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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/132

10:00 a.m., September 7, 1983

J. de Larosière, Chairman

Executive Directors	Alternate Executive Directors
	J. K. Orleans-Lindsay, Temporary
	H. G. Schneider
	X. Blandin
	C. A. Salinas, Temporary
R. D. Erb	T. A. Connors, Temporary
M. Finaish	T. Alhaimus
T. Hirao	T. Yamashita
	J. Reddy, Temporary
R. K. Joyce	M. Casey
A. Kafka	H. A. Arias, Temporary
G. Laske	G. Grosche
G. Lovato	
R. N. Malhotra	A. S. Jayawardena
Y. A. Nimatallah	
J. J. Polak	T. de Vries
	K. G. Morrell
G. Salehkhou	O. Kabbaj
	E. I. M. Mtei
	J. L. Feito
	S. E. Conrado, Temporary
	A. Lindø
N. Wicks	
Zhang Z.	Wang E.

L. Van Houtven, Secretary
B. J. Owen, Assistant

Also Present

African Department: O. B. Makalou, Deputy Director; F. d'A. Collings. Asian Department: H. O. Roden. Exchange and Trade Relations Department: D. K. Palmer, Associate Director; W. A. Beveridge, Deputy Director; S. Mookerjee, Deputy Director; M. Allen, H. W. Gerhard, S. Kanesa-Thasan, J. Martelino. External Relations Department: D. D. Driscoll, H. P. Puentes. Legal Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy General Counsel; G. F. Rea, Deputy General Counsel; S. A. Silard. Research Department: W. C. Hood, Economic Counsellor and Director; K.-Y. Chu, N. M. Kaibni, E. A. Milne, B. E. Rourke. Secretary's Department: J. W. Lang, Jr., Deputy Secretary; A. P. Bhagwat. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; D. Williams, Deputy Treasurer; T. B. Leddy, O. Roncesvalles, G. Wittich. Western Hemisphere Department: E. Wiesner, Director; S. T. Beza, Associate Director; C. Cha, C. M. de Rosa, T. F. Lehwing. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: S. E. Conrado, S. El-Khouri, S. M. Hassan, H.-S. Lee, Y. Okubo, P. D. Péroz. Assistants to Executive Directors: E. M. Ainley, H. Alaoui-Abdallaoui, J. Bulloch, M. Camara, M. B. Chatah, R. J. J. Costa, G. Ercel, I. Fridriksson, G. Gomel, V. Govindarajan, C. M. Hull, A. K. Juusela, H. Kobayashi, M. J. Kooymans, P. Leeahtam, W. Moerke, V. K. S. Nair, G. W. K. Pickering, E. Portas, J. Schuijer, D. I. S. Shaw, J. C. Williams.

1. COSTA RICA - PURCHASE TRANSACTION - COMPENSATORY FINANCING FACILITY

The Executive Directors considered a staff paper on a request from Costa Rica for a purchase equivalent to SDR 18.6 million under the compensatory financing facility (EBS/83/165, 8/9/83; and Sup. 1, 9/6/83).

Mr. Feito noted that to arrest the growing deterioration in the external accounts, the Costa Rican authorities were implementing a comprehensive program supported by a one-year stand-by arrangement approved by the Executive Board in December 1982. As Directors might recall from their recent discussion for the 1983 Article IV consultation and review of the stand-by arrangement (EBM/83/104, 7/18/83), performance under that arrangement had been very satisfactory. Not only had Costa Rica amply complied with all the performance criteria; it had also made considerable progress toward achieving the program's overall objectives, thereby moving the economy closer to the path of sustainable stable growth. Nothwithstanding the success of the program so far, the size of the initial external disequilibrium was such that the Costa Rican economy was still facing a considerable balance of payments need. It was evident from the staff paper that net international reserves as of June 30, 1983, including payments arrears, were negative to the extent of the equivalent of almost 16 months' imports.

As the staff had explained very clearly, Mr. Feito continued, the estimated shortfall in Costa Rica's export earnings was largely beyond the authorities' control and, given the expected evolution of the relevant world markets, was temporary in character. The estimated overall shortfall was mainly the result of declines in exports of manufactured goods, fresh meat, and sugar, although there were minor shortfalls in other agricultural products. The shortfall in exports of manufactured goods was due to the low level of economic activity in the Central American region, while the decline in fresh meat exports was largely the result of changing market conditions and low demand in the United States. The projected recovery of export earnings was based on the perceived trend toward an improvement in world economic conditions. In addition, it was expected that the $25 million World Bank loan to Costa Rica, approved in May, to establish an export financing fund, would facilitate the recovery of exports of manufactured goods in the postshortfall period, while the marketing arrangement reached between Costa Rica and the United States would also help to improve earnings from meat exports.

As noted by the staff, Mr. Feito added, the proposed purchase was based on estimated data for the last four months of the shortfall year. The estimated shortfall was 60 percent larger than the amount of the requested purchase, leaving ample margin for any possible deviations. In any event, the Costa Rican authorities had stated in their request that they would make a prompt repurchase in the case of overcompensation.

In sum, Mr. Feito said, Costa Rica's request for a purchase under the compensatory financing facility clearly met all the requirements. He therefore hoped that Executive Directors would have no problem in supporting it.

Mr. Arias stated that he fully supported Costa Rica's request for compensatory financing. The country had had serious economic problems, as reflected in consecutive deficits in the balance of payments since 1978. Nevertheless, the authorities had demonstrated their willingness to redress the economic situation; since the end of 1982 they had so far been successfully carrying out a one-year stand-by arrangement.

The current account deficit, despite the sharp improvement in 1982, was still high, Mr. Arias observed, while exports of manufactured products, fresh meat, sugar, and other agricultural food products had suffered substantial shortfalls, owing to the adverse external situation stemming from the economic recession. As indicated in the staff paper, there were adequate expectations of an improvement in export performance, arising in general from the more favorable world economic environment that was emerging.

Mr. Connors said that the request under discussion raised a number of questions about the extent to which the shortfall was beyond the control of the authorities. Roughly half of the shortfall in exports could be attributed to manufactured goods, owing mainly, the staff argued, to weak demand in Costa Rica's markets. While that might be the case, it would have been better if the staff could have evaluated more carefully the contribution of the exchange rate system to the shortfall in exports of manufactures. From the description in the report on recent economic developments in Costa Rica (SM/83/150, 7/5/83), it seemed that virtually all export earnings had been converted at the bank rate. The bank rate had deviated markedly from the free market rate during the period in question, thus most likely discouraging exports of manufactures. The staff had also mentioned that imports had dropped sharply in 1982 because of the foreign exchange crisis; to what extent had the imported inputs needed to produce manufactured goods for export been affected? In the view of his authorities the effects on trade of the exchange rate regime administered by the authorities should be considered within their control. Those effects might be large in Costa Rica's case. He understood that the authorities had addressed some of the underlying problems in the stand-by arrangement. However, the position of his authorities was that when policy shortcomings had contributed significantly to the shortfall, it should not be compensated, even if those shortcomings were subsequently corrected. A stand-by arrangement, and not the compensatory financing facility, was the correct source of Fund financing in such cases.

