04

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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/134

10:00 a.m., September 8, 1983

J. de Larosière, Chairman

Executive Directors	Alternate Executive Directors
	J. K. Orleans-Lindsay, Temporary
	G. Ercel, Temporary
	X. Blandin
	R. J. J. Costa, Temporary
R. D. Erb	
	T. Alhaimus
T. Hirao	T. Yamashita
	J. Reddy, Temporary
R. K. Joyce	D. I. S. Shaw, Temporary
	H. A. Arias, Temporary
G. Laske	G. Grosche
G. Lovato	
R. N. Malhotra	
	E. M. Ainley, Temporary
J. J. Polak	
	K. G. Morrell
	O. Kabbaj
	M. Camara, Temporary
	S. E. Conrado, Temporary
	A. Lindø
	C. Taylor
Zhang Z.	

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

1. Policy on Access to Fund Resources - Draft Report to Interim Committee . . . . Page 3

Also Present

Asian Department: H. O. Roden. Exchange and Trade Relations Department: C. D. Finch, Director; S. Mookerjee, Deputy Director; M. Allen, H. W. Gerhard, S. Kanesa-Thasan. External Relations Department: D. D. Driscoll. Legal Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy General Counsel. Research Department: W. C. Hood, Economic Counsellor and Director. Treasurer's Department: D. Williams, Deputy Treasurer; O. Roncesvalles, G. Wittich. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: S. R. Abiad, T. A. Connors, Y. Okubo, P. D. Péroz. Assistants to Executive Directors: H. Alaoui-Abdallaoui, M. B. Chatah, I. Fridriksson, V. Govindarajan, M. J. Kooymans, P. Leeahtam, W. Moerke, V. K. S. Nair, G. W. K. Pickering, E. Portas, C. A. Salinas.

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

The Executive Directors continued from the previous meeting (EBM/83/133, 9/7/83) their discussion of a draft report by the Executive Board to the Interim Committe on access to the Fund's resources (SM/83/198, 9/2/83), beginning at Section III.2--Financing of Enlarged Access--on page 5.

The Deputy Treasurer, referring to the previous day's discussion, confirmed the staff's earlier estimates of the ratio of quotas to world trade. In 1962, the year before the compensatory financing facility had come into effect, total maximum access by members to the Fund's resources had been 100 percent of quota. Consequently, in 1962 the ratio of quotas to world trade had been 12 percent. In 1981, the ratio had been 3.2 percent. However, in terms of the theoretical maximum access during the intervening period, the situation had changed quite dramatically. For the purposes of the discussion at the previous day's meeting, it was only the credit tranches that had been involved, and it was figures based on use of the credit tranches that had been given. They had originally been set out in EB/CQuota/82/9 (10/13/82), Table 2. In 1981, assuming a combined maximum access of 600 percent of quota, the ratio of usable quotas to world trade had been 24 percent. More realistically, taking 450 percent of quota as the theoretical maximum access, the figures would have been 16 percent in 1981, 17 percent in 1982, and about 16.5 percent in 1983. Consequently, it would be reasonable to say that the ratio of access to the Fund's resources to merchandise imports had increased in nominal terms by 50 percent over the 20-year period, from 12 percent in 1962 to 18 percent in October 1981.

Mr. Erb commented that using 600 percent as the theoretical maximum access in 1983, the ratio would be in the neighborhood of 22 percent. The major increase in access limits had begun in 1979. His own impression had been that, on the occasion of the previous quota increase in 1981, there had been a real increase in access to the Fund's resources of some 15 percent, while some other Executive Directors had felt that at that time there had been a real reduction in access.

The Deputy Treasurer responded that, with 600 percent theoretical maximum access, following the change in access of 1979, before the guidelines had been adopted, the ratio of theoretical maximum access to merchandise imports had been 10 percent in 1979, 13 percent in 1980, 24 percent in 1981, and 22 percent in 1982. With 450 percent theoretical maximum access, the ratio had been 9.5 percent in 1979, 12.5 percent in 1980, 18 percent in 1981, and 17 percent in 1982.

