindø
N. Wicks	C. Taylor
Zhang Z.	Wang E.

A. Wright, Acting Secretary
K. S. Friedman, Assistant

Also Present

African Department: J. B. Zulu, Director. Asian Department: H. Roden. European Department: A. Arimo, T. R. Boote. Exchange and Trade Relations Department: C. D. Finch, Director; D. K. Palmer, Associate Director; W. A. Beveridge, Deputy Director; S. Mookerjee, Deputy Director; M. Allen, H. W. Gerhard, S. Kanesa-Thasan, R. L. Sheehy. Fiscal Affairs Department: R. D. Kibuka. Legal Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy General Counsel; W. E. Holder, S. A. Silard. Middle Eastern Department: Z. Iqbal. Research Department: W. C. Hood, Economic Counsellor and Director; R. R. Rhomberg, Deputy Director; N. M. Kaibni, E. A. Milne, T. K. Morrison. Secretary's Department: A. P. Bhagwat, J. A. Kay. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; D. S. Cutler, D. Gupta, T. Leddy, A. M. Mansoor, G. Wittich. Advisor to the Managing Director: E. W. Robichek. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: S. R. Abiad, A. A. Agah, T. A. Connors, S. M. Hassan, P. Kohnert, H.-S. Lee, Y. Okubo, M. Z. M. Qureshi. Assistants to Executive Directors: E. M. Ainley, H. Alaoui-Abdallaoui, H. Arias, L. Barbone, J. Bulloch, M. B. Chatah, L. E. J. Coene, R. J. J. Costa, M. K. Diallo, M. Eran, G. Ercel, I. Fridriksson, G. Gomel, J. M. Jones, A. K. Juusela, H. Kobayashi, M. J. Kooymans, P. Leeahtam, W. Moerke, V. K. S. Nair, G. W. K. Pickering, E. Portas, Shao Z., D. I. S. Shaw, P. S. Tjokronegoro.

1. REVIEW OF POLICY ON ACCESS TO FUND RESOURCES

The Executive Directors continued from the previous meeting (EBM/83/126, 8/31/83) their consideration of a staff paper on the scale of, and limits on, enlarged access to the Fund's resources (EBS/83/172, 8/12/83), a paper on legal and policy considerations related to access to the Fund's resources (SM/83/194, 8/19/83), and a paper on the application of the requirement of cooperation under the compensatory financing facility (EBS/83/171, 8/12/83).

Mr. Polak said that the Chairman's opening statement at EBM/83/126 was very useful. The staff paper on the principles governing enlarged access and a two-tier approach to access limits was helpful; after they had been considered in detail, the principles should be formally set out and approved.

Some of the principles needed further clarification, Mr. Polak considered. The references to the payments need interrupted the discussion in most of the paragraphs of EBS/83/172 and should be dealt with in a separate statement to the effect that no country should be entitled to draw more than its payments need. It should also be stated as a general principle that any semipermanent--let alone permanent--financing of any member by the Fund would be inappropriate.

The distinction between the principles enunciated in paragraphs 4 and 5 of EBS/83/172 was not fully clear to him, Mr. Polak continued. The meaning of the words "in the majority of cases" at the beginning of paragraph 4 was also unclear. The principles should be applied in all cases or in none, and not in something like a majority. The words in paragraph 5 "more limited amounts would be appropriate in other circumstances" were also unclear to him, and the ambiguous reference in paragraph 6 to "the above two paragraphs" could refer to either paragraphs 4 and 5, or paragraphs 5(a) and 5(b).

He agreed with the staff analysis of the possible versions of a two-tier approach to access, Mr. Polak commented. He had had difficulty in accepting Mr. Wicks's original proposal, and Mr. Wicks's statement at the previous meeting to the effect that a two-tier approach would be workable only if it were based simply on two limits, including a higher limit to be used in exceptional cases, was welcome. The main question was whether or not a proper formulation of the two-tier approach could be agreed upon. Having reviewed Mr. Wicks's original proposal, his latest comments, and the staff's analysis, he himself had concluded that a practical solution was unlikely to be found.

There was some confusion about the tiers themselves, Mr. Polak went on. A two-tier system already existed, in the sense that the limit on access could be exceeded in special cases. Mr. Wicks had proposed what would in effect be a three-tier system. It would undoubtedly be difficult both to describe clearly the distinctions between the various tiers, and to interpret the descriptions in a uniform way. There were, moreover, several other risks in adopting a two-tier or three-tier system. First, while the second tier would be established to satisfy Executive Directors who felt that member countries should in certain cases be able to receive 125 percent of quota, access might well be based largely on a limit that would be excessively low, namely, 102 percent. Second, the limit of 125 percent could become the normal upper limit. The third, and most serious, risk was that convincing distinctions among cases involving the various limits could not be made, and the decisions concerning access to the different tiers would be arbitrary. Hence, the proposed two-tier solution did not seem practical. It would be best to accept a single compromise limit of, say, 110 percent or 112.5 percent, on the understanding that in very exceptional cases--which it would be best not to define--the Executive Board would always have the right to approve access beyond the figures set out in its own decisions.

He had great difficulty in accepting a proposal for a "grandfather" clause, Mr. Polak stated, and he was pleased that the originator of the idea, Mr. Hirao, no longer advocated it. There was a fortiori no scope for mixing a two-tier system with a grandfather clause.

Commenting on the proposed phasedown of the enlarged access limits, Mr. Polak said that he agreed with the Chairman that Executive Directors preferred to provide for periodic reviews of the limits. It was important to stress that the enlarged access had been introduced not only because of the difficult world economic situation, but also because quotas had generally become too small. It would not be possible to undo the concept of enlarged access even if stability were restored in the world economy, as there would always be some members encountering difficulties--largely because of their own policy decisions-and having financing needs that could not be met within the standard Fund limits. For that reason, it was best to proceed cautiously with the phasedown by basing the approach on annual reviews.

The question of how the phasedown in the limits should be made over time was a difficult one, Mr. Polak went on. He had asked for the staff's view on the legal possibility of reducing existing stand-by and extended arrangements, it being understood that countries would have been informed in advance of the possibility of such a reduction. He had, however, been greatly impressed by the Chairman's comments on the embarrassing situation vis-à-vis the commercial banks that such reductions could cause. Still, the alternative solution was also unsatisfactory in that it discriminated among members on the basis of the timing of their arrangements. Finally, the access limits on the special facilities should be 75/75/100.

Mr. Nimatallah considered that the access limits should be based on the principles that he had mentioned in previous discussions. The Fund would have to demonstrate convincingly that it could provide leadership for the international financial community when major problems arose. He preferred to retain the existing limits of 150/450, but he was prepared to go along with the limits of 125/375, which would ensure that no member's access would be reduced in absolute terms.

The proposed two-tier approach did not seem to be fully consistent with the principle of the uniform treatment of members, Mr. Nimatallah commented. It left the door open for a wide margin of judgment, and, at the least, it would be difficult to avoid giving the appearance of discrimination in individual cases. In any event, it was not clear to him how a two-tier approach could be applied in practice. How would the exceptional circumstances be defined, and who would be responsible for deciding when the circumstances existed? Would management have to consult individual Executive Directors before bringing a case of upper-tier access to the Executive Board, or would management make its own judgment and wait for the Executive Board's response? Either way, the proposal could deprive management of its present discretion and flexibility, which it needed to handle both the normal business of the Fund and requests from countries facing particularly serious difficulties. Management had used its discretion responsibly and prudently in the past, and it should continue to be in a position to do so in the future. Moreover, he was not convinced that a two-tier system was necessary. As a rule, Executive Board decisions should be as simple as possible. Similar or better results would be achieved by adopting a single access limit of, for instance, 125 percent, which would be a maximum--not a target--and would provide greater uniformity, less uncertainty, and more flexibility than a two-tier system. In sum, he had reservations about the two-tier system, but, if they could be removed, and if a majority of Executive Directors favored it, he was prepared to take another look at it.