While he recognized that the decision on compensatory financing did not prevent a country like Costa Rica, which relied primarily on commodity exports, from being compensated for shortfalls in the export of manufactured goods, it was disturbing that such a large fraction of the shortfall could be attributed to manufactures. There were a number of other policy problems with the compensatory financing facility that he would pursue in a general context when the opportunity arose.

His authorities also had problems with the "beyond the control" criterion relating to the shortfall in fresh meat exports, Mr. Connors observed. Fresh meat accounted for about 40 percent of the export shortfall. The staff had referred to a quality control problem, which had temporarily hampered access to the U.S. market. The subsequent actions taken by the Costa Rican authorities concerning sanitation and labeling seemed to indicate that the problem was at least partly within the authorities' control, although he could understand that it might be difficult for the staff to make such judgments. He would await the response of the staff on the issues he had raised before indicating his position on the proposed decision.

Mr. Wicks said that his remarks should not be taken in any way as a criticism of the Costa Rican authorities; as his chair had made clear during the mid-term review of the stand-by arrangement, the authorities were making a commendable attempt to deal with their economic problems. Nor should anything he said be taken as detracting from the position taken by his chair the previous day during the discussion of the requirement of cooperation under the compensatory financing facility. His remarks would be directed mainly to the general questions about the nature and scope of the compensatory financing facility that were raised by the Costa Rican request. He was satisfied that the request met the criterion of balance of payments need, but he had more difficulty in accepting that the shortfall was temporary or reversible and that it was beyond the member's control. In that respect, he could echo many of the points made by Mr. Connors.

Costa Rica's shortfall could be largely attributed to two categories of exports, fresh meat and manufactures, Mr. Wicks noted. An important cause of the fall in fresh meat exports was a quality control problem in certain meat packing plants; apparently, the food hygiene requirements of the United States, one of Costa Rica's principal export markets, had not been met and the U.S. authorities had therefore banned meat imports. He seriously doubted whether that cause was beyond the member's control. Surely, the local authorities could have ensured that the requisite food standards were maintained; if not, the compensatory financing facility was in a sense being used to insure them against loss owing to their failure to meet those standards.

The shortfall in exports of "other" agricultural and food products, for which countries belonging to the Central American Common Market (CACM) were the major market, was clearly attributable to factors beyond Costa Rica's control, GNP having fallen by 4 percent during the shortfall year in the CACM countries, Mr. Wicks commented. However, it would have been useful if the staff had included more figures and information in its paper. The question also remained whether demand in Central America would pick up sufficiently to induce the projected 5 percent growth in Costa Rica's exports of other agricultural and food products in the second postshortfall year.

Manufactured exports had made the other major contribution to the shortfall, Mr. Wicks continued. Again, he recognized that, as a result of the 1979 liberalization of the compensatory financing decision, shortfalls in exports of manufactured goods were compensable, and that there were precedents for admitting manufactured exports into shortfall calculations, sometimes in large amounts. But it was worth recalling that the compensatory financing facility had been intended primarily to smooth the export earnings of members producing primary commodities that were subject to notoriously large price fluctuations; that principle was explicitly acknowledged in the current decision on the compensatory financing of export fluctuations, adopted in 1979. Fundamental doubts were raised in his mind about the purpose of the facility by its activation to compensate a shortfall to which exports of manufactures had made a major contribution.

As for the methodology, Mr. Wicks noted, the staff had not provided the same detailed analysis by total value, volume, and unit value for manufactured exports as it had for the less important shortfalls or the major primary commodities exported by Costa Rica. The shortage of data also made it much harder to make a judgment on the temporariness of the shortfall. The staff had attempted to show on page 12 of EBS/83/165 that exports to the CACM area had fallen particularly strongly in the shortfall year, and had projected a further fall in both the postshortfall years. However, exports to countries outside Central America were projected to rise by 5 percent in each of those two postshortfall years. He wondered whether that latter projection in particular was entirely consistent with the latest information in the world economic outlook. Although exports of chemicals were especially sensitive to economic growth rates, other goods might be less so. Unfortunately, there was no breakdown of the figures on total exports of manufactures by, say, the major Standard International Trade Classification (SITC) categories. The shortage of data might have prevented the staff from making the usual analysis in terms of value, volume, and unit value indices. However, a partial simulation might have been possible in the form of a detailed regional analysis of the direction of trade in manufactures--past, present, and future--especially where the export shortfall on manufactured goods was such an important component of the total shortfall.

It was generally accepted that elasticities of supply and demand for manufactured exports were not negligible, Mr. Wicks added, thereby raising the question whether the exchange rate of a country exporting manufactures was broadly appropriate. No explicit judgment on that matter was made in the staff paper, and he would therefore welcome the staff's confirmation that Costa Rica's exchange rate was broadly appropriate and had not contributed to the shortfall in the export of manufactured goods.

In raising fundamental questions about the operation of the compensatory financing facility prompted Costa Rica's request, Mr. Wicks emphasized, he was not criticizing the Costa Rican authorities or their policies. Because the requested drawing was for only about three fifths of the calculated shortfall, he was prepared to give the member the benefit of the doubt and support the request.

Mr. Grosche said that he could support the proposed decision. The balance of payments need had been clearly established, and the requirement of cooperation with the Fund for a purchase above 50 percent of quota had also been met. However, grave doubts remained concerning the progress made under the present stand-by arrangement. The current account deficit in terms of GNP would remain more or less unchanged in 1983. During the review of the arrangement in July 1983, concern had been expressed about the medium-term outlook for Costa Rica's balance of payments. He reiterated the view of his chair that the achievement of a viable balance of payments position would require a strong export performance and the continuation of prudent fiscal and monetary policies.

Like others, he noted that about 50 percent of the export shortfall was accounted for by manufactured goods, Mr. Grosche continued. In granting compensation in several cases for export shortfalls that included manufactures, the Fund had not always fully complied with the spirit of the compensatory financing facility. In establishing that facility, the Executive Board had had in mind to provide compensation mainly for commodity export shortfalls that were due to highly cyclical world demand and to volatile market prices that were not within the control of the exporting countries. The demand for manufactured goods was less volatile and could be largely influenced by pricing policy, including exchange rate policy. In the specific case of Costa Rica, the staff had provided only one reason for the shortfall of manufactured exports, the low level of economic activity in export markets. He would have preferred a more in-depth analysis, and he hoped that the staff would provide it in future when recommending drawings under the compensatory financing facility.

Mr. Casey said that he could support Costa Rica's request. The member had a successful stand-by arrangement with the Fund, and there was thus no problem with respect to the test of cooperation, nor could the exchange rate be much out of line. Furthermore, the "beyond the control" clause in the decision was qualified by the word "largely," so that Costa Rica's request was valid in that connection.