Mr. Erb made the further point that the ratio of quotas to merchandise imports had been 12 percent not only in 1962 but on average for the whole period 1950-74. It was after that date, with the rise in inflation, that the ratio of quotas to imports had begun to decline sharply, so that access in 1978-79 had been significantly lower than 12 percent.

The Deputy Treasurer explained that while Mr. Erb might have been correct about 12 percent being the average for the period 1950-74, in 1950 itself the ratio had been 17 percent, while it had been 11 percent in 1955 and 12 percent in 1962.

The Chairman remarked that the increase in access in 1981 had not been brought about to raise the turnover of the Fund; with the situation as it had been before the increase in quotas and before the policy on enlarged access had come into effect, the Fund had been unable to handle some specific adjustment and financing problems. While it was true that the ratio of maximum theoretical access to merchandise imports had increased fairly sharply at the end of the 1970s, current account deficits had risen even more sharply. In the mid-1960s, a serious current account deficit position was considered to have been reached when the deficit represented 2 percent or 3 percent of GDP, whereas at present the countries that approached the Fund often had deficits in the neighborhood of 10 percent of GDP. The Fund could therefore not be said to be pouring large amounts of liquidity into the world's coffers because of some peculiar notion that been accepted in 1981.

At the time the only way to cope in an orderly fashion with the demands of member countries had been for the Fund to augment its resources, the Chairman concluded. There were still people who felt that the situation had not improved much since then; indeed, it might have worsened.

Mr. Malhotra commented that in addition to the trade figures, the Executive Directors should look at the figures for imbalances. Moreover, the overall figures tended to hide what was actually happening to the access of countries that were potential users, whose quotas might not have increased greatly even if the total increase in quotas had been fairly large.

The Chairman observed that the question of imbalances had to be tackled elsewhere; the ratio between the quotas of less developed countries and world trade had in fact not deteriorated.

Mr. Malhotra responded that, nevertheless, in the current circumstances, the talk of reverting to maximum access of 100 percent of quotas was quite unrealistic unless there were to be a large increase in quotas, something that he did not consider at all likely. He wished that idea to be reflected in the report.

The Chairman remarked that one of the main factors changing the whole picture was that of debt service. There were now a number of countries with a trade surplus and that were nevertheless in large current account deficit because of the weight of debt service and amortization. With progress in reducing the rate of inflation and improving trade activity, it was of course to be hoped that debt service would become less of a burden. Nevertheless, it was a problem with which countries would have to live for a number of years.

Mr. Erb explained that he had not raised his point regarding the ratio of access to world trade at the preceding meeting in order to criticize the adoption of the enlarged access policy. All that he had been doing was to try to dispel the perception of some Executive Directors that there had been a decline in real access to the Fund's resources. On the contrary, there had been a significant increase at the time when the enlarged access policy had been adopted. The level of Fund financing had increased sharply as the needs of countries to adjust to current account deficits had risen from SDR 40 billion for the non-oil developing countries in 1979 to SDR 55 billion in 1980 and SDR 69 billion in 1981. What the Fund was doing was providing some additional financing to give countries flexibility in making the necessary adjustments. Adjustment certainly was taking place, since the staff forecast showed the current account deficits for the non-oil developing countries falling in the coming years. Enlarged access was needed both in the present year and in 1984/85, but it was time to begin thinking about the temporary character of enlarged access, which was something that ought to be phased out once the adjustments were made. Naturally, if circumstances turned out to be worse than he considered likely, the Fund could look at the issue once again.

Mr. Zhang suggested that it might be worth calculating access to the Fund's resources in relation not only to merchandise imports but to merchandise imports plus debt service. Taken in that way, he did not believe that the ratio would have risen by as much as 50 percent over the period 1962-82.

Mr. Malhotra remarked that he did not see how, in the absence of another quota increase in the very near future, it would be possible to reduce the percentage of access to the Fund's resources, since the existing problems were bound to continue. It would be quite wrong to look at the future of the Fund in two-year increments, and to assume that the world economy would return to a state of balance.