He agreed with the staff, Mr. Nimatallah went on, that a grandfather clause would not be legally permissible. It would be inconsistent with both the principle of uniformity and the Fund's longstanding policy on determining access in terms of members' quotas.

He agreed with the Chairman, Mr. Nimatallah said, that it would be premature to adopt any decision at present on phasing down the enlarged access limits. It seemed best to review the limits periodically, perhaps on an annual basis.

As the staff had concluded, Mr. Nimatallah continued, it would be inappropriate to reduce the amounts available under existing stand-by and extended arrangements if the enlarged access limits were reduced. Such reductions could not be made in a uniform and equitable manner, and the proposal did not warrant further consideration.

Commenting on the scale of enlarged access, Mr. Nimatallah said that it was important to remember that the economic circumstances of individual members differed greatly. It was therefore essential for management to have the flexibility that it needed to respond appropriately in each case. He could go along with the staff's description in EBS/83/172 on the understanding that it would be seen as a guideline, and nothing more. There was no need for detailed stringent criteria, and they would in any event undermine the principle of flexibility.

On previous occasions, Mr. Nimatallah recalled, he had expressed his doubts about the merits of a comprehensive limit on access, and he agreed with the Chairman that such a limit should not be mentioned in the Executive Board's report to the Interim Committee. He continued to favor annual and three-year limits on access to the conditional facilities of at least 125 percent and 375 percent, respectively. He could go along with a cumulative limit on access to those facilities that was consistent with the new limits and corresponded broadly with present practice. As for the special facilities, the compensatory financing facility was extremely valuable, as it allowed members to obtain prompt assistance in the event of a sudden disturbance in the external accounts. The conditionality on compensatory financing should remain low, and the present access limits on such financing should not be reduced. If a majority of Executive Directors favored a reduction, he could accept, as a maximum, a reduction in the same proportion as the decline in access to the conditional facilities.

His position on the important questions of the Fund's liquidity and the financing of the new enlarged access policy remained unchanged, Mr. Nimatallah stated. The Fund should continue to play its role effectively and should be in a position to obtain the resources necessary to do so. The report to the Interim Committee should cover those important matters.

Mr. Lovato considered that the annual limits on enlarged access should be 125/375/500. He had no strong feeling about the proposed two-tier approach, but the conditions for eligibility for the second tier should be more precisely defined. As for a grandfather clause, he was not inclined to support the proposal outlined in Section II of SM/83/194. The situations that such a clause was meant to cover could be dealt with under the two-tier approach suggested by the staff.

It would be unwise to decide at the present stage on a timetable for phasing down the enlarged access limits, Mr. Lovato said. Reducing the limits would amount to reversing cause and effect by phasing out a policy before the disappearance of the economic and financial conditions in the world economy that had prompted the policy's adoption. Moreover, as some previous speakers had suggested, extreme care should be taken before sending the world a signal of a possible weakening of Fund support for member countries. The policy on enlarged access should be reassessed only at a later stage.

He fully shared the staff's doubts concerning the advisability of reducing the amounts under existing stand-by and extended arrangements in line with any reduction in the enlarged access limits, Mr. Lovato commented. The arguments that the staff had made on the principles governing the extent of access for individual countries were appropriate, and he had no objection to annexing the relevant portion of EBS/84/172 to the Executive Board's report to the Interim Committee.

Commenting on the form of access, Mr. Lovato said that there appeared to be agreement on maximum separate limits for the conditional and special facilities. Finally, he was prepared to accept a small reduction in the access limits for the special facilities. In particular, an access limit of 85 percent for compensatory financing and a combined limit of 100 percent would be acceptable.

Mr. Lindå stated that he preferred a single set of access limits rather than a two-tier system. The recent clarification by the staff of the guidelines governing the scale of access in various circumstances was welcome, and the guidelines should continue to be applied. A two-tier approach could add a complication, while a single set of limits would continue to give the Fund the flexibility that it had under the existing access limits. As had been underscored during previous discussions, the access limits were not norms for the size of arrangements.

During the previous discussion on access limits, Mr. Lindå recalled, his chair had taken the position that, in view of the strained liquidity position of the Fund, it was preferable to reduce the access limits to about 110/330. He continued to feel that significantly higher access limits were difficult to justify in the light of the Fund's tight liquidity position. However, in view of the likely persistence of serious balance of payments deficits, and of the uncertain vigor and character of the economic recovery, he was prepared to consider somewhat higher limits.

As a number of previous speakers had stressed, Mr. Lindå continued, the enlarged access policy was a temporary one. However, it would be premature to decide on a phasedown of the enlarged access limits at the present stage. Annual reviews of the policy after the new quotas came into effect would be acceptable.

He fully agreed with the staff analysis in EBS/83/194, Mr. Lindå said. He doubted whether it would be appropriate to reduce the amounts under existing stand-by and extended arrangements in view of the consequences for the needed balance between adjustment and financing.

He broadly agreed with the staff's text on the scale of access under individual arrangements, Mr. Lindå commented. In addition, the present form of access limits for both the conditional and special facilities should be retained. His constituency supported roughly unchanged access to the special facilities relative to the maximum annual access under the enlarged access policy.

Mr. Schneider said that his position on the various issues had not changed materially since the previous discussion. With respect to the enlarged access limits, he continued to believe that the question of the demand for Fund resources had not yet been answered. It would be useful to examine how the demand for Fund resources derived from the alternative access limits could be reconciled with the financing of the current account deficits of non-oil developing countries forecast in the basic medium-term scenario in the World Economic Outlook. The mix of adjustment and financing that would be involved would then become clear. Nevertheless, the Fund should not scale down access in real terms; therefore, the minimum limits on access should be 125/375. The acceptance of appropriate access limits would obviate the need for complicated devices such as two-tier systems or a grandfather clause. Such devices would merely complicate the discussions because each request by a member might easily lead to disagreement on whether or not the conditions for exceptional treatment were met, even if the conditions were clearly defined. For those reasons, he was not strongly in favor of the two-tier system, although he maintained an open mind.

It was premature to determine the phasedown of the enlarged access limits at the present stage, Mr. Schneider continued. Yearly reviews would be sufficient.

He fully shared the staff's doubts about the appropriateness of the proposal for reducing the amounts available under existing stand-by and extended arrangements, Mr. Schneider said. Such an action would run the danger of throwing existing arrangements off track because of the reduced financing. Moreover, he agreed with the Chairman that the banking community would form an unfavorable impression.

In principle, Mr. Schneider commented, he had no major difficulties with the staff discussion on the scale of enlarged access, but he was not fully convinced of the usefulness of formalizing the principles. Indeed, in so doing, the Fund could easily lose the flexibility that it might need to act in circumstances that were not adequately specified. A clear description of the principles on the scale of access could unduly restrict further applications of the enlarged access policy.

He had no significant problems with the Chairman's comments in paragraph 6 of his opening statement, Mr. Schneider remarked. As for the access limits for the special facilities, the adjustment should parallel that for the conditional facilities.

