

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/133

3:00 p.m., September 7, 1983

J. de Larosière, Chairman

Executive Directors

R. D. Erb
M. Finaish
T. Hirao

R. K. Joyce

G. Laske
G. Lovato
R. N. Malhotra
Y. A. Nimatallah
J. J. Polak

N. Wicks
Zhang Z.

Alternate Executive Directors

J. K. Orleans-Lindsay, Temporary
G. Ercel, Temporary
P. D. Pérez, Temporary
C. A. Salinas, Temporary

T. Alhaimus
T. Yamashita
J. Reddy, Temporary

H. A. Arias, Temporary
G. Grosche

A. S. Jayawardena

T. de Vries
K. G. Morrell
O. Kabbaj
E. I. M. Mtei
J. L. Feito
S. E. Conrado, Temporary
A. Lindø
J. Bulloch, Temporary

L. Van Houtven, Secretary
L. Collier, Assistant

1. Policy on Access to Fund Resources - Draft Report to
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Stand-By Arrangement Page 13

Also Present

African Department: F. d'A. Collings. Asian Department: H. O. Roden.
Exchange and Trade Relations Department: C. D. Finch, Director;
D. K. Palmer, Associate Director; S. Mookerjee, Deputy Director; M. Allen,
H. W. Gerhard. External Relations Department: D. D. Driscoll. Legal
Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy
General Counsel; G. F. Rea, Deputy General Counsel; S. A. Silard.
Secretary's Department: 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. Personal Assistant to the Managing Director:
N. Carter. Advisors to Executive Directors: T. A. Connors, S. M. Hassan,
W. Moerke, Y. Okubo. Assistants to Executive Directors: E. M. Ainley,
H. Alaoui-Abdallaoui, M. B. Chatah, R. J. J. Costa, I. Fridriksson,
V. Govindarajan, A. K. Juusela, H. Kobayashi, M. J. Kooymans, P. Leeahtam,
D. I. S. Shaw.

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

The Executive Directors continued from the previous meeting (EBM/83/132, 9/7/83) their consideration of a draft report by the Executive Board to the Interim Committee on the policy on access to the Fund's resources (SM/83/198, 9/2/83). They took up a draft circulated by Mr. Nimatallah at the previous meeting (see EBM/83/132).

Mr. Finaish suggested that as the third paragraph concerned enlarged access, and not the special facilities, it would be more accurate to say "limits on enlarged access" rather than "annual access limit."

Mr. Kabbaj recommended that the fourth paragraph of Mr. Nimatallah's draft be placed as an introductory paragraph to Section III.

Mr. Reddy said that the word "changes" in the last phrase implied a revision, whereas the Board might find it appropriate to leave the access limits unchanged.

Mr. Morrell commented that "future changes in access limits" was too brief and suggested reinstating the original words in the staff's paper, "the mechanism and principles for future changes in access limits."

Mr. Laske recommended that the words "mechanism and" be deleted because the Board, rather than the Interim Committee, would decide on the appropriate process.

Mr. Erb suggested that the reference to the General Arrangements to Borrow in the first sentence of the second paragraph should be deleted as the Executive Board decision linked the enlarged access review only to the coming into effect of the Eighth General Review of Quotas.

Having concluded their discussion of Mr. Nimatallah's suggested draft of Section II, Executive Directors continued their consideration of the draft report (SM/83/198).

Section III - The Issues

First paragraph

Mr. Laske said that only two limits--annual and cumulative--were mentioned; he proposed the insertion of "a limit for access over a three-year period." In addition, he recalled the difference of opinion on the termination date of the enlarged access policy, and he therefore proposed deleting "at the next review" from the second sentence. At the end of the paragraph, he wished to add the following wording: "...and would indicate an outside limit a country could reach that has already had recourse to the Fund." Of course, previous discussions had indicated that under exceptional circumstances that outside cumulative limit could be surpassed.