Mr. Conrado considered that the Executive Directors should be rather cautious in using the type of figures put forward by Mr. Erb and the Deputy Treasurer. In particular, they could give the wrong impression of what actually was taking place with respect to access. It was important to be clear about the other factors with which access to the Fund's resources was being compared. For instance, in "The Size of the Fund in the Eighties" (EB/CQuota/81/3, 12/2/81) the staff had said that payments imbalances might be considered a more relevant comparator than merchandise imports, and that the results would certainly be different if that comparator were used. The relation of quotas to payments imbalances had averaged 85 percent between 1966 and 1970, while in 1980 the figure had been as low as 27 percent, and it would probably have been lower still in 1981. Moreover, not all Fund members were users of Fund resources. If what was measured was the quota of members using the Fund's resources in relation to payments imbalances, the result would be even smaller than the present figures. Moreover, the outcome of such calculations depended substantially on the base period being used. While it was true that the ratio of quotas to imports had been 12 percent in the 1960s, it had been higher in the 1950s. Using 100 percent of quota as the theoretical maximum access to the Fund's resources and the multiplier of 4.5--to take account of the present theoretical maximum access of 450 percent--the actual ratios were not much higher at present than in the 1950s.

Another point to be taken into account was that the number of members in the Fund had increased, Mr. Conrado went on. Each time that a member joined the Fund, the total quota size went up. There was no great benefit, for instance, in calculating access for 90 members in 1950 and trying to compare it with access for 146 members in 1982. Finally, Mr. Erb had been correct; but when the access limits had been changed from 450 percent of quota to 600 percent of quota and there had been an increase of 50 percent in total quotas, absolute access had risen by 15 percent. That increase, however, applied only to the specific moment of change; over a longer period, real access had been gradually lowered as the rate of inflation had reduced it.

The Chairman invited the Executive Directors to turn their attention to the text of SM/83/198.

Section III.2 - Financing of enlarged access

Mr. Kabbaj suggested, and the Executive Directors agreed, that the subheading "2. - Financing of enlarged access" should be deleted. The remaining paragraphs of the section should be incorporated in Section III.1.

Mr. Hirao suggested, and the Executive Directors agreed, that the references to "anticipation" and to "estimates" should be modified to indicate that they were staff anticipations and staff estimates.

Mr. Morrell, on a grammatical point, asked that the opening sentence should state in part that the use of Fund resources was expected to continue "at a high level" rather than merely "high."

Mr. Erb, referring to the last part of the paragraph on page 6, suggested that it should be indicated that the projections implying additional borrowing requirements for the Fund in the order of SDR 8 billion, 13 billion, or 16 billion, respectively applied to the period from January 1984 to April 1986. He also wished to separate the reference to the activation of the General Arrangements to Borrow (GAB) from the sentence dealing with the implications for additional borrowing requirements in the period January 1984-April 1986. While there might be a portion of that period in which conditions might exist that would be consistent with the activation of the General Arrangements to Borrow, it was going much too far to suggest that a substantial part of the borrowing might be derived from the enlarged GAB, even with the proviso offered by the staff.

Mr. Reddy, referring to the commitment figures for January 1984 to April 1986 set out on the top of page 6--SDR 14 billion with access limits of 102 percent, SDR 20 billion with access limits of 125 percent, and SDR 25 billion with access limits of 150 percent--commented that those were gross commitment figures taken from Table 1 in EBS/83/133. They therefore overstated the liquidity requirements of the Fund. During the period from January 1984 to April 1986, the Fund would also be receiving money from members in the form of repayments. It might therefore be more appropriate to include net new commitments rather than gross figures.

The staff representative from the Treasurer's Department said that he could agree with Mr. Reddy that the figures were gross figures, but the repayments from the members during the period would have to be passed on to lenders. There was a difference between the Fund's borrowing requirements and outstanding indebtedness. The basic question was the extent to which the present borrowing arrangements could necessarily be presumed to be available again in the future.