Commenting on the final paragraph of the Chairman's opening statement, Mr. Schneider said that he favored simplifying the procedures concerned and maintaining the mixing ratio of one-to-one. As for the financing of the new enlarged access policy, the Fund would clearly have to continue to rely on borrowing, basically because of the inadequate quota increases under the Eighth General Review. He hoped that the United States would be able to share the burden of the financing in an appropriate way. The Ninth Quota Review should be advanced in order to strengthen the Fund's financial base, thereby reducing its need for continued heavy borrowing. The liquidity position of the Fund was a cause for great concern, but he was even more worried about the viability of the international financial system.

Mr. Morrell noted that the main considerations bearing on the choice of new access limits had been discussed by previous speakers and had been well summarized by the Chairman during the previous discussion. The various members of his constituency held different views. His Australian authorities emphasized the constraints imposed by the Fund's liquidity position and the need to avoid excessive borrowing. Accordingly, they supported access limits of 102/305/407. His New Zealand authorities preferred limits of 125/375, while the other members of the constituency considered that the present limits should be maintained in order to meet countries' expected financing needs.

He agreed with Mr. Polak's comments on the proposed two-tier approach, Mr. Morrell said. If such an approach was to offer any realistic ground for compromise, it would have to involve more frequent upper-level access than present policy allowed. Such access would involve judgments that might not always ensure uniformity of treatment of members. There might also be pressures that would make access under the normal limits less commonplace, contrary to the principles governing the enlarged access policy. The staff report had merely confirmed his view that access to the second tier could become almost routine, as much so as present access in the area of 80-100 percent of the existing limits. Exceptional circumstances should be genuinely exceptional and, by definition, could not be specified; indeed, specifying exceptions was a contradiction in terms.

There was little need to define the conditions for access to a second tier, Mr. Morrell went on, and he agreed with Mr. Polak that the proposed two-tier system would actually be a three-tier system. The simplest solution would be to establish a single set of maximum limits and to permit access above those limits in accordance with present practice. No convincing argument had been made in support of the merits of a two-tier approach. If such an approach were adopted, however, the staff's version would be preferable; accordingly, access over 102 percent would be confined to genuinely exceptional cases. There was no necessary inconsistency between such a two-tier approach and the policy outlined in Section 2, paragraph 5 in SM/83/194. Under the policy described by the staff, however, above-limit access might be possible in circumstances that were less exceptional than the exceptional circumstances that had qualified countries for such access in the recent past.

Commenting on the phasedown of enlarged access limits, Mr. Morrell said that he would prefer to conduct periodic reviews of the limits in the light of changing circumstances, rather than to set a predetermined schedule at the present stage. Regarding the proposed reduction in the amounts available under existing stand-by and extended arrangements, he agreed with the staff conclusions. As a matter of principle and of sound operational practice, it was best to avoid the uncertainty that would result from the use of a clause enabling the Fund to reduce the amount of an arrangement in line with any future scaling down of the enlarged access limits. The members that were likely to be affected by such a clause would generally be those with balance of payments needs and adjustment programs that justified access at or near the limit. Their scope for further adjustment and access to additional external finance might be limited by the proposed clause and, indeed, in some cases, the continuation of existing financing packages might be placed at risk if the reasons for the reduction in Fund support were not widely understood. Use of the clause would of course have a positive effect on the Fund's liquidity position, but, particularly as most of the arrangements were only for one year, the improvement would be relatively small.

He had no significant problems with the principles and guidelines governing enlarged access set out in EBS/83/172, Mr. Morrell remarked. They should be read in conjunction with the Executive Board's decision on enlarged access. The staff's description could be annexed to the Executive Board's report to the Interim Committee, although only for information.

Commenting on the form of the access limits, Mr. Morrell said that the possibility of a comprehensive limit need not be mentioned in the Executive Board's report. He favored triennial and cumulative limits of three and four times, respectively, the annual limit. There was no need to change the existing form of limits for the special facilities. As for the access to those facilities, his countries, with the exception of Australia, favored limits that maintained the role and importance of the special facilities in relation to the conditional facilities. His Australian authorities preferred a reduction in the access limits for the special facilities that was greater than the reduction in other access limits, in order to strengthen the relative importance of the conditional facilities.

The section on financing in the Executive Board's report should begin, his Australian authorities believed, by emphasizing the constraints that the supply of resources placed on the setting of access limits, Mr. Morrell commented. His Australian authorities continued to be unconvinced of the need for market borrowing. The prospective borrowing task implied by access limits above 102/305 was unrealistically large. The other members of his constituency placed less emphasis on that aspect of the issues.

Mr. Mtei stated that the staff's implicit assumption that a reduction in access had already been approved was disturbing. It did not represent the thrust of the previous Executive Board discussion, at the conclusion of which the Chairman had mentioned that the Executive Directors were about evenly split into three groups on the issue of access limits. On that occasion, his chair had been one of a number that had stated its strong opposition to a reduction in members' access on the basis of the new quotas, and nothing in the set of papers before the Executive Board had led him to change his position.

In considering the access issues, Mr. Mtei continued, Executive Directors should bear in mind the fundamental question of the Fund's role in the international monetary system, especially at the present critical juncture, when many member countries faced serious external imbalances. Any reduction in the Fund's financial support of those countries--particularly the low-income ones--would seriously harm their adjustment efforts. For that reason, he had strongly supported a substantial increase in quotas under the Eighth General Review. Unfortunately, the larger countries had favored a smaller increase and were calling for a reduction in the access limits on the ground that it was needed to protect the Fund's liquidity position. That argument was illogical. Meeting the genuine balance of payments needs of members was a crucial goal of the Fund, and it was fully appropriate to find the ways and means of financing those needs. As Mr. de Maulde had stressed, the Executive Board should feel confident that it would continue to act responsibly and would meet members' payments needs only in accordance with the resources available to the Fund.

Continuing, Mr. Mtei said that the most useful approach to the present exercise on access was, first, to determine the needs of the Fund in the context of its vital role in support of the international monetary system; and, second, to consider how the resources required to meet those needs could be mobilized. Maintaining an adequate liquidity position for the Fund was important. However, it was wrong to assume that reducing members' access was the only way to attain such a position. Borrowing, especially from developed countries with balance of payments surpluses, should be stepped up in order to maintain the Fund's role in the international financial system. In addition, serious consideration should be given to advancing the Ninth General Review of Quotas.

The main problem with the proposed two-tier approach, Mr. Mtei remarked, was that it assumed from the outset that reducing the access limits was desirable and that a workable alternative could be considered. The normal limit under the staff's suggested two-tier approach would be 102/305. Under that limit, 108 members--99 of which were non-oil developing countries--would suffer a reduction in access in absolute terms of about 21 percent. All but two of the countries in his constituency would have reduced access in absolute terms; the combined access of his constituency would decline by more than 5 percent. While there would be no reduction in absolute access with the so-called enhanced limit of 125/375 under the staff's proposal, the increase for most of the low-income developing countries would be very small; in his own constituency, the access of two countries would be increased by less than SDR 2 million, and the access of seven countries would rise by no more than SDR 5 million. If such a proposal were accepted, it would be difficult to explain to non-oil developing countries why the Fund had gone to the trouble of increasing quotas under the Eighth General Review, particularly as the collective voting power of the group would have been reduced in the process; in the eyes of his countries, and probably of the majority of members, the quota exercise would become ridiculous. The quota adjustments under the Eighth General Review would result in no real increase for most of the countries in his constituency, something that had greatly disappointed them.