There were unusual features in Costa Rica's case, Mr. Casey noted, including the excesses in major commodities, such as bananas and coffee, with the shortfall being caused largely by sluggish demand for manufactured exports, notably to the CACM. In addition, exports to that region were expected to fall further in the two postshortfall years. The compensatory drawing was justifiable under the various criteria of the decision on compensatory financing based on a legal interpretation, rather than on what the facility might or might not have been intended for. More generally, a recession was likely to affect most of the individual members of a common market or customs union; the ideal would be for export shortfalls to be financed from within the common market, but the CACM had no stabilization fund. Membership in a common market would surely not render an individual member ineligible to make a compensatory financing drawing.

There was little danger of overcompensation since the proposed drawing was well below Costa Rica's calculated export shortfall, Mr. Casey added. However, the Fund should follow the normal procedure of alerting the authorities to the possibility of overcompensation, however remote it might be.

Mr. Salinas said that he could endorse the proposed decision. The purchase requested by the Costa Rican authorities represented 60 percent of the estimated export shortfall for the year ended February 1983. The proposed purchase clearly met the requirements relating to balance of payments need and to the cooperation of the authorities with the Fund in finding the appropriate solution to their balance of payments difficulties. As for cooperation, it had been noted during the discussion for the 1983 Article IV consultation and during the mid-term review of the stand-by arrangement, that Costa Rica had been in compliance with the performance criteria contained in the stand-by program, and that it had made significant progress toward achieving the program's global objectives.

The estimated export shortfall reflected mainly marketing difficulties for two export products, manufactured goods and fresh meat, as well as lower international prices for sugar, Mr. Salinas noted. Under the staff's assumptions, those market conditions were likely to be temporary, particularly for sugar and fresh meat, so that some recovery could be expected in the postshortfall year. Although a similar conclusion could not be drawn for manufactured goods, a modest recovery of exports could be expected toward the second postshortfall year. Together with a significant improvement in export earnings from other products like coffee and bananas, those projected developments would finally lead to a substantial increase in total export value in the two postshortfall years, as could be seen from Tables 3 and 4 of EBS/83/165.

Mr. Morrell expressed support for the request by the Costa Rican authorities. The references that had been made to manufactured goods as accounting for some 50 percent of the shortfall seemed to overlook the effect of the excesses in coffee and banana exports. In point of fact, manufactured goods contributed closer to one third of the export shortfall. Presumably, in most requests for compensatory financing manufactures were more likely to be included as an offset to export shortfalls in primary products, whereas for Costa Rica, manufactured goods were actually increasing the export shortfall.

As for fresh meat exports, the experience of his constituency, which included large meat exporters, was that the use of hygiene requirements was often a device employed by major meat importers to restrict the importation of meat. He was not sufficiently familiar with the Costa Rican case to know whether or not that device had been employed, but there was at least a probability that the shortfall in fresh meat exports was beyond the member's control.

Mr. Polak said that he had considered Costa Rica's request to be a routine one, meeting all the requirements. Various comments had been made suggesting that the relatively large role played by manufactures in Costa Rican exports raised doubts as to the propriety of the request. In that connection, reference had been made to the spirit of the compensatory financing facility. That spirit was embodied in a voluntary decision on the part of a limited number of industrial countries not to make use of the compensatory financing facility, which in principle was available to all Fund members. All exports should be included in the calculation of a shortfall when members applied for compensatory drawings; there was nothing in the decision permitting either the staff or the member to exclude exports of manufactures just because those happened to be on the shortfall side. Among the member countries requesting compensatory drawings for shortfalls that included significant components of manufactures, he recalled Korea, Pakistan, and Brazil. Unless it was decided to amend the decision, it seemed inappropriate to object to any particular request for compensatory financing on the grounds that manufactures were a large component of the shortfall.

The staff representative from the Western Hemisphere Department, responding to questions regarding the appropriateness of Costa Rica's exchange rate and the high current account deficit in the program, noted that Costa Rica maintained a flexible exchange rate policy, and the staff therefore followed exchange rate developments carefully. The real effective exchange rate, calculated for end-June 1983, suggested that the exchange rate was not out of line. It would be recalled that the real effective exchange rate had depreciated substantially since 1981. Compared with the base year 1978, a year of balance of payments equilibrium and relative price stability for major export commodities, the real effective exchange rate index at the end of 1982 had stood at 94. During the first six months of 1983, there had been no change in the real effective exchange rate. Wholesale prices in Costa Rica had increased by about 4 percent in the first six months of 1983, while in the United States, the cost of living had increased by about 2.5 percent. At the same time, the Costa Rican colon had been devalued from ₡ 40-₡ 41 per U.S. dollar or by about 2.5 percent. Furthermore, certain fiscal measures, including the elimination of the 4 percent ad valorem tax on nontraditional exports to countries outside the Central American region and the 1 percent tax on exports based on the exchange rate differential, had been implemented to help Costa Rica's exports. Consequently, the staff felt that the banking exchange rate was not out of line at present.

A better indicator of the appropriateness of the exchange rate would of course be developments in the overall balance of payments, the staff representative went on. In the first eight months of 1983, the balance of payments achieved a modest surplus; for Costa Rica, which had lost over $1 billion of reserves in the past three years, that small surplus was a giant step forward. Therefore, even from the point of view of the balance of payments, the exchange rate was not considered inappropriate. The staff emphasized, however, that the exchange rate should continue to be managed flexibly in the light of balance of payments developments.

The high current account deficit under the program was due to several factors, the staff representative from the Western Hemisphere Department explained, one of which was statistical rather than substantive. In nominal terms, the current account deficit in the balance of payments projected for 1983 represented a reduction of 40 percent from the deficit registered in 1980, namely, from $660 million to $283 million. However, the current account improvement in nominal terms was not reflected in the ratios to GDP because the GDP value expressed in terms of U.S dollars had declined sharply in 1981-83 as a result of the large devaluation of the colón. Another factor was the sluggishness in export growth, which was precisely the reason for the authorities' request for a drawing under the compensatory financing facility. Finally, interest payments had almost tripled during 1980-83. Thus, it had not been possible to lower the current account deficit much below what had already been projected in the program.

The staff representative from the Research Department added that foreign exchange stringency had been one factor militating against the growth in manufactured exports over the years. Cutbacks in imports of necessary raw materials had impeded the output of manufactured goods. The problem had first been experienced in 1980, and there was no indication that it had been intensified in the shortfall year. To the extent that exports had been affected in the two preshortfall years, as well as in the shortfall year itself, the trend of exports had been lowered, and it was not possible for the staff to determine precisely whether or not the shortfall had increased.

It should also be noted that the projections of exports of manufactures and the category "other" exports for the two postshortfall years did not envisage an early recovery, the staff representative continued. The rates of growth of value that were projected for 1985 were roughly in line with the rate of world inflation. When account was taken of inflation, there was an implicit further reduction of volume in 1984 and no volume increase in 1985. The projected values of manufactures and other exports for the two postshortfall years would be less than they had been in the year immediately preceding the shortfall year.

The problems underlying the shortfall in meat exports were of a bilateral nature, and the details were not fully known to the staff, the staff representative explained. Quality control and labeling standards had apparently not been met, but the problems seemed to have been resolved after several months of discussions between the U.S. and Costa Rican authorities. It was extremely difficult for the staff to sit in judgment on the two countries and appear to be indicting the exporting country. Overall the staff was satisfied that compensatory financing was justified, based on the requirement that the export shortfall should be largely beyond the control of the member. It should also be kept in mind that the size of the overall shortfall was substantially larger than the proposed drawing. There was thus a safety margin, even though the shortfall in a particular export sector might not be entirely beyond the member's control.