Mr. Reddy, while accepting the argument put forward by the staff representative, said that it would nevertheless be appropriate to use the term "gross new commitments." It would be interesting to know how large the Fund's stock of borrowing would become during the period January 1984 to April 1986.

Mr. Taylor remarked that in stating that the projections implied additional borrowing requirements for the Fund on the order of SDR 8 billion, 13 billion, or 16 billion, respectively for the period January 1984 to April 1986, it should be explained that the statement assumed that the commitment gap that was already in existence could be finanaced.

The Chairman suggested, and the Executive Directors agreed, that Mr. Taylor's point should be met by adding a sentence to footnote 1 on page 6 reading: "The borrowing requirements assume that the present commitment gap, which is estimated to reach SDR 6 billion at the end of 1983, will have been closed by other borrowing arrangements before the new quotas enter into effect." As to Mr. Erb's comments on the use of the General Arrangements to Borrow, some mention ought to be made of the possibility of drawing on the enlarged GAB; the existence of a line of credit of SDR 18.5 billion should not be ignored.

Mr. Ainley suggested that the point could be met by using such language as, "Part of the projected borrowing requirements could be met from the enlarged General Arrangements to Borrow, if the conditions for activating these arrangements were satisfied."

Mr. Erb, however, stated that he still wished to express concern about the possibility of financing the gross borrowing requirements.

It was agreed to insert the sentence: "However, concern was expressed by a number of Executive Directors on the magnitude and the feasibility of financing such amounts."

Mr. Malhotra remarked that if the report was going to indicate that some Executive Directors felt concern regarding the magnitude and the feasibility of financing such amounts, it ought also to mention that others supported the perception of the staff and management that a borrowing requirement based on access of 125 percent of quota, meaning a borrowing requirement of some SDR 13 billion, could be financed, especially as the staff seemed to consider that during the period there would be a strain on the international system that would in the staff's perception justify the activation of the General Arrangements to Borrow. The other point that ought to be made was that in the further future beyond 1986, if there were a commitment gap of some SDR 3-4 billion, and if the choice had to be made between following the policy of adhering to a zero commitment gap and providing the resources needed by its members in difficult times, the Fund should choose the latter course.

Mr. Conrado remarked that, like the Chairman, he was not happy with the idea of seeking guidance from the Interim Committee about the financing of the commitment gap. However, he could see that the fears of some Directors that there would be difficulty in financing the gap should be mentioned. At the same time, there was surely no Director, except perhaps Mr. Erb, who had doubts about financing a gap of SDR 8 billion, and he would agree with Mr. Malhotra that the text should mention that management and staff considered that SDR 13 billion was fully financeable. Finally, a mention should be made that many Directors considered that, if necessary, the Fund should go to the capital markets to obtain the required resources.

Mr. Laske stated that he would support Mr. Hirao in his request for indications of which were staff views and which were Directors' views in the report. He would support Mr. Erb in his doubts about the financeability of any of the borrowing requirements mentioned in the text, and Mr. Ainley on the sentence regarding borrowing from the enlarged General Arrangements to Borrow. As to any reference to borrowing from the market, if a sentence were inserted indicating that some Executive Directors thought such borrowing to be appropriate, it would also be necessary to mention that there were other Directors who had strong reservations about market borrowing, in the belief that the Fund should borrow only from official sources.

The Chairman commented that he hoped that the inclusion of references to the sources of borrowing to replenish the Fund's resources would not lead the Interim Committee into a debate on the advisability of the Fund's approaching the capital markets.

Mr. Erb observed that in his view it was essential for the Ministers and Governors to be clear, when they began discussing the matter in private, whether the borrowing levels mentioned in the report could be financed. On the other hand, in statements in the Interim Committee itself it would be better for them not to be specific about the methods of financing. The important thing was that each member of the Committee should be clear what the financing requirements would be, and that they should make a commitment that the financing levels would somehow be met.