The idea that the Fund should permit access above the normal limits to a member with exceptional financing needs was not new, as the staff and Mr. Wicks had noted, Mr. Mtei went on. The only new aspect of the proposal, in addition to the assumed reduction in access, was the explicit provision for an upper ceiling on access beyond the normal limits applicable in exceptional cases. Placing a ceiling on the discretion that the Fund could exercise in exceptional circumstances was inconsistent with the provisions of Article V, Section 4. The Chairman's statement that the Executive Board must have the discretion to exceed the limits in special circumstances was welcome.

The grandfather clause, Mr. Mtei noted, was also based on the assumption of a reduction in the present access limits and was therefore unacceptable. The staff had shown that such a clause would violate the basic principle of the uniform treatment of members. The access limits should be preserved in absolute terms through the adoption of appropriate quota limits. Moreover, enlarged access should be preserved in terms of quotas, not merely in absolute terms.

The enlarged access policy was admittedly temporary, Mr. Mtei commented, but it would be unwise to phase down the limits when the conditions that had led to their adoption had actually intensified. The timing and amount of the phasedown should be considered later, in the light of developments in the world economy.

He agreed with the staff, Mr. Mtei stated, that, while it would be legal to reduce the amounts available under existing stand-by and extended arrangements by incorporating a provision to that effect in the original arrangements, it would be undesirable to do so because of the resulting uncertainty with respect to the timing and the amount of the reduction and because of the operational problems that would be caused by variations in the size and length of existing arrangements. Members undertook adjustment programs on the understanding that resources would be made available in specified amounts and at agreed times. Introducing a built-in mechanism that would create uncertainty about the flow of resources would undermine the very foundation of those programs.

The staff's elaboration of the considerations governing the scale of access in individual circumstances was useful, Mr. Mtei remarked. It was logical to relate the level of access to the size and nature of a member's payments imbalance, the strength of its adjustment program, and its record in using Fund resources. However, he was worried about the implications of that approach for low-income countries. Balance of payments adjustments in those countries took a long time, but the staff had suggested that that fact might adversely affect the Fund's willingness to provide financial assistance. Given the limited access of low-income countries to international financial markets, the Fund would not be fulfilling its responsibility toward those members if it greatly limited its financial support for relatively long-term adjustment. Indeed, the principles enunciated by the staff would make it difficult for most low-income countries to make considerable use of the Fund's resources. Finally, any reduction in access to the special facilities would be unacceptable. Those facilities had been introduced mainly in response to the vulnerability of developing countries to the vagaries of international commodity markets.

Mr. Joyce said that he agreed with Mr. de Maulde that the Executive Directors were far from reaching unanimity--let alone a consensus--on the access issues; they were unlikely to reach an agreement at the present meeting or in the immediate future. The task at hand was to identify two or three different sets of views, so that the Ministers could be given a fairly limited range of options from which to choose when they felt that the time to do so was ripe.

There seemed to be agreement, Mr. Joyce continued, that the recommendations on access should reflect the underlining realities of the Fund's financial situation. There was certainly no point in contemplating a program of Fund lending that could not be financed. However, the Executive Directors did not know at the present stage how much financing would be available to the Fund in the coming period; discussions on that matter were now taking place outside the Fund. Nor did they know how much money would in fact be needed to finance the lending activities of the Fund because the magnitude of the calls that would be made on the institution, regardless of the regime of access limits, was unknown. Executive Directors simply could not know what the economic circumstances in the coming period would be. If global economic conditions were as favorable as some thought they might be, the calls on the Fund would be less than some other Executive Directors apparently feared. At the same time, no matter what access limits were chosen, the Executive Board had in its own hands the power to determine the magnitude and pace of the Fund's lending activities. It was important to remember that the subject at hand was the maximum access limits. There was no need, and no intention, to turn those maxima into targets or entitlements. The Executive Board was fully capable of looking carefully at the requirements of need in individual cases and at the resources available to finance further lending activities at any particular time. As the Chairman had stressed, the Executive Board had to be careful to provide members and the outside world with a degree of certainty about Fund policies and, equally important, to give a measure of flexibility to management in interpreting and administering those policies.

He had not heard anything thus far that would make him change his view on the question of tightening the access limits, Mr. Joyce said. Indeed, his position was similar to Mr. Mtei's: a significant reduction in the potential absolute levels of access would be unacceptable in economic and political terms for many countries, and could prove counterproductive for the operations of the Fund itself. The maximum access levels should, at a minimum, be 125/375/500.

A grandfather clause was not the most appropriate way of maintaining absolute access for all members, Mr. Joyce commented. As for the two-tier approach, it was elegant and imaginative, but he was not confident that it would work. He agreed with Mr. Wicks that, to some extent, the proposal was built on past and existing approaches, particularly those with respect to the upper credit tranches. On the other hand, as Mr. de Maulde had said, a two-tier approach would be complex. In his own view, it was not the most practical solution; keeping the maximum access limit at a reasonably high level would be a better solution. Still, the two-tier approach was interesting and could be one of the options that was suggested to the Interim Committee if its supporters could agree on a formulation. Mr. Wicks's interesting suggestion that a two-tier system could be administered in a way that might meet the needs of countries that had received relatively small quota increases under the Eighth General Review merited further study.

The enlarged access policy was clearly a temporary one, Mr. Joyce said, and at some time--perhaps not far off--it would have to be phased out. However, it would be premature to reach a decision at the present stage either on the timetable for phasing down or on the termination of the policy. It seemed best to extend the enlarged access for two more years and to review the policy at that time.

He agreed with previous speakers, Mr. Joyce remarked, that any reduction in the amounts available under existing stand-by and extended arrangements, particularly those for which contracts had already been entered into, would be inequitable, legally difficult to justify, and disruptive. He had mixed feelings about the proposal for introducing a kind of open-ended adjustment clause in future contracts; the possibility should not be ruled out altogether, although it would add to the uncertainties felt by both the borrowing countries and the lenders.

The principles governing the scale of enlarged access were important, but he was not prepared at the present meeting to support completely the staff's interesting descriptions, Mr. Joyce remarked. Some other Executive Directors apparently were in the same position, and the Executive Board probably would not be able to reach full agreement before the meeting of the Interim Committee. Still, he was prepared to make an effort to do so, if the majority of the Executive Directors so wished.

He continued to believe, Mr. Joyce said, that there should be no comprehensive global access limit. There should of course be a global access limit for the conditional facilities, and he was prepared to go along with a separate global access limit for all the special facilities. He was also prepared to accept the present arrangement under which there was a separate global access limit for the compensatory financing facility and the cereal import facility, and a separate ceiling for the buffer stock financing facility. The reduction in the access to the special facilities should be broadly proportional to whatever reduction was made in enlarged access. Accordingly, the overall limit on access to the special facilities should be 100 percent of quota.

Mr. Malhotra considered that the world economic situation was currently much more difficult than it had been at the time of the adoption of the policy on enlarged access: the debt burden of several important countries had become much larger; there had been a sharp reduction in the flow of commercial finance to several developing countries; the per capita incomes of low-income countries had been declining; and there had been a cumulative deterioration in their terms of trade, despite the slight improvement in 1983. He fully agreed with Mr. Mtei that the task facing the Fund was much more difficult than it had been in 1981, and that any suggestion to reduce members' access to Fund resources in real terms was untenable. It was important to ensure access in real terms, rather than in nominal terms. Even limits of 150/450 would not maintain the real access of many countries. It was inappropriate to argue that simply because quotas were to be increased, access should be correspondingly reduced.