The inclusion of manufactures in the calculation of the shortfall, a continuing operational feature since the facility was established in 1963, had worked both ways, the staff representative observed. Over the years, manufactured goods had been a growing component of the exports of primary producing countries, and the inclusion of those exports had tended to offset the shortfalls in other components or even to eliminate them; but in the recent past in particular, owing to the intensity of the recession, there had been cases of compensation partly related to shortfalls in exports of manufactures.

The development of the compensatory financing facility over time, the staff representative from the Research Department suggested, had probably been influenced by the idea that the facility should address balance of payments problems arising from those sectors that had experienced fluctuations from year to year. It was in that spirit that the Executive Board had agreed in 1979 to expand the coverage of the facility to include workers' remittances and travel receipts as well as earnings from primary commodities. The rationale had been that earnings from those sources could be affected by factors beyond the control of the member, such as recession, just as much as primary commodities.

Mr. Connors said that in light of the staff's responses, he could go along with Costa Rica's request, especially as the shortfall was much larger than the requested drawing.

His point had not been that the exchange rate was presently out of line, Mr. Connors added, but that problems with the exchange rate and import management might have affected exports and the calculation of the shortfall for the period in question. The problem affecting exports of fresh meat had, he understood, been one of sanitation, and not one of protection. In fact, it was implied in the staff paper that other foreign suppliers of meat had displaced Costa Rica in the U.S. market.

Mr. Feito observed that, as the staff representative had pointed out, Costa Rica had managed its exchange rate policy flexibly. There had been a substantial devaluation, in both nominal and real terms, during the period being analyzed, and it was difficult to attribute responsibility for the shortfall in exports of manufactures to exchange rate policy. Perhaps those who had suspected that the exchange rate had played a role had overlooked the weak effect of prices on exports in comparison with income effects; exports in the short run were determined primarily by the level of income in all countries. Because the main market for Costa Rica's exports was in the Central American region, it was reasonable to assume that the main cause of the shortfall in manufactured exports was wholly beyond the control of the authorities. It was not only that the rate of growth of some economies in South America had been extremely low in the last few years; those countries were also facing severe liquidity constraints, with a significant effect on the exports of other countries in the area that had been able to develop a small export base of manufactured products.

As had been clearly stated during the discussion, Mr. Feito observed, nothing in the decision on the compensatory financing of export fluctuations prevented a drawing by a country that might have a large export base of primary products but also a certain component of manufactured products. It would be ironic if the Fund advised developing countries to diversify their exports and to become less dependent on a few primary commodities, and then exclude from compensation under the facility the products resulting from that diversification effort. Such action might contradict the spirit and the overall objectives of the facility, and even be seen by some countries as a deliberate effort to impose a pattern of production according to which developing countries would supply primary products and raw materials to developed countries. That would of course be tantamount to protectionism. There should be no question of changing the Fund's policy on compensatory drawings to exclude developing countries that produced some manufactured goods from drawing under the compensatory financing facility.

It should be obvious, Mr. Feito added, that it was impossible for a small and open economy, like that of Costa Rica, to control the prices and external demand for its exports, which fluctuated in response to market developments during a phase of stagnating and shrinking flows of international trade, as during the past two years. The staff had made a prudent assumption about the recovery of international trade in the years ahead, showing that Costa Rica's export shortfall would be temporary, because its exports were a function of the projections for international trade made in connection with the Fund's analysis of the world economic outlook.

The Executive Board then took the following decision:

Purchase Transaction - Compensatory Financing Facility

1. The Fund has received a request by the Government of Costa Rica for a purchase of SDR 18.6 million under the Decision on Compensatory Financing of Export Fluctuations (Executive Board Decision No. 6224-(79/135), adopted August 2, 1979).

2. The Fund notes the representations of Costa Rica and approves the purchase in accordance with the request.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Decision No. 7517-(83/132), adopted
September 7, 1983

2. POLICY ON ACCESS TO FUND RESOURCES - DRAFT REPORT TO INTERIM COMMITTEE

The Executive Directors took up a draft of a report from the Executive Board to the Interim Committee on the policy on access to the Fund's resources (SM/83/198, 9/2/83).

Mr. Erb made the general observation that the draft of the report had succeeded in antagonizing and feeding the worst suspicions of those members holding a particular view on the temporary nature of financing by the Fund and on the Fund's requirements in the future for financing. A large part of the problem might be presentational. For instance, the description in Section II of the background to the Interim Committee's discussion on the policy on access began by restating the theme that had dominated the staff's line of thought in the papers prepared for the discussion of the size of the Fund under the Eighth Quota Review. In essence, the notion was that the financing needs of member countries were large and growing, and that the Fund should play a role by financing some share of that growing need. The following statement, which was perhaps one of the most difficult to accept, suggested that those not accepting that view would be indicating an unwillingness to support the role of the Fund in maintaining the stability of the international financial system. In depicting various views, the staff should as a minimum set out the reasoning of those who emphasized the temporary nature of Fund financing and explain why they considered, in looking beyond 1983 and especially to 1984, that the Fund should proceed on the expectation that the world economic recovery would continue, that Fund programs would for the most part be successful, and that member countries would make the necessary policy adjustments in response to the transition under way.

To be sure, Mr. Erb added, the future was uncertain. Should the world economy fail to recover, and should financial stresses become worse in 1984 and 1985, it might become necessary to respond, perhaps with continued large-scale lending or even with more fundamental changes. But if decisions affecting the future course of Fund financing were based on the assumption of an ever-growing role for the Fund as a financial intermediary in meeting the general financing needs of members, expectations were likely to become the reality, irrespective of the course of world economic and financial developments. In short, there was a fear on the part of his authorities that the "need" for Fund financing would expand to meet the "supply," and that the ability of the Fund to respond to members' temporary financing needs in the future would be eroded, so that the ability of the Fund to deal effectively with systemic problems would also be eroded. If that view was to be presented in the report to the Interim Committee, it should not be done in such a way that implied that those who favored reductions in access limits were in effect favoring a reduction in the role of the Fund.

As a second general comment, Mr. Erb observed that there was no agreement yet among Executive Directors on the continuation or the nature of enlarged access policy after the entry into effect of the Eighth General Quota Review. Those who took the position that they could accept the continuation of the policy beyond 1984 had done so subject to definite conditions being met, including questions relating to financing, as well as judgments on the future phasing down of access limits.

His third general comment concerned the strong presumption in the report that the General Arrangements to Borrow (GAB) could be activated to finance enlarged access to the Fund's resources, Mr. Erb stated.

Such references as there were to the criteria for activating the GAB suggested that those criteria were much looser than they actually were in the decision expanding the GAB.

Finally, Mr. Erb added, another area where the Executive Board would need the advice of the members of the Interim Committee concerned not only the level of access, either under the enlarged access policy or under the Fund's special facilities, including guidance on the future phasedown of access limits, but also guidance on the scale of access within the limits.