Mr. Joyce commented that there were two separate questions, namely, whether the borrowing levels could be financed, and whether they could be financed in an acceptable manner. Directors seemed to be discussing the second question rather than the first. In any event, it would be useful to receive guidance from members of the Interim Committee on the topic. If Mr. Erb's views were to be recorded, it would also be necessary to record the views of those who did not feel that it was impossible to finance the borrowing requirements in an acceptable manner.

Mr. Erb said that he had no problem with Mr. Ainley's language regarding the use of the General Arrangements to Borrow. Some Executive Directors did however have questions about the feasibility of financing any of the amounts mentioned, whether SDR 8 billion or greater. He agreed that the General Arrangements to Borrow might need to be activated.

He also had serious questions about referring to any expected reflow of resources after 1986 because the borrowed resources that were repaid at that time would be returned to the lenders under the supplementary financing facility. The same arrangements surely applied to any loans from Saudi Arabia, unless the Saudi Arabian authorities were making other arrangements.

The Deputy Treasurer explained that the large inflows of repurchases after 1986 would increase the ordinary resources of the Fund quite substantially, but that they would also lead to the repayment of debt. The substantial inflow of ordinary resources would reflect the fact that over the past two years the borrowing ratio had been weighted heavily in favor of ordinary resources, meaning that the Fund had been disbursing more ordinary resources and fewer borrowed resources. The situation would be reversed in two years' time, and the Fund's recovery of ordinary resources would rise while the borrowed resources were also being repaid. However, if the demand for credit were larger than the staff had estimated, the commitment gap would rise disproportionately in that period, and the Executive Board would have to decide what the ratio of ordinary to borrowed resources to be used at that time should be.

The staff representative from the Treasurer's Department remarked that on page 5 of EBS/83/133, in Table 2, line 4(c) it was shown that under the assumption of an access limit of 102 percent, loan claims on the Fund in the period January 1984-April 1986 would amount to SDR 25 billion, while with an access limit of 110 percent they would be SDR 26 billion, with 125 percent SDR 28 billion, and with 150 percent SDR 30 billion.

The Chairman considered that it would be proper to say that a number of Executive Directors would not object to engaging in borrowing rather heavily during 1984 and 1985 because there would be a substantial volume of repurchases in 1986 and thereafter, and the Fund would be able to repay its borrowing fairly quickly.

Mr. Erb stated that if such an idea were included in the report, he would express a strong dissent.

The Chairman remarked that it did not seem unreasonable to inform members of the Interim Committee that, unless the unexpected happened, the liquidity position of the Fund would improve after 1986. It was, after all, that consideration that made some Directors feel that it would not be improper to undertake more borrowing in the interim period. Like Mr. Erb, he would of course be disturbed by the idea that expected later repurchases could justify any increase in the commitment gap.

Mr. Malhotra remarked that he was not a proponent of large commitment gaps. The only commitment gap that he foresaw was one of SDR 3 billion for a period of between six and nine months.

Mr. Ainley considered that the positions could be expressed by saying: "Other Directors shared the view of the staff and management that a borrowing requirement of SDR 13 billion could be financed, taking into account the size of the enlarged General Arrangements to Borrow and the projected improvements of the Fund's liquidity improvement after 1986. The group of Directors who favored access limits of 150/450/600 percent thought, for similar reasons, that a borrowing requirement of SDR 16 billion could also be financed."

Mr. Polak stated that he doubted whether it made much sense to say that something could be financed by April 1986 on the basis of events that would take place thereafter. Moreover, he noted the absence of any reference to reserve tranche drawings. Finally, he would like to see figures for an access limit of 110 percent included in the report, together with those for 102 percent, 125 percent, and 150 percent.

The Chairman, responding to Mr. Polak's first observation, remarked that it did not seem unreasonable to him to refer to bridging finance for the period 1984/86.

Mr. Joyce said that he would not like to see the insertion of figures referring to an access limit of 110 percent. In the previous meetings, the Directors have concentrated on 102 percent, 125 percent, and 150 percent.

Mr. Morrell commented that it would be unwise to refer to the figure of SDR 18.5 billion in connection with the enlarged General Arrangements to Borrow; even in the staff projections, that amount had never been considered to be fully available, if only because of the balance of payments positions of some of the participants.