Mr. Conrado pointed out that in their discussions, Directors had agreed that the limits would not be regarded as targets.

Mr. Erb indicated his concern that Mr. Laske's suggestion seemed to describe an exceptional limit as a normal outer limit. Also, he wondered why the limits had to be stated explicitly--for example, the cumulative limit was four times the annual limit--when there could be different combinations.

The Director of the Legal Department said that the sentence at the end of Section II, on the Fund's flexibility that could be exercised in exceptional circumstances, should reconcile Mr. Erb's and Mr. Laske's views.

Mr. Reddy, Mr. Malhotra, and Mr. Zhang stated that the word "revision" in the second sentence was misleading, as agreement had been reached, not to change those limits, but only to review them.

Mr. Laske commented that the second sentence seemed unnecessary and proposed its deletion.

Mr. Morrell suggested that the third line be changed to "...could continue to be expressed" because there had been no change. With regard to the exclusions, he believed that "outstanding drawings" rather than "purchases" would be correct because there would be a net, rather than a gross, figure.

The Chairman suggested that Mr. Laske's addition to the last sentence would not be necessary as the meaning would be understood in "cumulative" and "net of repurchases."

Mr. Erb remarked that Executive Directors and government officials were using the framework of three limits in their deliberations, and therefore the three-part breakdown--one-year, three-year, and cumulative limits--should be used consistently in the text. However, it would not be desirable to have a fixed position that prescribed that the three-year limit must be three times the one-year limit and the cumulative, four times. He could foresee circumstances where a different phasedown of the cumulative limit relative to the annual limit would be preferred.

Mr. Malhotra recalled that a consensus had been reached that the present pattern of limits would continue.

Mr. Joyce commented that the wording of the draft allowed a change in the relationship between the limits.

Mr. Erb said that it was not necessary to state "four times the annual access limit." Although three different groups were proposing cumulative limits that happened to be four times the annual access limit, there was no fixed principle underlying the figures. There need not be the same relationship between one-year, three-year, and cumulative limits. Similarly, there was no principle advocating an equiproportional decrease in enlarged access and in the compensatory financing facility.

Mr. Finaish suggested that, in the same sentence, "would be set" should be changed to "would continue to be set."

The Treasurer proposed that the last part of the sentence could be deleted because it would be incorporated in the other figures in the draft. However, a definition of the cumulative ceiling would be necessary.

The Director of the Legal Department agreed that the sentence could usefully be turned into a definition: "The cumulative access limit would continue to be expressed in terms of a total amount of access, net of repurchases scheduled at the time of the approval of an arrangement and excluding any outstanding drawings under the special facilities."

Second paragraph

Mr. Laske said that three groups of Directors holding differing views were identified as "many," "others," and "a further group," implying groups of different size. However, the Chairman's concluding remarks at EBM/83/111 (7/25/83) indicated that, according to the Secretary's count, in terms of voting power, the three groups were about equal. Perhaps words could be chosen to inform the reader that the views had about equal support in the Board.

Mr. Malhotra added that he was troubled by the word "others" in the seventh line and suggested "another group of Directors." The sentence went on to state, "the level at which aggregate potential access in absolute terms would be unchanged." He believed that the Ministers would find that wording confusing and suggested "...potential access for the membership as a whole."

Mr. Mtei commented that a member did not benefit from aggregate potential access but rather from its individual access.

The Chairman recalled that 102 percent had not been chosen at random; that figure expressed the maintenance of a global absolute value.

Mr. Erb remarked that countries that would experience a cut in their maximum absolute amount of access were those with relatively large quotas in relation to their calculated quotas, before the quota increase, in comparison with other members. At the top of page 5, the draft stated "would result in an annual reduction in access for 108 countries," whereas he had suggested "in maximum access for 108 countries." The actual implications of the cut would vary from country to country; whether the result would be an absolute cut would depend on the country's present use of Fund resources.