Mr. Reddy commented that it was important to have a common understanding of the terms used to describe groupings of Executive Directors in presenting their views, and for those terms to be used consistently throughout the report. What criteria were used in mentioning the preferences of a single Director? There were no doubt many Directors who would welcome having their individual viewpoints highlighted.

The Chairman replied that there was a convention for referring to the support given to various positions taken by Executive Directors. The Secretary could explain the precise meaning of the references to various numbers of Executive Directors during the paragraph-by-paragraph consideration of the report. It was difficult to strike the right balance in mentioning the preferences of individual Directors; the purpose of discussing the report in draft was to introduce more shading and bring a better balance to the whole report.

Mr. Salehkhou considered that the staff had attempted to present a comprehensive and concise description of the Board's discussion on the policy on access to the Fund's resources. However, various amendments and deletions were necessary in order to present to the Interim Committee a more balanced report that reflected the conflicting positions of Executive Directors. It was striking that the presentation of the Board's deliberations was supportive of one particular position, namely, that of those advocating a reduction in limits on access to the Fund's resources.

To illustrate, Mr. Salehkhou referred first to the section on access limits, which faithfully reproduced the various positions taken in the Executive Board. Yet a full paragraph had been included on the so-called two-tier system or approach, which, like the so-called grandfather clause, had been given little support and had actually been opposed by most Directors, who felt that it was both complex and unnecessary under present circumstances. He failed to understand the purpose of including in the report a proposal that had been rejected.

Second, the section of the report on the financing of the enlarged access policy did not seem to reflect the Board's deliberations adequately, Mr. Salehkhou added. It left the impression that those Directors in favor of maintaining present access limits in terms of quotas had no views with respect to the constraints on the Fund's liquidity. Furthermore, the section made no reference at all to the expected rapid improvement in Fund liquidity after 1986 as a result of a significant reflow of ordinary resources to the Fund and of the projected world economic recovery. Thus, it would be desirable to rewrite that section to mention the projected improvement, alongside reference to the views expressed by some Directors on the insufficient adjustment in quotas under the Eighth General Review and the need for surplus countries to provide the Fund with additional resources.

Third, Mr. Salehkhou suggested that the section on access to special facilities could perhaps be improved by adding some of the arguments in support of the various positions on the matter. Finally, in the section on future changes in access limits, the presentation of propositions that had received little support or had been rejected by the Board could hardly be justified. He was referring in particular to the proposals for a precise timetable for the phasing out of the policy on enlarged access and for a preannounced phasedown of access. Likewise, the necessity for referring to the reduction in existing access limits was doubtful, since that had been opposed almost unanimously.

Mr. Joyce asked whether he was right in assuming that when a decision on the policy on enlarged access was made, it would be a decision by the Executive Board, and that the report was in fulfillment of the request by the Interim Committee to be informed about the status of the Board's considerations as well as an attempt to seek ministerial guidance before the ultimate decision was reached.

The Chairman confirmed Mr. Joyce's understanding. The report by the Executive Board should elicit guidance from the Interim Committee and facilitate the final decision, which would have to be taken in the Executive Board. The Interim Committee had no decision-making authority.

Mr. Malhotra suggested that it would be of assistance to Ministers if a list was attached to the draft report, showing how each country's access would be affected under the various proposals, namely, for limits of 150 percent, 125 percent, and 102 percent of quota. It would be recalled that a similar listing had been attached to the draft report on members' increases in quota.

Mr. Mtei remarked that beyond the apparent failure to reflect properly the views expressed in the Executive Board, there was no reflection in the report of the serious emphasis placed by some Executive Directors on the need to determine the optimal needs of members for financing over the period under review, and how they would be financed, rather than merely setting out broad estimates of commitments at different access limits. Furthermore, although he too had had the impression that the Executive Board had rejected the idea of a two-tier system, it seemed still to be promoted in the draft report.

The Chairman responded that a synopsis made by the staff of the Executive Board's most recent discussion of enlarged access had revealed interest in the two-tier approach on the part of several Executive Directors. The staff could not have eliminated that option without distorting the view emerging from the discussion, as shown in the record.

The criticism of the draft report from various sides might well be a sign of its objectivity, the Chairman remarked. He suggested that, in taking up the paragraphs one by one, Directors should refrain from attempting to shade the description of their own positions too precisely, with the result that Ministers would find it difficult to discern the main options, which would in fact eventually consist of a choice between a few percentages. The aim should be to show the consequences of those choices, and in that connection, the list proposed by Mr. Malhotra would help to give substance to them.

The Executive Directors then took up the draft report, paragraph by paragraph.

Section I - Introduction

Mr. Kafka wondered whether it might not be useful to add a footnote to Section I, explaining why for all practical purposes it would take an 85 percent majority to maintain the decision establishing the policy on enlarged access.

Mr. Malhotra recalled from the previous discussion the explanation by the Director of the Legal Department that, while the extension of the facility would require 85 percent of the total votes, the access limits could be decided by a simple majority. Thus, any reference to the voting requirement should be comprehensive, or it should be left out altogether.

Mr. Kafka added that his idea was to make it clear that the facility could be extended, if the period for repurchase did not go beyond the normal three to five years and if the facility did not float in the reserve tranche, by a simple majority, but that the present type of facility could not. He would not insist on the addition of a footnote, however.

Mr. Lovato suggested that Section I would be more symmetrical if the first full paragraph was broken into two, so that the second and third paragraphs referred respectively to the present limits on use of the Fund's ordinary resources and of its special facilities.

Mr. Morrell asked whether it was correct to say that cumulative access to the Fund's resources could be more than 600 percent of quota in exceptional cases. If not, the reference to exceptional cases should precede the reference to cumulative access, net of scheduled repurchases, up to 600 percent of quota.

The Chairman said that his understanding was that in some exceptional cases, for instance, if a country's quota was clearly out of line, even the 600 percent limit could be surpassed. There would seem to be a logical relationship between the 150/450 percent annual limits and the cumulative limit of 600 percent.

The Deputy Director of the Exchange and Trade Relations Department commented that it had been made clear when the guidelines were agreed that the 150 percent and 450 percent limits could be exceeded in exceptional cases, although it had been less clear whether the 600 percent limit could also be exceeded.

The Director of the Legal Department noted that the text of the new guidelines agreed in 1981 (see Selected Decisions of the Executive Board) showed that allowance was made for flexibility in their application, so that in certain circumstances, members would be able to borrow larger amounts than the limits would normally allow. Thus, it would seem that the annual and the cumulative limits could be exceeded in exceptional cases.

Mr. Erb said that his recollection of the record, and that of his authorities who had been involved in the preparatory work leading up to the establishment of the enlarged access policy, suggested that the 600 percent limit itself was an exceptional feature, and that even going beyond the 450 percent limit would call for quite exceptional circumstances. Going beyond the 600 percent limit was not precluded--the Articles of Agreement permitted such exceptions--but over time that limit had taken on a firmer status than might be inferred from the discussions preceding the adoption of the decision on enlarged access. As to how often amounts available under arrangements would go beyond the 450 percent limit, the considerations to be taken into account included the possibility that the special circumstances of some countries that had already made use of Fund resources might warrant those members making full use of the enlarged access limits of 150 percent and 450 percent, which would take them beyond the 450 percent limit.