The Chairman agreed with Mr. Morrell. It had never been the intention to make such a reference. Mr. Polak's point could be met by enlarging the footnote at the bottom of page 26 to read: "With access limits of 110/330/440 percent, projected commitments would be SDR 16 billion, and additional gross borrowing requirements SDR 10 billion." Then would come the part of the footnote already at the bottom of page 6 in SM/83/198, to be followed by the statement that it had been agreed to insert to meet Mr. Erb's request that the borrowing requirements assumed that the present commitment gap would have been closed by other borrowing arrangements before the new quotas went into effect.

Mr. Taylor asked that, if reference was to be made to the 110 percent access in a footnote, the borrowing requirement corresponding to the two-tier proposal should also be mentioned.

The Chairman remarked it would be difficult to provide a meaningful figure because there was no way of knowing when countries would be eligible to use the two-tier system. On the other hand, if estimates of calls for the use of the Fund's resources were based on the area departments' forecasts for each individual country, there was unlikely to be much difference between the figure for the two-tier proposal and that for access of 125 percent.

Mr. Erb stated that he had been made uneasy by the Chairman's observation that the borrowing requirements might be similar under the two-tier system and under the 125 percent of quota access limits. There was bound to be some difference between the two. For instance, the two-tier system could be applied with an access limit of 102 percent; if so, the scale of access within the limits would be moved down proportionately.

The Director of the Exchange and Trade Relations Department agreed with Mr. Erb that the two-tier system combined with access of 102 percent could reduce the borrowing requirement to some extent. It was, however, difficult to predict the amounts that might be involved because it was hardly possible to predict, on a country-by-country basis, which countries might be eligible under the two-tier system and which would have to remain with 102 percent of quota.

Mr. Conrado commented that the discussion showed that the two-tier system would make the forecasting of the Fund's financial requirements extremely difficult.

Mr. Malhotra said that he was rather alarmed that, in the light of Mr. Erb's reasoning, the two-tier system would be used to ensure that normal access was set at a figure so low that it would be unacceptable to many Directors. On the other hand, if the view were taken that the total borrowing figure would remain the same whether the two-tier system was adopted or not, the question would arise as to why it was desirable to introduce the two-tier system at the present time, when it had not been introduced in the connection either with enlarged access or with earlier facilities.

Mr. Erb commented that, in the section of the report dealing with financing, there ought probably to be some mention of the fact that the Fund's borrowed resources were highly liquid in view of the encashment privileges associated with them. The members of the Interim Committee should understand the implications of that liquidity, particularly with respect to the activation of the General Arrangements to Borrow.

It was agreed to meet Mr. Erb's point by expanding the sentence reading, "However, concern was expressed by some on the magnitude and the feasibility of financing of such amounts"; by adding the words "in addition, it will have to be taken into account that the liabilities of the Fund arising from borrowing are very liquid."

Mr. Taylor suggested, and Executive Directors agreed, that the last paragraph in the section, proposing that the administration of the enlarged access policy should be simplified, should be deleted.

Section III.3 - Access to the special facilities

It was agreed to renumber this section "2."

Mr. Erb stated that he feared that the staff was taking what might be a fact and turning it into a principle, a principle moreover that he would have trouble accepting. He therefore wished to see actual figures given for the access limits, together with a description of the groups of Directors preferring each particular assumption.

Mr. Joyce, however, remarked that a large number of Executive Directors had expressed themselves in terms of the linkage between the special facilities and the enlarged access policy. In other words, even before a decision had been reached on the access limits for the credit tranches, a number of Directors had been saying that there should be a floor on the reduction in access to the special facilities, related to the outcome of the discussion on the credit tranches.

Mr. Erb explained that there was to be a reduction in percentage access both to the special facilities and to the Fund's resources under the enlarged access policy, and that his view of what the access to the compensatory financing facility should be would not change if, for instance, there were a consensus in favor of the two-tier system under the policy of enlarged access. There might even be circumstances in which he would favor a lower limit for the compensatory financing facility than he had earlier mentioned. He wished to avoid giving any indication that the access to the special facilities should be proportional to access to the credit tranches.