The present access limits of 150/450/600 should be maintained when the quota increases under the Eighth General Review became effective, Mr. Malhotra stated. The proposed grandfather clause would be discriminatory and would not permit the Fund to play the role that it ought to in the present difficult circumstances.

The proposed two-tier approach would cause confusion, Mr. Malhotra remarked. Above all, he was worried that, in practice, for most members access limits would be restricted only to the lower tier of 102 percent of quota. In a sense, there was already a two-tier system, as members could normally gain access up to the prescribed limit and could also gain additional access in exceptional circumstances. The two-tier system would complicate matters. Already, the staff was compelled to set out exceptional circumstances for invoking the upper tier in addition to exceptional circumstances for giving assistance beyond the prescribed limit. In fact, the proposal would bring about a three-tier system, which would be cumbersome and potentially discriminatory. He could not, therefore, support the proposal for such a system.

In the course of the previous discussion, Mr. Malhotra recalled, he had stated that, in the present difficult circumstances and given the uncertain economic outlook, it would not be appropriate or feasible to take any decision on a phasedown of the enlarged access limits. The enlarged access policy had been adopted not only because of the unfavorable world economic situation, but also because of the serious inadequacy in the size of the Fund. Consequently, if the size of the Fund were not significantly increased, there would be no reason to phase down or phase out the enlarged access policy. Indeed, the policy should become one of the permanent Fund facilities. It would, however, be appropriate to consider from time to time the access limits under the policy in the light of world economic conditions. The Managing Director had stated on a previous occasion that a medium-term facility was unlikely to be adopted, but that the extended Fund facility served some of the purposes of a medium-term facility. Annual reviews of the enlarged access policy would be inconsistent with the evolution and purpose of the policy and would create uncertainty. He strongly preferred instead reviews every two or three years.

He agreed with the staff, Mr. Malhotra said, that reducing the amounts available under existing stand-by and extended arrangements would not be consistent with the Articles of Agreement. As for future arrangements, the inclusion of a clause providing for a reduction in financing would perhaps be legal in a technical sense, but the consequences for member countries would be harmful. Fortunately, there appeared to be little support for the proposal.

He had serious reservations about the thrust of the staff's text on the scale of enlarged access within prescribed limits, which had not been changed from that in the previous staff paper, Mr. Malhotra noted. Formal guidelines would introduce considerable rigidity. Given the great diversity of members' size, quotas, level of development, and feasible pace of adjustment, the formalization of the so-called principles for determining the scale of enlarged access would be a grievous error. The staff had said that the principles it had described were being followed in practice, but the practice might well change with circumstances. For instance, if adequate financial resources were available to the Fund, it might be more liberal than hitherto in granting access to its resources. A guideline under which full adjustment should be made within three years if a country was to qualify for financing up to the access limits would tend to ignore its balance of payments need; given the recent practice of requiring full financing of a member's payments gap before approval of Fund financing, such a guideline could cause serious problems for members. The Fund would be well advised to maintain flexibility and avoid tying its hands. The extended Fund facility was intended to address major adjustment problems that would require time to overcome. The political, social, and economic circumstances in individual member countries varied greatly, and even a government strongly committed to adjustment might not be able to commit itself in advance to make specified adjustments in a short period. The staff description of the so-called principles governing the scale of financing should not be annexed to the Executive Board's report to the Interim Committee, which should cover the broader issues of overall access.

As he had stated on previous occasions, Mr. Malhotra recalled, he did not accept the idea that, in cases involving prolonged periods of adjustment, the Fund should provide only a small proportion of support, leaving it to others to provide the rest. It could well be true that member countries concerned might not approach the Fund because they felt that the cost of Fund financing was excessive, but countries that did seek assistance should not be told that they would be given only token support. Most of the countries concerned would not have access to the international capital markets and might be unable to mobilize sufficient official and bilateral aid. The staff view on Fund financing in such cases was inappropriate.

He agreed with the Chairman, Mr. Malhotra said, that the present form of access limits should be maintained. There was no need for a comprehensive limit on access. As for the special facilities, they were particularly important to a large number of economically weak countries. They provided prompt assistance, though the size of the assistance in relation to export shortfalls had been rather small in the past and would be still smaller in the future even if the present limits were kept. In the circumstances, as most Fund financing was provided through conditional facilities, there was no reason why the present access limits under the special facilities should be reduced. Indeed, an increase would be warranted.

Commenting on the financing of the new enlarged access policy, Mr. Malhotra said that the mixing ratio was a technical matter and need not be dealt with in detail at the present discussion. The current practice with respect to the ratio should be continued. As for the broader question of financing, members should be urged to take the necessary steps to approve their quota increases under the Eighth General Review. Comments by various observers, including high-level private bankers, suggested that the serious strains on the international monetary system were likely to continue; and the Fund itself had projected that member countries' debt service ratios would continue rising through 1987. Moreover, the assumption underlying the present discussion was that the Fund's resources were inadequate. Hence, the preconditions for activating the General Arrangements to Borrow (GAB) seemed to exist. The need to use those and other arrangements should be stressed, and the surplus countries should cooperate with the Fund by providing resources. At the most recent Interim Committee meeting, it had been stated that the new quota increases together with the GAB would provide a large increase in the resources available to the Fund. Those resources should be used, and not held back for very exceptional circumstances. Saudi Arabia's offer to make resources available in association with the GAB was most welcome. Activation of those arrangements could provide sufficient resources for at least the coming year or two. As Mr. Joyce had emphasized, it was impossible to know what the actual financing need would be in the coming period. However, if the quota resources and official borrowing through the GAB and associated arrangements proved inadequate, the Fund should thereafter, if necessary, approach the private markets. Quotas should certainly continue to be the primary source of Fund financing, but account had to be taken of the fact that they had unfortunately lagged behind.

Mr. Tshishimbi stated that his position on the various issues had not changed since the previous discussion; indeed, the staff papers had reinforced his doubts about some of the proposals. He favored enlarged access limits of 150/450/600. The international environment, and particularly the debt problems facing many developing countries, and the widespread uncertainty, had encouraged debtors and creditors alike to look to the Fund for guidance. The Fund should not ignore the calls for leadership and the growing need for its financial support, and it need not be overly alarmed about its constrained resource base. As Mr. Joyce had stressed, there was considerable uncertainty about the volume of resources that the Fund could mobilize and the claims likely to be made on them, and there should be no hasty decision to reduce the enlarged access limits. The limits should continue to be seen as ceilings, rather than as norms or targets, and each request for financial assistance should be examined on its own merits. The majority of the countries in his constituency would benefit only marginally from the quota increases under the Eighth General Review, and the issue of the enlarged access limits was therefore still of great importance to them.

The staff's proposal for a two-tier approach, Mr. Tshishimbi continued, clearly reflected the recognition by even those Executive Directors who seemed to favor reduced access limits that there would be circumstances in which relatively high access would be warranted. In the majority of previous cases, access had generally been well below the prevailing limits; in only a few cases--in which a substantial improvement in the balance of payments had been expected--had access been near or at the established limits. Hence, it was unlikely that the proposed two-tier approach, although appealing in theory, would result in any substantial improvement. In fact, it would only make the Fund's practices unnecessarily complex. As for a grandfather clause, it would be inconsistent with the principle of uniform treatment of members, and the proposal should therefore be abandoned.