The Chairman, responding to a question by Mr. Schneider, confirmed that the annual limit had been exceeded in Korea's stand-by arrangement with the Fund, because its quota had been small in relation to its economic size, and because of the strength of its adjustment effort.

The staff representative from the Exchange and Trade Relations Department confirmed that the guidelines on access limits had been agreed upon in December 1980, and that Korea's request for a stand-by arrangement had been approved in February 1981 (EBM/81/22, 2/13/81), preceding the adoption of the decision on enlarged access in March 1981.

Mr. Morrell suggested it be stated that cumulative access "can be" rather than "is" up to 600 percent of quota.

Mr. Conrado noted that since all the limits could be exceeded in exceptional circumstances, and because exceeding the annual limit might lead to the overall limit being exceeded, it would seem more accurate to delete the word "annual" in the sentence referring to arrangements in exceptional cases for larger annual amounts.

Mr. Salehkhou proposed that the reference to present access limits on compensatory financing should mention 100 percent of quota under either the decision for compensatory financing of export fluctuations, or that for the compensatory financing of fluctuations in the cost of cereal imports.

Mr. Erb considered that it was important to come to grips with the problem arising from the different contexts in which exceptional circumstances were being cited. The issue was relevant to the U.K. proposal for exceeding the limits in exceptional circumstances. "Exceptional" had one meaning in the Articles of Agreement, but the U.S. authorities, based on their historical knowledge, took a view based on the Managing Director's summing up at the conclusion of the Executive Board's discussion on enlarged access to Fund resources on December 19, 1980 (EBM/80/188). The Managing Director had concluded his remarks on access limits by referring to the relationship between the 600 percent of quota limit and the 450 per cent limit over three years by saying that he agreed with Mr. de Vries that "it is good to have a signpost which indicates the maximum use that a country that has already had recourse to the Fund can in exceptional cases envisage reaching." The explicit notion at that time had thus been that the 600 percent limit would be exceptional, without precluding the possibility of going beyond it. The U.S. view therefore was that a guidepost of 600 percent had been set for the limit that could potentially be used only in exceptional cases.

The Chairman agreed that in a sense there was a second tier applicable in exceptional cases. The idea had not been to have an automatic relationship between the 150/450 limits and the 600 percent limit, which was meant to be an exceptional signpost. But the possibility of exceeding even the 600 percent limit in exceptional cases had not been precluded, even though it had not so far proved necessary to grant such exceptions. All those aspects of the guidelines should be described accurately in the draft report. He proposed that clearer language be drafted for consideration later in the discussion.

Section II - Background to the Committee's Discussions

Executive Directors had before them a redraft of Section II by Mr. Nimatallah, which read:

> Executive Directors are aware that the financing needs of many members remain large in relation to their quotas. Executive Directors are also aware that there may be constraints on the Fund's ability to raise sufficient funds to finance those needs.
>
> Executive Directors have therefore agreed that, while the enlarged access policy is a temporary one, it should continue after the Eighth General Review of Quotas, together with the associated expansion in the General Arrangements to Borrow, comes into effect. While quotas should again become the main

basis for the Fund's financial operations, continuation of the enlarged access policy, together with the expected large use of special facilities, will require further recourse to borrowing. Future access limits under the enlarged access policy, and for the special facilities, must therefore strike an appropriate balance between members' needs and the availability of financing to the Fund.

Executive Directors agreed that, whichever access limits were adopted, the annual access limit was not to be treated as a target. They also agreed that the amount of access in individual cases would, as now, vary with the circumstances of the member, in particular the need for financing from the Fund and the strength of its adjustment program. Executive Directors are continuing their review of the principles currently determining access in individual cases. They reaffirmed that the Executive Board had to retain the present flexibility to approve arrangements for amounts above the access limits in exceptional circumstances.

The main areas on which Executive Directors are seeking the advice of members of the Committee include:

- the level of access limits under the enlarged access policy following the effective date of the Eighth General Review of Quotas;

- the level of access limits for the special facilities; and

- future changes in access limits.

Mr. Lovato, referring to the first sentence of the staff draft, noted that it seemed more important to emphasize the availability of finance from various sources rather than the uncertain recovery in the world economy. In the latter context, it would be necessary to mention also members' adjustment policies.

Mr. Wicks observed that the first two sentences of the staff draft were somewhat unbalanced because of their brevity. The improvement in members' economic prospects depended on various things, including what the members did in terms of their own adjustment program. The sentences might well be omitted.

Mr. Laske said that he supported the view of Mr. Erb and Mr. Wicks that the opening sentences of Section II were ambiguous and open to misunderstanding, and should therefore be left out. He was attracted to the proposed draft submitted by Mr. Nimatallah; as far as the first paragraph was concerned, he would propose mentioning that the financing needs of many members "may remain large," rather than suggesting that they would in fact remain large. He did not exclude the latter possibility, but some measure of optimism should be retained in the report.

The Chairman proposed that Executive Directors accept Mr. Nimatallah's draft as the basis for their discussion of Section II.

Mr. Conrado wondered whether it would be factually correct to say only that members' financing needs "may remain large in relation to their quotas."

The Chairman remarked that it seemed necessary to qualify the statement in some way, because a view was being cast over a number of years.

Mr. Malhotra recalled that the staff papers on enlarged access had concentrated mainly on the period up to April 1986. It was in the context of members' needs during that period that there might be constraints on the Fund's liquidity. It would be inconsistent, in the face of reasonable estimates, to indicate that the needs "may be large." He preferred Mr. Nimatallah's original draft in order to provide the basis for saying that there was a constraint on the Fund.

The Chairman suggested that it could be stated either that the financing needs remained large and that there were constraints on the Fund, or alternatively, that Executive Directors were aware that members' needs "are and may remain large...," and that "there may be constraints on the Fund's ability to raise sufficient funds to finance those needs."

Executive Directors accepted the Chairman's proposal.

Mr. Erb said that he still had a problem with the basic thrust of the reference to financing needs, which in a general context suggested a much broader concept than was inherent in the notion of need in relation to the use of Fund resources. The idea of the Fund providing temporary balance of payments financing was completely lost. Clearly, the Fund had been making available large-scale financing over the past two years to assist countries in adjusting their external payments positions to bring them in line with available financing; such adjustments remained necessary in 1983, and would probably continue to be so in 1984, but the outlook beyond remained open. It would be more consistent with the financing role of the Fund, and would also cover the point made by Mr. Lovato and others, if the relationship between members' adjustment to bring their current account positions in line with expected financing, and the provision by the Fund of temporary assistance to offer more time and scope for making that adjustment, was reflected in the draft. Both the staff's and Mr. Nimatallah's draft conveyed the notion of the Fund having a regular financing role in meeting members' balance of payments financing needs, rather than a temporary financing role to help countries adjust.