The Chairman agreed that it would be possible to set out the whole range of views describing the position of each group of Directors with respect to the special facilities in the same way as they had been described in relation to the regular facilities of the Fund. The section would be considerably more complex; it would probably be more accurate.

Mr. Erb explained that in principle he believed that the reduction in the limits for access to the compensatory financing facility should be equal to or greater than the reduction in the limits on access to resources under the enlarged access policy.

Mr. Polak agreed with Mr. Erb that it was undesirable to suggest that there was a solid view among Directors either for the present or for the future about equiproportional treatment of the special facilities and the credit tranches. Unlike Mr. Erb, however, he was particularly concerned that if access under the enlarged access policy were substantially reduced, that action should not affect the compensatory financing facility, while Mr. Erb would prefer to cut access to the compensatory financing facility more than that to the facilities available under the enlarged access policy.

After some discussion, it was agreed to spell out the position of each group of Directors with respect to access to the special facilities, in terms of their attitude to access to the facilities available under the enlarged access policy.

Mr. Joyce considered that there were at least three groups. First, there was the group to which Mr. Erb belonged, who believed that the reduction in access to the compensatory financing facility should be at least proportional to the reduction in access to the resources available under the enlarged access policy. Second, there was a group who believed that there should be equiproportional reductions. A third group maintained that there should be no reductions in access to the compensatory financing facility even if there were a reduction in access under the enlarged access policy. The three groups could be related to those favoring 102 percent, 125 percent, and 150 percent access under the enlarged access policy.

Mr. Polak inquired whether it was hoped that the members of the Interim Committee would tackle the problem of access under the special facilities. If so, it would be necessary to provide quite a detailed breakdown in the attitudes of Executive Directors.

Mr. Erb reiterated that for some Executive Directors there was no link between access to the compensatory financing facility and access to resources under the enlarged access policy; they could make their decision on one quite independently of the decision on the other. He saw no advantage in trying to link so explicitly the attitudes of the Directors to the enlarged access policy to the attitudes of the same Directors to the special facilities. He would not object to saying that some Executive Directors, in making their judgments on access to the compensatory financing facility, would make a link to the limits under the enlarged access policy, while others did not.

Mr. Polak commented that perhaps it might be better not to relate views on access to the special facilities to those on the enlarged access policy. There seemed to be three categories: those who believed access to the special facilities should be reduced to something like 65 percent of quota, those who believed in access at between 75 percent and 80 percent, and those who believed in access at 100 percent. Consequently, although speakers had said that they believed in proportionality, he did not think that many of them would have their views on access to the compensatory financing facility much affected by the outcome of the discussion on enlarged access.

Mr. Laske said that he could agree with Mr. Polak's proposal regarding the three groups, although with some reservation regarding the middle group. While his position was that access to the compensatory financing facility should be reduced in roughly the same ratio as access limits to the enlarged access policy, he would be somewhat more flexible, and he wanted to propose putting in a range of figures. The position of his authorities on the two topics was closely interlocked. If the outcome of the discussion on the enlarged access policy should be different from what they considered appropriate, they would not change their policy on the special facilities.

After further discussion, it was agreed to rewrite the section describing the position of Executive Directors on the access to special facilities in the following words:

> Executive Directors are continuing their review of current practices regarding the use of the special facilities. One group of Directors, all of whom favored maintaining the current enlarged access limits of 150/450/600 percent, held the view that there should be no reduction in the access limits for special facilities, access under each compensatory financing decision remaining at 100 percent of quota, access under the two combined at 125 percent, and access to the buffer stock financing facility at 50 percent. Some Directors preferred no reduction in the access limits for the special facilities, but, if the enlarged access limits were reduced to 125/375/500 percent, they could accept a reduction in access to the compensatory financing facility from 100 percent to 85 percent. A third group of Directors preferred an equiproportional reduction in access limits under the enlarged access policy and the special facilities; thus, enlarged access limits of 102/305/407 percent would correspond to access to the compensatory financing facility of 68 percent, and a limit of 125/375/500 percent to access to the compensatory financing facility of 85 percent. Some Directors felt there should be some adjustment to the principle of equiproportionality depending on the outcome of the enlarged access discussions. A few Directors called for a somewhat larger reduction in access to the special facilities than under the enlarged access policy. One Director suggested limits for compensatory financing of 65-70 percent.