He agreed with the Chairman, Mr. Tshishimbi said, that there was no reason to decide at the present time on a precise timetable for phasing down the enlarged access policy. The policy could be reviewed every one, two, or even three years. He disagreed with the proposal to reduce the amounts under existing stand-by and extended arrangements. The Fund should not make changes in its decisions that would adversely affect the position of members that had relied on the decisions. A country introducing a Fund-supported stand-by or extended arrangement needed the assurance that it would be able to make all the specified purchases. Reducing the amounts after the program had been initiated would certainly diminish the credibility of Fund programs and spread uncertainty among the membership.

The staff's descriptions of the principles governing the scale of enlarged access were useful, Mr. Tshishimbi commented, but he agreed with the Chairman that management needed some flexibility in applying established criteria. It would be unwise to annex the staff description to the Executive Board's report to the Interim Committee, especially as there was clearly no consensus on the guidelines. In any event, guidelines were in the purview of the Executive Board and need not be discussed in detail by the Interim Committee.

The compensatory financing facility and the buffer stock financing facility, Mr. Tshishimbi observed, were designed to provide rapid assistance to members experiencing temporary balance of payments problems. The use of Fund resources under those facilities continued to be directly related to the export shortfall of the country concerned, and provision had been made for repurchase in the event of overcompensation. Moreover, repayment was assured by the temporary nature of the export shortfall. The recently introduced test of cooperation had added to the conditionality under the special facilities, and there was no need to strengthen it further. The present access limits for the special facilities should be maintained.

The quota increases under the Eighth General Review were disappointing, Mr. Tshishimbi said, and many Executive Directors were clearly worried about the Fund's liquidity position. If the Fund needed to increase its liquidity, it would have to make use of the GAB, bilateral arrangements and, eventually, the private markets. Market borrowing, however, would substantially increase the cost of using Fund resources, in which event the Fund would have to introduce a subsidy mechanism to alleviate the cost of borrowing for its least developed members.

Mr. Zhang stated that his position on the various issues remained unchanged. He continued to favor enlarged access limits of 150/450/600 and opposed both the original and the staff versions of the two-tier approach, both of which would entail some scaling down of the access limits and a degree of discriminatory treatment of members. As for the maintenance of enlarged access limits in absolute terms, he agreed with the staff that it would be inconsistent with the principle of uniform treatment to apply different access limits in terms of new quotas to different categories of countries. Any such policy was therefore unacceptable.

Given the probable growth in the financing needs of the developing countries during the coming years, Mr. Zhang continued, it would be premature and imprudent to decide at the present stage on either a timetable or the amounts for the phasedown of the enlarged access policy. However, periodic reviews in the future, when circumstances warranted, would be acceptable.

He shared the staff's doubts about the appropriateness of reducing the amounts available under existing stand-by and extended arrangements because of the consequences for the balance between adjustment and financing, Mr. Zhang said. As for the scale of enlarged access, it would not be advisable to formalize the criteria in a broad policy statement to be annexed to the Executive Board's report to the Interim Committee. The present practices should not be expressed in a rigid form and should be treated as the Executive Board's own policy guidelines.

He was pleased, Mr. Zhang remarked, that there seemed to be general agreement that a comprehensive limit on total access was unnecessary, and that the existing form of the limits for the special facilities should be retained. The present access limits on the special facilities should also be kept. Finally, the Fund management should explore all possible sources of borrowing to meet future needs, and the date of the Ninth General Review of Quotas should perhaps be advanced.

Mr. Alhaimus recalled that on previous occasions he had stressed that, because of the expected sizable needs of members in the coming years, the present enlarged access limits of 150/450/600 should be maintained. The Chairman had expressed his hope that progress could be made at the present meeting toward narrowing further the divergent views of Executive Directors, and therefore consideration could be given to the limits that would maintain the absolute level of access--namely, 125/375/500--if they appeared to be a possible basis for a consensus.

The idea of providing access beyond the normal limits in exceptional cases, as under the suggested two-tier approach, was not new, Mr. Alhaimus remarked. It was already provided for under the present guidelines on access. Indeed, the present provision on exceptional access provided greater flexibility than the new proposals, since there were no annual or triennial limits on the scale of access beyond the normal limits, and the only constraint was on exceeding the cumulative access limits under the tranche policies. As previous speakers had noted, the present arrangements were simpler and less vulnerable to controversial judgmental decisions than the new proposals. Although the two-tier approach had been suggested as a compromise between those who favored access limits of 102/305/407 and those favoring 125/275/500, he doubted whether it was a genuine compromise. After all, exceptions to the normal access limits had been made only rarely in the past; and no exceptions had been made since early 1981, a period of unusually great difficulties in the world economy. Hence, the only contribution that the two-tier approach would make, as intended, was to restrict access.

He agreed with previous speakers that there was no pressing need either for a comprehensive limit on access or for a phasedown of the enlarged access limits, Mr. Alhaimus said. However, the limits could be reviewed periodically, and preferably over periods longer than one year. He agreed with the staff that, on practical grounds, it would be inappropriate to apply a future policy decision to reduce access to amounts available under outstanding stand-by and extended arrangements.

The staff's formulation of principles governing enlarged access, although certainly useful, raised serious problems, Mr. Alhaimus considered. It covered a delicate area of the Fund's practice that could not be easily drafted, and the Executive Board should be given more time to assess the present text and to consider whether serious rigidities might not arise from the formalization of its practices. The proposed principles should be examined at a later stage, if necessary, and should not be annexed to the Executive Board's report to the Interim Committee.

The access limits for the special facilities should be maintained, Mr. Alhaimus stated. As for the means of financing the new enlarged access policy, he assumed that the access limits to be proposed to the Interim Committee would be based on the pressing needs of members for an orderly adjustment that would encourage trade and investment. Continued efforts would have to be made to obtain the needed borrowed resources from industrial countries that had considerable scope for lending to the Fund. Saudi Arabia had already made a lending offer, even though recent shifts in global payments balances and reserve positions had considerably favored the major industrial countries.

Mr. Conrado said that his position on the issues under discussion remained unchanged. He continued to feel strongly that the present enlarged access limits should be maintained. Some Executive Directors who were worried about the Fund's liquidity position could not agree to maintain the present limits. He could not accept limits that would reduce any member's access in absolute terms. There would be no advantage in adopting a two-tier approach. There was already a multiple-tier scheme that had functioned well and given management and the Executive Board the flexibility that they needed to deal with individual cases on the basis of the particular circumstances; any access scheme based on two tiers would necessarily limit the flexibility. In addition, serious problems would arise in determining which cases merited access to the one tier or the other. A two-tier approach would either lead to a body of principles governing enlarged access that was similar to the present one, or would pose unsolvable problems of inconsistent and arbitrary interpretation.

It was absolutely essential, Mr. Conrado considered, to have enlarged access limits that were sufficiently high to obviate the need for a grandfather clause. In addition, there was no need to act at the present stage to phase down the enlarged access limits. It would be best to conduct periodic reviews of the limits every two or three years, or over some other period that was favored by the majority of the Executive Directors.

He agreed with the staff, Mr. Conrado remarked, that reducing the amounts available under outstanding stand-by and extended arrangements in the event of a reduction in the access limits would be inconsistent with established Fund principles. Each proposed arrangement should be examined on a case-by-case basis and in the light of the particular circumstances of individual members with a view to determining whether or not the proper balance between adjustment and financing would be supported by Fund financing.

He agreed with the thrust of the staff report on the scale of enlarged access, Mr. Conrado commented. However, he had some differences of view with the staff on some minor aspects of its text; he did not favor annexing it to the Executive Board's report to the Interim Committee.