Mr. Malhotra said that in approaching the issue of financing in the context of the Fund, and of its Articles of Agreement, the Executive Board was not taking up the matter of financing in general. It was referring to financing in the context of a specific Fund policy.

Mr. Polak said that he shared Mr. Erb's concern, and wondered whether a reference to the legitimate needs of many members for financing from the Fund would encapsulate all the requirements of the Articles but not refer to financing in general.

The Chairman suggested that the sentence read: "Executive Directors are aware that the needs of many members for temporary balance of payments financing by the Fund are and may remain large in relation to their quotas."

Mr. Malhotra reiterated his view that, in referring to a policy under which all the terms and conditions for the use of the Fund's resources had been laid down, it seemed unnecessary to refer specifically to temporary financing. He was aware that, if only by implication, there was a view that the enlarged access policy was not totally in conformity with the concept of temporary financing, but he wondered whether it was appropriate to complicate the report with such subtleties.

The Chairman noted that the word "temporary" simply recalled the precise concept of the Articles of Agreement under which the Fund provided temporary balance of payments financing, and not long-term financing. There was no intention to limit present policies; temporary balance of payments financing was a term covering all the facilities for use of the Fund's resources.

Mr. Joyce observed that it was in fact advisable to refer to temporary balance of payments financing needs, even though his view of temporary and that of others might not always coincide. The fact was that it was not the role of the Fund to finance all balance of payments needs or, for that matter, to finance all adjustment. There were balance of payments needs that might arise from the pursuit of development policies, in which case financing might need to be found elsewhere.

Mr. Erb commented that it was also important, if it was to be stated that there was a remaining need for Fund financing, to indicate that there was also a need for further adjustment in the balance of payments positions of member countries. There were two ideas to be conveyed; adjustment must continue, whether or not countries were using Fund resources; it was not simply a matter of balance of payments financing by the Fund.

Mr. Zhang noted that it seemed inappropriate to mention temporary balance of payments financing, because use of the Fund's resources under the extended Fund facility was for structural adjustment, and was not really temporary. In addition, if the need for adjustment in developing countries was to be mentioned, it would be necessary to refer to the underlying reasons, including the unfavorable external environment. The paragraph as it stood was short and clear; the essential points would be lost if it was cluttered with additional references.

Mr. Nimatallah said that he did not recall any discussion in the Executive Board of the need for adjustment. Executive Directors had expressed awareness of the likelihood of continuing needs for financing and of the possible strains on the Fund's resources.

Mr. Wicks remarked that he could envisage a settled international monetary situation, in which the financing needs of many members would nevertheless remain large in relation to their quotas, possibly as a result of development policies. It was the character of the financing need, and not its origin, that was important. If the sentence in question was to be retained, it would thus need some qualification, although he repeated his earlier query about the need for any preamble at all.

Mr. Nimatallah believed that the preamble was relevant because the Executive Board had had the background described in mind when discussing policy on enlarged access. It was necessary to strike a balance between the two recognized facts of members' financing needs and possible strains on Fund resources.

The Chairman indicated that the idea might be captured if the paragraph was prefaced with the words "in spite of the progress made toward adjustment...." It was recognized that adjustment was taking place, and that the financing gaps of many countries on external account were being reduced, but that for many reasons, which were not spelled out, the need for financing remained large.

Mr. Erb commented that the different views in the Executive Board about adjustment and the prospects for financing influenced judgments on the need to continue access limits and the need to phase down those limits. Perhaps those views could be mentioned in the part of the report dealing with the positions of different groups of Directors on the precise percentage of those access limits and their phasing down, rather than attempting to reach a consensus in a preamble. Alternatively, the preamble could be dropped from the report.

Mr. Malhotra stated his view that the background should be described because most Executive Directors had stressed the continuation of a difficult financing situation, including problems with capital markets, and a high debt burden entailing large debt service payments. That whole situation ought to be caught in summary.

Mr. Morrell agreed with others on the need for a short preamble. The Committee needed to know that Directors were of the view that there would be a continuing need for the type of financing the Fund provided. It was not helpful however to explain the factors underlying that view, because that would entail endless debate on the weight to be given to the various factors.

The Chairman proposed that the paragraph read: "While Executive Directors noted the progress made in the adjustment process, they were aware that the needs of many members for the type of temporary balance of payments financing the Fund provides are and may remain large in relation to their quotas. Executive Directors were also aware that there may be constraints on the Fund's ability to raise sufficient funds to finance those needs."

Mr. Erb suggested that a note of optimism could be added to the first sentence, if it mentioned that progress toward adjustment was expected to continue.

Mr. Zhang repeated his belief that such additions to the formulation were not really necessary, because they would tend to multiply.

The Chairman suggested that both Mr. Erb's and Mr. Zhang's points could be met if the sentence referred to the progress toward adjustment that was under way, thereby indicating that it was a dynamic process.

Executive Directors accepted the Chairman's proposals.

Mr. Laske stated that the first sentence of what had become the second paragraph read as though there was unqualified agreement in the Executive Board on the continuation of the enlarged access policy. He could not be part of that agreement, for two reasons. First, the willingness of his authorities to agree to continue the policy was conditional on agreement on certain points, including a phasedown of the policy after what should only be a temporary continuation. The second reason, which he had stressed repeatedly, was the need to settle the question of financing before a final decision was reached. Qualifications to that effect should be introduced in the draft report.

Mr. Nimatallah commented that the sentence, which was also in the staff draft, seemed to him to reflect what the Executive Board had agreed in principle. The precise limits and future course of the policy would be determined at a later stage. Those aspects were also dealt with in Section III, although of course it was up to the Executive Board to decide whether it wanted to qualify the sentence under discussion.

Mr. Malhotra considered that the draft language was in total conformity with the Managing Director's summing up of the Executive Board's review of access to the Fund's resources (EBM/83/111, 7/25/83). The general perception had been that the enlarged access policy should continue, as part of the institution's effort to respond to the exigencies of the current international situation. He agreed with the Chairman that while there might be differences of view about the limits or about the future of the policy, members of a cooperative institution would be failing in their duty, and might not even be true to their own positions, if for purely technical reasons they indicated that the policy was not to continue, irrespective of what happened to the international monetary system and to a large number of countries whose needs were being specifically recognized in the preceding paragraph. The basic issues were serious and Executive Directors should approach them accordingly.

Mr. Wicks said that, like Mr. Laske, he had not understood that any agreement had been reached. The process had been one of discussing the extension of the enlarged access policy in the round. It would be false to claim that agreement on its continuation had been reached in principle, and that the terms and conditions of that extension were to be left for the second stage of the discussion. The Executive Board would take a decision on the whole package; until it did, there was no agreement among the Executive Directors.

Mr. Conrado expressed the belief that it was clear from the Managing Director's summing up that there was a widespread consensus in the Executive Board on continuing the enlarged access policy. While there had not been a definite decision, that broad agreement was quite evident. Moreover, some of the qualifications that Mr. Laske wished to see mentioned would appear to be covered already. For instance, it was stated in the paragraph under discussion that Executive Directors agreed that the enlarged access policy was temporary, and that there should be an appropriate balance between members' needs and the availability of financing to the Fund. To state right from the beginning that the accord reached was subject to certain conditions would detract from the objectivity of the report and defeat its purpose, namely, to bring out the issues as a background against which the consequential decisions would be taken.