Mr. Morrell, referring to the sentence about Directors who supported the 150 percent access limit, suggested that as a matter of balance there should be some reference to the effect on maximum access, as stated in the following sentences on the other two groups.

Mr. Malhotra noted that the access limit of 150 percent in nominal terms would not involve any real increase in access.

Mr. Lindø said that the position of his authorities and perhaps of others was not adequately covered in the sentence beginning "a further group of Directors took an intermediate position." He therefore proposed adding "some supporting an annual access limit of about 110 percent and others of 125 percent."

Mr. Polak supported that suggestion.

Mr. Finaish inquired what was the Fund practice in choosing the appropriate adjective before each group? Was it decided by number or by voting power?

The Director of the Legal Department said that adjectives like "many" and "several" were used to describe the number of Directors; however, in cases where it was important to indicate in some way that a Director with significant voting power held another view, it was customary to indicate that fact.

Mr. Nimatallah remarked that the wording of the third sentence implied that only the group supporting the 102 percent access limit was aware of the implications of the limits for the Fund's financial position. He suggested "emphasizing the implications."

Mr. Erb commented that there were two ways to deal with the problem: one was to devote a single paragraph to each group, which would elaborate on the implications that the group saw for the financing requirements and the reasons for its decision on limits. The alternative was to drop the explanatory clauses and to let the Committee members explain why they had chosen a specific limit in their own statements. The liquidity consideration was only one of a number of factors that had led his authorities to believe that the 102 percent limit was appropriate. The decision to implement enlarged access several years previously and the limits that had been chosen had set access for members far above normal during the postwar period; it was a significant real increase in access compared with measures such as imports. Holding access constant in absolute terms for the Fund membership as a whole seemed appropriate in light of the very large increase in absolute access in real terms.

Mr. Laske explained that he had commented earlier on the words used to quantify the groups merely to point out that the impression might be given, incorrectly, that there were three groups of very different size, whereas the groups were equally divided in terms of voting power. It would be beneficial if the Committee members could be made aware that there was an almost even distribution of the three different opinions. He did not want to identify clearly the voting power represented by the three groups.

Mr. Joyce agreed that the three groups were about equal in voting power; it would be helpful to use the same adjective in each case. On the point raised by Mr. Erb, he believed that it would be useful for Committee members to have some sense of the driving force behind the positions adopted by the proponents of the three access limits. The individual Committee member would then explain his particular reason for supporting a position. He had great difficulties with the proposal put forward by Mr. Lind⁹ and endorsed by Mr. Polak. Support for 110 percent should be recorded; however, the drafters should take into account that only two or three Directors upheld that limit and four or five Directors the 125 percent limit.

Mr. Erb, taking into consideration further suggestions and comments by Directors, suggested using "one group," "another group," and "a further group."

The Secretary recalled that at EBM/83/11 (1/12/83) he had noted that the Board had not wished to identify specifically the division of voting power among different views because it wished the Ministers to have maximum leeway in formulating further guidance to the Board. Similarly, it had been the tradition to choose the code words keeping in mind not only the number of Directors holding a certain view but also the voting power that each group represented. In the present case, Mr. Erb's suggestion was a simple and straightforward way of conveying, without actually saying so, that the Board was divided into three groups.

Mr. Malhotra proposed adding "to maintain the present potential access in real terms" to the sentence referring to 150 percent of quota, because the Fund should not ignore the impact of inflation on the purchasing power of its own quotas.

Mr. Polak suggested "the potential access in real terms as originally envisaged."

Mr. Erb said that, in light of the references in the sentences on the other two groups, the sentence on the second group should read "...the limits for the Fund's financial position and noting the very large real increase in access to the Fund at the time the enlarged access was introduced, proposed a reduction."

The Chairman commented that there had been a sharp reduction in the relationship of quotas vis-à-vis imports between the late 1960s and 1981; therefore, the increase in real access had not been so significant.