The present access limits should be retained, Mr. Conrado considered. A comprehensive limit on total access other than the implicit limits under the current practices would be unacceptable, as would any change in the present limits for the special facilities. At the present stage, he was not prepared to go along with any proposal for reducing the existing quota limits for the special facilities.

To finance the new enlarged access policy, Mr. Conrado commented, the Fund would have to continue borrowing in the period after the new quotas came into effect; it might have to approach the private market. The matter should be covered in the Executive Board's report to the Interim Committee, although he agreed with Mr. Wicks that many of the technical matters involved need not be dealt with in the report.

Mr. Salehkhou commented that the staff papers were interesting and informative, but that they were based mainly on views held by Executive Directors who favored a reduction in the overall access limits and a phasing down of the policy on enlarged access. Since Executive Directors still held diverse views on the issues at hand, the staff's reports would have been more balanced if they had also dealt with the views of other Executive Directors on such matters as member countries' present and prospective needs for balance of payments assistance, and the Fund's contribution to a stable international financial system.

The liquidity of the Fund had been used by the same Executive Directors in two different ways in advancing their arguments in recent months, Mr. Salehkhou noted. During the discussion on the Eighth General Review of Quotas, they had argued that the Fund's liquidity was adequate and had encouraged agreement on a small increase in the size of the Fund. At present, however, the same Executive Directors felt that the Fund's liquidity position was unsustainable and that the overall access to Fund resources should therefore be curtailed. He had consistently maintained that the Fund's liquidity position would be unsustainable because of the small quota adjustments under the Eighth General Review, but it would be wrong to solve the problem by reducing the Fund's contribution to members' external adjustment programs and to the stability of the international financial system. The balance of payments problems facing member countries had remained and, in some cases, had worsened. Any decline in the Fund's contribution would undermine its position in the international financial system and would encourage a growing number of members to seek adjustment through restrictive practices and administrative instruments.

The staff paper on the scale of access, Mr. Salehkhou remarked, clearly indicated that in previous years the Fund had developed a flexible set of principles that adequately enabled it to use various approaches in response to different situations, notwithstanding the overall limits on access to the Fund's resources. The flexibility had enabled the staff and management to adapt the Fund's assistance to the particular requirements and conditions of each member within the framework of the principle of uniform treatment. It would therefore be desirable to avoid any formalization of the principles concerning the scale of Fund assistance, particularly as precise guidelines would not cover the multitude of specific needs and conditions of member countries and might result in discriminatory treatment of members because of the difficulties in defining exceptional circumstances. The principles enunciated by the staff should not be annexed to the Executive Board's report to the Interim Committee.

The proposed two-tier system was unacceptable for two reasons, Mr. Salehkhou continued. First, it apparently was not consistent with the principle of uniform treatment of members. Second, it would provide no advantages over the present system, under which actual drawings were based on the particular conditions of each member, including its financing needs, the quality of the program supporting its request, the pace of expected improvement of the economy, and the exceptional character of its needs or difficulties. The suggested two-tier system was designed to deal with the exceptional circumstances in a few countries, but exceptional cases were already provided for satisfactorily under the present regulations and procedures. None of the limits suggested in Section II of SM/83/172 were acceptable.

He agreed with the staff, Mr. Salehkhou commented, that it was not inconsistent with the principle of uniform treatment to assure members of sympathetic consideration, on an individual basis, of their requests for drawings beyond the established limit in special and exceptional circumstances. It was clear, however, that a tightening of the general guidelines and a reduction in the present access limits would probably result in an undesirable increase in requests for waivers.

Whatever the final decision on the policy on enlarged access might be, Mr. Salehkhou remarked, it would not justify a reduction in the amounts available under existing stand-by and extended arrangements. Such an approach would place in jeopardy the successful implementation of Fund-supported adjustment programs and would be inconsistent with the principle of assured resource availability that was behind all arrangements. Furthermore, technical devices permitting a reduction in the amount of arrangements when members had been given appropriate notice of such a change would create undesirable uncertainty about the availability of Fund resources and would undermine the equilibrium between Fund assistance and the quality of the adjustment policies being implemented by members.

The intended purpose and unique character of the special facilities, which were designed to provide timely assistance in emergency circumstances, should be preserved, Mr. Salehkhou considered. Any reduction in the access limits for those facilities would have an adverse impact on their effectiveness.

While he continued to support the maintenance of the present access limits for both the ordinary and special facilities, Mr. Salehkhou commented, he wished to underscore his anxiety about the sustainability of the Fund's liquidity position. It would be opportune and advisable for the Fund to seek additional resources from surplus countries rather than resort to any reduction in access limits in present circumstances. He was seriously concerned about the adverse consequences for a majority of low-income countries of either a reduction in the access limits or a further tightening of conditionality.

Mr. Reddy recalled that during the previous discussion he had given a number of reasons why the need to retain the present access limits of 150/450/650 was greater than ever, including the prolonged world economic recession, the uncertainty about the present recovery, high interest rates in the international capital markets and their impact on debt servicing by developing countries, and the unwillingness of commercial banks to lend to developing countries. Economic and financial conditions could change dramatically in a relatively short period, and it was therefore important for the Fund to be equipped to play a significant role in financing and adjustment. It could do so only by retaining the present access limits.

The proposed two-tier approach was unacceptable, Mr. Reddy stated. It would introduce unnecessary sophistication, confusion, and scope for arbitrary judgments about what constituted "exceptional circumstances." The present system was already a multitier one: there was an access limit that prescribed the ceiling, and, within that ceiling, each member had an access limit based on the application of various principles governing the use of Fund resources. It was important to maintain generous ceilings and to provide for ample flexibility in determining access limits for each member on the basis of its need, adjustment effort, and other factors. The proposed grandfather clause was unacceptable for the reasons stated by previous speakers.

He agreed with the Chairman, Mr. Reddy went on, that the enlarged access limits should be reviewed periodically, preferably once every two years. But the reviews should not be aimed solely at phasing down the limits. Given the present uncertainties, it was conceivable that serious consideration might have to be given to increasing the access limits. Much would depend on the shape of the world economic recovery. In any event, the term "phasedown" should not be used; it was better to speak of reviews of the access limits.

He shared the staff view of the proposal for reducing the amounts of available financing under existing stand-by and extended arrangements, Mr. Reddy remarked. Fund-supported programs were designed on the assumption that a certain flow of resources would be available. The successful implementation of programs would be seriously jeopardized if the expected flow of resources did not materialize, and accepting the proposal for reducing members' access under existing arrangements would therefore be imprudent.

Commenting on the scale of enlarged access, Mr. Reddy said that the text of paragraph 2 of EBS/83/172 was inconsistent with the text of paragraph 4. The first stated that the Fund would take a member's need into account in determining its access, but the second contained the offsetting statement that a member's need would, in effect, be immaterial, and that the main factor would be the length of time needed to achieve a viable balance of payments position. Under paragraph 4, no weight would be given to a member's balance of payments need.

In any event, Mr. Reddy noted, formalizing the proposed guidelines would introduce an element of arbitrariness in the determination of access. The Fund should avoid adopting rigid codes. The difficulty in interpreting written guidelines was evident, for instance, in paragraph 2(a), which stated that a member's access to Fund resources would depend on the member's need for Fund financing "after taking into account the availability of other financing." Did the text mean that a member that could borrow in the commercial markets would be ineligible to use the Fund's resources? There was admittedly a need for internal guidelines to make the staff's task easier and to minimize the element of arbitrariness in the present system for determining access limits, but the proposed principles should not be annexed to the Executive Board's report to the Interim Committee.