Mr. Joyce observed that the true status of the extensive discussions that Executive Directors had had was probably somewhere between the two views of it that had been mentioned. There were many aspects of the matter on which Executive Directors were in wide disagreement. The spirit of those discussions, which had been reflected in the Managing Director's summing up, was a broad measure of understanding to avoid mentioning the issue of whether or not--by and large, and subject to the working out of important details--the Executive Board would be able to decide to extend the policy on enlarged access. That understanding could perhaps be conveyed if it was stated in the report that "Executive Directors have decided that, subject to agreement being reached on the modalities, the enlarged access policy, which of course remains a temporary one, should continue...."

Mr. Erb commented that if those modalities included understandings on access limits in the future--not only for 1984 but for 1985--the qualification might be sufficient. Great weight would be placed on the modalities, which however could perhaps be clarified under the appropriate paragraphs in the report. But even if there was broad enough support--above 85 per cent of the voting power--another important dimension of the enlarged access policy was whether or not the borrowed resources would be available. The lack of financing could itself be a limit on the use of enlarged access.

Mr. Hirao said that it should be indicated that agreement could be reached on enlarged access, on terms and conditions to be discussed by the Interim Committee.

Mr. Erb considered that the reformulation was too open-ended. It would need to be stated that availability of financing was one of the terms and conditions, and specific mention would have to be made of how temporary the policy would be.

The Chairman observed that the whole idea was to express the agreement in the Executive Board that, on the effective date of the Eighth General Increase in quotas, the access limit would not automatically revert to 100 percent of quota. That agreement did not mean that the other decisions were purely decisions of detail. It should be sufficient assurance to those who felt strongly about certain conditions to mention that the policy, which was a temporary one, would continue, subject to agreement on certain terms and conditions.

The Director of the Legal Department suggested that it might be more acceptable to some Executive Directors to refer to various aspects of the enlarged access policy, rather than to terms and conditions of that policy, with or without specific mention of financing or the access limits, which were not stated in the decision establishing the policy. It might also be preferable not to begin the sentence by saying that Executive Directors had decided, because there had been no formal decision. Since most of the decisions of the Executive Board were reached by consensus, it might be more appropriate to say that they had agreed or were of the view, subject to agreement on various aspects of the policy.

Mr. Joyce inquired whether there was a consensus if 10 percent of the voting power was in opposition. Consensus seemed to call for more than 85 percent of the voting power.

The Director of the Legal Department said that consensus was understood to mean that no opposition was formally recorded, even though some might not favor the decision.

The Chairman noted that less formal language that did not raise the specter of unanimity would be: "Executive Directors were of the view that, subject to agreement being reached on various aspects of the enlarged access policy, the policy, which remains a temporary one, should continue after the Eighth General Review of Quotas comes into effect."

The Executive Directors accepted the Chairman's proposal.

The Director of the Legal Department said that it might be better not to state, in the second sentence of the second paragraph, that quotas "should again become" the main basis for the Fund's financial operations, in order to avoid the implication that quotas were in fact no longer the main source. It could simply be stated that quotas should be the main basis.

Mr. Morrell wondered whether it could be said that the Fund should increase its reliance on quotas.

Mr. Malhotra remarked that he would have no objection to implying that there should be a further increase in quotas.

The Chairman proposed that the amendment suggested by the Director of the Legal Department be accepted.

Executive Directors then turned to the third paragraph of the redraft of Section II.

The Chairman recalled that the question of flexibility to exceed the access limits in exceptional circumstances was to be considered further.

Mr. Erb noted that an additional criterion, which had been considered in the context of the discussion on the scale of access within the limits, was the duration of use of the Fund's resources, as well as the need for financing and the strength of the adjustment program. He had in mind the presumption that, if a country had made use of Fund resources for three or four years under a Fund program, its access to those resources would at some moment in time be reduced, and the member would eventually become a net repurchaser.

The Director of the Legal Department remarked that if Mr. Erb was referring to the concept of a member's record and the need to avoid continuous use of the Fund's resources over a protracted period, a short way of introducing that concept in the sentence would have to be found.

Mr. Malhotra remarked that the reference to the circumstances of the member should cover the relevant points, of which there were a number, only two of which had been specified, and had in fact even been highlighted in the staff's original paper on enlarged access. Furthermore, the period of use of Fund resources could be due to external circumstances, and not merely to deficient policies on the part of a member. He was not suggesting that Mr. Erb's point was not valid, but simply asking whether a full listing of the various aspects was necessary.

Mr. Erb explained that he was looking for a way of making explicit the connection between the expanded access limits under the policy of enlarged access and the provisions of the Articles permitting waivers in circumstances that did not include use of the Fund's resources on a prolonged basis.

The Director of the Legal Department said that reference could be made to the duration of a member's financing from the Fund.

Mr. Erb suggested referring to the duration of that financing.

Mr. Conrado remarked that referring to the duration of financing might be misunderstood as a reference to the different lengths of arrangements for different countries. More generally, he saw no need to highlight any points, other than to mention the circumstances of the country, because Executive Directors would wish to highlight different points. If necessary, to meet Mr. Erb's point, mention could be made of the need for, and the previous use of, financing from the Fund.

Mr. Malhotra wondered whether it was accurate to say that Executive Directors agreed on the various circumstances. They had discussed at length the different criteria for deciding upon the scale for financing by a member, and expressed many reservations, which was why the staff draft had referred to the continuing discussion in the Board.

The Chairman recognized that specifying some of the criteria was troublesome for some, but that others had strong views on the enumeration of those criteria. There could be no disagreement on the fact that a member's need for financing and the strength of its adjustment program were determinants of access. Use of the Fund's resources in the past was also of relevance in the sense that access under the limits was reduced by any outstanding use of the Fund's resources.

Mr. Erb suggested that Mr. Malhotra's point might be met by moving the reference to particular criteria from the second sentence to the third sentence, which stated that Executive Directors were continuing their review of the principles currently determining access. The need for financing, the strength of adjustment, and previous use of Fund resources, would be mentioned as being among those principles.

Mr. Zhang said that it would be more accurate to refer to criteria than to principles.

The Executive Directors agreed that the two sentences in question should read: "They also agreed that the amount of access in individual cases would, as now, vary with the circumstances of the member. Executive Directors are continuing their review of the criteria currently determining access in individual cases, in particular the need for, and the previous use of, financing from the Fund, as well as the strength of the member's adjustment program."

The Executive Directors agreed to continue the discussion in the afternoon.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/83/131 (9/6/83) and EBM/83/132 (9/7/83).

3. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 83/61 and 83/62 are approved. (EBD/83/225, 8/30/83)

Adopted September 6, 1983

4. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors and an Assistant to an Executive Director as set forth in EBAP/83/225 (9/1/83), EBAP/83/226 (9/2/83), and EBAP/83/227 (9/6/83), is approved.

APPROVED: March 5, 1984

LEO VAN HOUTVEN
Secretary