Mr. Erb said that his calculations indicated that the access limits introduced under the supplementary financing facility represented a significant real increase, taking into account the decline in quotas relative to imports. As a result, access to the Fund had been greater than during most of the postwar period, even excluding the special facilities.

The Chairman remarked that in the mid-1960s quotas had been roughly equal to 12 percent of imports, while in 1980 they had been no more than 4 percent of imports. In the mid-1960s the maximum access had been 100 percent of quota, whereas at present it was about 450 percent, and exceptionally 600 percent. The decline from 12 percent to 4 percent had been offset by a multiplication of access in terms of quotas by 4.5; consequently, although there had been an increase, he was not sure it was by a significant amount.

Mr. Erb said that under the supplementary financing facility and under the policy of enlarged access, there had been a large real increase in access to the Fund relative to imports. During most of the postwar period maximum access, in relation to imports, had been 10-12 percent. Under the 450 percent limit, access amounted to 18-19 percent of imports; and under the 600 percent limit, 24 percent of imports. There had been a large increase in access when the expanded limits had been introduced under the supplementary financing facility, and it had continued under the policy of enlarged access.

Mr. Joyce wondered whether Mr. Erb's comments did not refer to an increase in "maximum" access. Also in the same sentence, it would be more accurate to state "another group of Directors, emphasizing their concern about the limits for the Fund's financial position."

Mr. Erb said that his position on access limits was dependent not only on concerns about the Fund's financial position and financing but on other factors as well.

After further discussion, it was agreed that the sentences would read:

One group of Directors proposed that, in view of the intensity of members' needs for finance in the current circumstances and given the present difficulty of market borrowing, the current access limits of 150/450/600 percent of quota should be retained in order to maintain the potential access in real terms as originally envisaged. Another group of Directors, emphasizing their concern about the limits for the Fund's financial position and noting the large real increase introduced in the maximum access in the late 1970s, proposed a reduction in the limits to 102/305/407 percent, the level at which aggregate potential access for the membership as a whole in absolute terms would be unchanged from that prevailing before the quota increase.

Mr. Lind² pointed out that he had suggested adding "some supporting an annual access limit of about 110 percent and others of 125 percent," to the sentence, "A further group...", describing the position of the third group.

Mr. Morrell remarked that it would be more accurate to say "most of them suggesting an access limit of 125 percent, with a few suggesting 110 percent," which would follow "took an intermediate position."

Mr. Malhotra commented that it would be helpful to the Committee members to indicate that even access at 125 percent would result in a reduction in real terms for many countries. He therefore suggested that the sentence should read "...in its potential absolute access in nominal terms."

Mr. de Vries noted that his chair wished to add a sentence to the paragraph: "An alternative compromise suggestion was for a single access limit approximately halfway between 102 percent and 125 percent, e.g., at 110 percent or 112.5 percent."

The Chairman, taking into consideration the comments of the Board, read the remainder of the paragraph: "A further group of Directors took an intermediate position, most of them suggesting an access limit of 125 percent, approximately the level at which no member would suffer a reduction in its potential absolute access in nominal terms. Some of the Directors who expressed a preference for maintaining the present limits indicated that they could support an access limit of 125 percent, but could in no way accept a 102 percent solution, which would result in an actual reduction in maximum access for 108 countries." The paragraph would then end with the sentence suggested by Mr. de Vries.

Third paragraph

Mr. Joyce, referring to the last sentence, commented that the variant focused primarily on a different reason for activating the higher limit. But an additional tier of 25 percent to the annual access limit of 102 percent would result in a higher limit of 127 percent. Was the second tier to be 127 percent of quota rather than 125 percent?

Mr. Laske said that he had expressed interest in the two-tier proposal with a variant that would activate an additional tier of 23 percent to be triggered only in cases of exceptional need as a result of major unforeseen events, and he proposed that the qualification be added to the sentence. In addition, "had been exhausted" was not accurate as he could foresee situations where a country had not yet drawn 102 percent, but where it had become clear that because of unforeseen circumstances that amount would not suffice. A more appropriate wording might be, "had proved to be insufficient in the light of subsequent unforeseen exceptional circumstances."