He agreed with the Chairman, Mr. Reddy continued, that there was no need to mention in the report to the Interim Committee the idea of a comprehensive limit on total access. The present access limits for both the conditional and special facilities should be retained, and the importance of the special facilities for the primary producing countries should be stressed.

If it was to be able to meet its obligations under the Articles, Mr. Reddy said, the Fund should not be constrained by a lack of resources. Its need to borrow arose mainly from the inadequacy of both the quota increases in the past and the adjustments under the Eighth General Review. To meet members' liquidity needs, which were likely to grow in the coming years, the work on the Ninth General Review should be expedited, and borrowing from official sources should be arranged. If necessary, the Fund should not shy away from activating the GAB, and management should be encouraged to explore the possibilities for tapping the commercial markets. Finally, the present mix of resources was satisfactory, but the procedures involved should be simplified.

Mr. Teijeiro stated that he continued to believe that the present access limits of 150/450/600 should be maintained. He was not opposed to a two-tier system per se; after all, the present scheme had two tiers because of the special circumstances clause. The proposed two-tier system was unacceptable because it was intended to reduce members' access.

Periodic reviews of the enlarged access limits, rather than a predetermined phasedown, would be acceptable, Mr. Teijeiro commented. There was no need to change the present form of access limits, and any proposal for a comprehensive limit on access should not be approved. The treatment of access to the special facilities should be the same as that for the conditional facilities. As for the scale of enlarged access, he was not yet in a position to comment in detail on the considerations that should govern access on an individual basis. The access limits should be seen as maxima, and not as targets. If in practice the limits were used as targets, the appropriate response would be to give greater precision to the guidelines on access.

The Director of the Exchange and Trade Relations Department remarked that the differences of view that had been expressed were of a policy nature and would be taken into account in the drafting of the Executive Board's report to the Interim Committee. The statement in paragraph 2 of EBS/83/172 that a member's access to Fund resources would depend on the size of the payments imbalances and the need for financing from the Fund after taking into account the availability of other financing, did not mean that the member would have to exhaust its recourse to market financing. In its discussion on the two-tier proposals the staff had meant to indicate its preference for the application of the limits in one stage rather than in two stages. The staff had not meant to suggest that it preferred a two-tier scheme to limits of 125 percent or even 150 percent. The staff had clearly stated in its reports that the payments problems facing member countries had become more acute than in 1981.

The Chairman remarked that a formal summing up of the present discussion seemed unnecessary as the positions that had been taken were similar to those taken during the previous discussion (EBM/83/110 and EBM/83/111, 7/25/83), which he had summarized in some detail. Executive Directors' comments would be taken into account in the drafting of the Executive Board's report to the Interim Committee. There were obviously still conflicting views on the various issues. Some Executive Directors had stressed the balance of payments need of members, while others had underscored the scarcity of Fund resources. That outcome was a natural one among those who were both concerned about members' difficulties and responsible for the financial position of the Fund.

It was important to emphasize, the Chairman continued, that an access limit of 125 percent was not unfinanceable. The present need for SDR 6 billion in financing was a result of policy decisions adopted in 1980-81 and was not related to the Fund's resource position in the future. The supplementary borrowing need under a limit of 125 percent to April 1986 was of the order of SDR 13 billion. That financing requirement was large, but it should be remembered that the GAB had resources of SDR 18.5 billion. In addition, it was important to bear in mind that the Fund's contribution to the large external requirements of member countries was considered by the main partners in the arrangements to be very modest. Any solution that resulted in a substantial reduction in individual countries' access to Fund resources would be inconsistent with the magnitude of the problems facing members in the present difficult period. He was confident that a solution could be found that could provide the flexibility and policy continuity that was required in the present circumstances. The staff preferred a one-tier solution at 125 percent of quota with a provision for larger access in exceptional circumstances, but that was only one possible suggestion.

It was not clear to him, the Chairman continued, whether all Executive Directors had fully understood Mr. Wicks's proposal. As he understood it, what Mr. Wicks had termed the second tier was not the same as the present exceptional circumstances clause. It was true that the exceptional circumstances clause had been used rarely in the past, and not at all in the previous several years. However, the second tier proposed by Mr. Wicks was more like the present provision for a maximum access limit of 150 percent. The differences between Mr. Wicks's solution and the present application of policies should not be overstated. The two-tier approach reformulated by the staff would provide for a kind of escape clause to cover unforeseen circumstances of a genuinely exceptional nature.

Mr. Malhotra recalled that in his summing up of the previous discussion on the policy on access, the Chairman had noted that some Executive Directors had favored a middle position based on limits of 125/375 as a minimum. During the present discussion, it appeared that Executive Directors with 55.23 percent of the voting power favored access limits from 125/375 upward, including Executive Directors with 34 percent of the voting power who wanted limits of 150/450. He wondered whether it would not be useful, particularly for the drafting of the Executive Board's report to the Interim Committee, to clarify somewhat the extent of the support for the different ranges of access limits.

The summing up of the previous discussion, Mr. Malhotra continued, had also mentioned that Executive Directors who favored maintaining the present enlarged access limits also preferred to keep the existing limits for the special facilities. The summing up had further noted that some Executive Directors favored a more than proportional reduction in the access limits for the special facilities in comparison with the reduction for the limits on the enlarged access policy. Some Executive Directors wished to retain all the present limits, and others were prepared to accept as a compromise limits of 125/375 under the enlarged access policy together with the present access limits on the special facilities. However, there seemed to be an overwhelming view that in no case should the access limits on the special facilities be reduced more than proportionally to the reduction in the access limits under the enlarged access policy. It might be useful to note that view on the present occasion, particularly for the purposes of the drafting of the Executive Board's report.

The Chairman commented that Executive Directors' positions had not changed materially since the previous discussion on the policy on access to the Fund's resources. Hence, the kind of full summing up that he had made on the previous occasion seemed unnecessary for the present discussion. Executive Directors would have an opportunity to see that the various viewpoints were reflected in their report during the discussion on the draft text.

Mr. Malhotra, responding to a question by Mr. Erb, said that there seemed to be a majority view in favor of the idea that the access limits under the special facilities should not be reduced more than in proportion to any reduction in the access under the enlarged access policy. As he understood it, the access limits could be determined by a simple majority of the voting power, rather than a larger majority.

The Director of the Legal Department, in response to a question, explained that the access limits for the application of the enlarged access policy were contained in a guideline that had been adopted by a simple majority of the total voting power. However, the new access limits were to become applicable after the Eighth Review of Quotas became effective and under the extension of the policy on enlarged access. The decision to extend the policy had been taken by an 85 percent majority of the total voting power. In other words, in practice, there could be no new access limits in the absence of an 85 percent majority in favor of extending the enlarged access policy.

Mr. Malhotra pointed out that at the previous Board discussion on the subject, a unanimous view had been expressed for extending the enlarged access policy.

The Director of the Legal Department said that it was true that there was widespread agreement on the desirability of continuing the enlarged access policy. However, there was unlikely to be a large majority in favor of extending the enlarged access policy if the access limits themselves had been accepted only by a small majority of the total voting power.

Mr. Nimatallah stated that he attached importance to the Chairman's statement that an access limit of 125 percent was financeable.

The Executive Directors concluded for the time being their discussion on the policy on access to the Fund's resources.

APPROVED: February 29, 1984

LEO VAN HOUTVEN
Secretary