Mr. Ainley suggested, and the Executive Directors agreed, that the second sentence in the section, stating that most Directors favored treating access limits for the special facilities in the same way as the limits under the enlarged access policy, should be deleted.

Section III.4 - Future changes in access limits

It was agreed to change the heading to read "3. - The considerations governing the access limits in the future."

Mr. Shaw suggested that the opening words of the paragraph should be: "In spite of the temporary character of the enlarged access policy," as a means of recalling the original commitment at the time that the policy was introduced.

Mr. Orleans-Lindsay remarked that a corresponding change would have to be made on page 3, where the Executive Directors had listed the points on which they were seeking the advice of the Interim Committee.

Mr. Polak commented, regarding the sentence dealing with the review of access limits, that he considered it inappropriate to refer to "members' needs for financing" and "the appropriate balance between financing and adjustment." It would be better to make the first reference to "the magnitude of members' payments problems."

Mr. Ainley, referring to the same topic, remarked that it would be better to talk of "These reviews" because the reviews would take place every two years. It might also be better to insert the words "inter alia" before the list of points to which the reviews would pay attention. Finally, the last sentence in the paragraph was rather obscure; it might be better to say: "Many Directors felt that the inadequacy of the Eighth General Quota Increase meant that it would be necessary to continue the enlarged access policy for the foreseeable future."

Mr. Laske, taking up the first sentence of the second paragraph of the section, asked that an addition should be made to explain why some Directors proposed that enlarged access limits for the future should be agreed upon forthwith. He proposed the words "considering the more favorable prospects for the world economy and the adjustment efforts now under way."

Mr. Erb said that he agreed with Mr. Laske. It might be better to replace the existing words "Some of these Directors proposed that a precise phasedown of the access limits be agreed now" by the words "Some of these Directors proposed that enlarged access limits for the future be agreed now." Moreover, as a typographical improvement, the reference to new limits of 70 and 245 percent should read "70/210/245 percent."

Mr. Taylor remarked that it might be confusing to say that "Normal access levels" would be restored by the end of 1986. He would prefer some other language.

After some discussion, it was agreed to meet Mr. Taylor's point by using the term "traditional" and including an explanation, so that the passage would read, "and traditional access levels (100 percent of quota under the credit tranches and 165 percent of quota when use of the extended Fund facility is involved) would be restored by the end of 1986."

Mr. Laske, referring to the first full sentence on page 8, felt that the sentence, which had been inserted to reflect his position, was rather obscure. He would prefer to say: "Another Director, who could agree to a continuation of the enlarged access policy with limits of 102/305/407 percent for a specific transitional period of, say, one year, suggested that the phasedown should begin at the end of this transitional period and should be accomplished within two years."

Mr. Laske's revised formulation was accepted.

Mr. Arias suggested that in the next sentence the wording should be "should take any preannounced reduction in access limits into account in the phasing of drawings," rather than "the preannounced reduction"; there had in fact been no preannounced reduction. It might also be better to say "These two Directors" rather than "These Directors."

Mr. Ainley proposed, and the Executive Directors agreed, that the last sentence, explaining that stand-by and extended arrangements already approved would not be cut back later in the light of possible subsequent decisions to reduce access limits, should constitute a separate final paragraph.

The Executive Directors adjourned their consideration of their draft report to the Interim Committee, and agreed to consider a redraft (SM/83/198, Sup. 1 and Sup. 2) in the afternoon.

APPROVED: March 6, 1984

LEO VAN HOUTVEN
Secretary