The Chairman, replying to a question, explained that from an operational point of view, an augmentation during the course of the program could be activated in two cases. First, if unforeseen circumstances arose during the first year, it would be possible to move up from 102 percent to 125 percent. Second, after the first year at 102 percent had elapsed, a country could draw up to 125 percent because of unforeseen circumstances.

Mr. Erb said that he wished to confirm that the variant proposed by Mr. Laske would also include the other two criteria; at present, their inclusion was not explicit in the paragraph. He interpreted the variant to mean that, if it was decided to augment a program, the three-year limit would be raised accordingly by the amount of the augmentation--23 percent.

Mr. Wicks proposed that the first sentence be changed to read "...with a higher limit in special cases which would not normally exceed 125 percent."

Mr. Morrell reminded the Board that as a result of its discussions, in every instance the three limits must be cited, even though the outcome might prove complicated.

Mr. Malhotra circulated a redraft of the paragraph for consideration, as follows:

One Director suggested the adoption of a two-tier system of access under which the annual access could be 102 percent but with a higher limit of 125 percent in special cases where, in addition to an exceptionally large need for balance of payments financing, the member was making a particularly strong adjustment effort leading to the expectation of a rapid restoration of a sustainable balance of payments position. A variant of this proposal would activate an additional tier of 25 percent only after access at the limit of 102 percent had been exhausted. Most Directors did not favor this suggestion on the ground that it would effectively reduce the annual access limit for most members to 102 percent. While some other Directors expressed interest in the suggestion, one of them proposed that the two tiers should be 125 percent and 150 percent.

Mr. Nimatallah commented that Mr. Malhotra's draft reflected the chronology of events. He would, however, prefer to retain the introductory sentence of the paragraph in SM/83/198. The paragraph could continue with Mr. Malhotra's first sentence, "One Director suggested...position"; Mr. Malhotra's third sentence, "Most Directors did not favor..."; a sentence referring to the fact that some Directors could consider that suggestion if there were some qualifications; and a sentence describing the variant.

Mr. Wicks remarked that many Directors were not particularly attracted by the two-tier system of access, whatever the limits, because it was cumbersome. Nevertheless, as a way of making progress, many Directors were prepared to take it into consideration. He suggested that the paragraph start, "While most Directors preferred a single access limit, some Directors were prepared to consider the suggestion by one Director for a two-tier system of access." With regard to Mr. Malhotra's redraft, he was not sure that it was correct to say that "most Directors did not favor this suggestion."

The Chairman, taking into consideration further comments and editorial suggestions, noted that the first sentence would read: "While most Directors preferred a single access limit, some Directors were prepared to consider the suggestion put forward by one Director for a two-tier system of access, with first-tier limits of 102/305/407 percent, and provision for higher limits in special cases which would not normally exceed 125/375/500 percent." The paragraph would continue with the second sentence of the paper before the Board, followed by a description of the two variants: one, Mr. Laske's suggestion, and another, the suggestion to place the two tiers at 125 percent and 150 percent of quota.

Mr. Alhaimus stated that the formulation did not reflect the reservations that had been raised; the impression was given that the only reservation was to its being a two-tier system. He therefore preferred Mr. Malhotra's draft, which cited the restrictive nature of the proposal.

Mr. Malhotra said that many Directors were objecting to the two-tier system primarily because under that system the normal limit would be 102 percent, and he believed that their opposition should be reflected in the report. In addition, most Directors thought that a two-tier system could give rise to a perception of discrimination between members. Under the 102 percent access limit, as many as 108 countries would suffer, even in nominal terms, and he wished to have that fact reflected in the report.

Mr. Orleans-Lindsay and Mr. Zhang stated their preference for Mr. Malhotra's draft.

Mr. Erb pointed out that he had quite the opposite problem with the two-tier system; in effect, it would become a limit of 125 percent, which he considered to be tantamount to the proposal for an access limit of 125 percent of quota.

Mr. Joyce pointed out that the sequence suggested by Mr. Malhotra was simpler and reflected the suggestion of one Director, the variant of the proposal, and the positions of other Directors, without listing the reasons for opposition or for support of further consideration. Following "One Director suggested the adoption of a two-tier system," the modified wording suggested by Mr. Wicks, and the sentence on the variant, he proposed saying, "Most Directors did not favor this suggestion, but some of them thought the proposal warranted further consideration," to reflect the extent of support.

Mr. Nimatallah agreed with Mr. Joyce. The reaction of Executive Directors could be described in two phrases: although most Directors did not favor the two-tier variant, if there were qualifications some would be prepared to reconsider it; however, almost all Directors favored one single access limit and the figure they cited was a maximum, not a target. Mr. Malhotra's paragraph reflected more accurately the Board's position.

Mr. Hirao said that he fully supported the view of Mr. Wicks and wished to join his proposal; the wording "the two-tier system suggested by one Director" should therefore be changed to "...a few Directors."

The Chairman remarked that the suggestion made by Mr. Wicks and Mr. Hirao for a second variant indicated greater support for a type of two-tier solution; therefore, for the sake of accuracy the impression should not be given that there was a vast majority against the variant.

Mr. Laske said that his position had not been one of outright support for the variant; he had indicated that it could be looked at further, while keeping his options open. It was implicit in the description that those who would be willing had some reservations about the variant. He wished to be counted among those who preferred one single limit.

The Chairman noted that, following the sentences describing the two variants and taking into consideration points raised by Mr. Joyce, Mr. Laske, Mr. Malhotra, and Mr. Nimatallah, the text would continue: "Most Directors did not favor this suggestion for various reasons, in particular that it would in their view effectively reduce the annual access limit for most members to 102 percent. However, a number of Directors were prepared, subject to qualifications, to consider the suggestion further."

Mr. Polak recalled that he and Mr. Lind² had proposed that a sentence be added to the preceding paragraph reflecting their compromise suggestion for a single access limit approximately halfway between 102 percent and 125 percent. Would it be included as an alternative to the compromise put forward by Mr. Wicks?

The Chairman, taking into consideration comments by Executive Directors, said that the suggested reference to an access limit of 110 percent at the end of the fourth sentence would be deleted and a new sentence would be added to the second paragraph: "Another suggestion was for an annual access limit approximately halfway between 102 percent and 125 percent, e.g., at 110 percent or 112.5 per cent."

The Executive Directors agreed to resume their discussion the following day (EBM/83/134, 9/8/83).

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/83/132 (9/7/83) and EBM/83/133 (9/7/83).

2. COSTA RICA - EXCHANGE SYSTEM, AND WAIVER UNDER STAND-BY ARRANGEMENT

I. Exchange System

1. The Government of Costa Rica has informed the Fund of the introduction of a 1 percent stamp tax on most foreign payments, which constitutes a modification of the existing multiple currency practices approved by the Fund (Decision No. 7469-(83/104)).

2. In view of the expected temporary nature of this exchange tax and authorities' intention to replace it with an increase in import duty, the Fund grants approval until October 15, 1983 for the modification of Costa Rica's multiple currency practices resulting from this exchange tax.

II. Stand-By Arrangement

1. The Fund and Costa Rica have consulted pursuant to paragraphs 4 and 11 of the stand-by arrangement (EBS/82/214, Sup. 1) with respect to the modification of Costa Rica's multiple currency practices referred to in I(1) above.

2. The Fund finds that no further understandings are necessary with respect to the modification until October 15, 1983.

Decision No. 7518-(83/133), adopted
September 7, 1983

APPROVED: March 6, 1984

LEO VAN HOUTVEN
Secretary