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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/146

3:00 p.m., October 3, 1983

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

Executive Directors	Alternate Executive Directors
A. Alfidja	
J. de Groote	H. G. Schneider
B. de Maulde	X. Blandin
A. Donoso	M. Teijeiro
R. D. Erb	
M. Finaish	T. Alhaimus
T. Hirao	T. Yamashita
J. E. Ismael	Jaafar A.
R. K. Joyce	L. Leonard
A. Kafka	C. Robalino
G. Laske	G. Grosche
G. Lovato	C. P. Caranicas
R. N. Malhotra	
	J. E. Suraisry
J. J. Polak	T. de Vries
A. R. G. Prowse	K. G. Morrell
G. Salehkhou	O. Kabbaj
F. Sangare	E. I. M. Mtei
M. A. Senior	J. L. Feito
J. Tvedt	A. Lindø
N. Wicks	T. A. Clark
Zhang Z.	Wang E.

L. Van Houtven, Secretary
R. S. Franklin, Assistant

Also Present

African Department: J. B. Zulu, Director; R. J. Bhatia, Deputy Director; L. M. Goreux, Deputy Director; O. B. Makalou, Deputy Director; Asian Department: J.-P. C. Golle, H. O. Roden. European Department: L. A. Whittome, Counsellor and Director; H. B. Junz, A. Knobl, T. M. Ter-Minassian. Exchange and Trade Relations Department: D. K. Palmer, Associate Director; W. A. Beveridge, Deputy Director; S. Mookerjee, Deputy Director; M. Allen, H. W. Gerhard, M. Guitian, S. Kanesa-Thasan. External Relations Department: H. O. Hartmann. Legal Department: J. G. Evans, Jr., Deputy General Counsel; G. F. Rea, Deputy General Counsel; Ph. Lachman. Middle Eastern Department: Z. Iqbal. Research Department: W. C. Hood, Economic Counsellor and Director; N. M. Kaibni. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; D. Williams, Deputy Treasurer; D. S. Cutler, D. Gupta, Q. M. Hafiz, G. Wittich. Office in Europe: A. Guetta, Director. Office in Geneva: J. P. Barnouin. Advisor to the Managing Director: E. W. Robichek. Personal Assistants to the Managing Director: N. Carter, S. P. Collins. Advisors to Executive Directors: A. A. Agah, E. A. Ajayi, J. R. N. Almeida, C. J. Batliwalla, T. A. Connors, L. K. Doe, S. El-Khouri, K. A. Hansen, S. M. Hassan, L. Ionescu, W. Moerke, Y. Okubo, I. R. Panday, P. Péterfalvy, M. Z. M. Qureshi. Assistants to Executive Directors: E. M. Ainley, H. Alaoui-Abdallaoui, J. Bulloch, M. B. Chatah, M. K. Diallo, I. Fridriksson, G. Gomel, V. Govindarajan, D. Hammann, A. K. Juusela, H. Kobayashi, P. Leeahtam, G. W. K. Pickering, E. Portas, J. Reddy, J. Schuijer, J. C. Williams.

1. EXECUTIVE DIRECTOR

The Chairman welcomed to the Executive Board Mr. Alastair Clark, Alternate Executive Director to Mr. Wicks.

2. MEASURES TO CONSERVE THE FUND'S USABLE RESOURCES

The Executive Directors continued from the previous meeting (EBM/83/145, 10/3/83) their consideration of a paper on measures to conserve the Fund's usable resources in present circumstances (EBS/83/213, 9/29/83).

The Treasurer, recalling a question by Mr. Erb at the end of the previous meeting, noted that, at present, there were SDR 9.7 billion in uncommitted holdings of ordinary resources; with the addition of SDR 200 million in repurchases that were due before November 30, the total would be SDR 9.9 billion. Some SDR 0.3 billion in ordinary resources could be committed under pending stand-by and extended arrangements, while SDR 0.5 billion could be committed for compensatory financing purchases that also related to some of the members who were requesting arrangements. If those commitments, together with the SDR 0.8 billion in GAB repayments falling due in November, were subtracted from the total, the amount of uncommitted ordinary resources at end-November would be SDR 8.3 billion. From that total, it would be necessary to deduct the present commitment gap as well as the SDR 500 million increase in the commitment gap if it was decided to approve arrangements for the five countries mentioned by the staff, which would leave uncommitted loanable resources of SDR 3.7 billion at end-November. It was up to the Executive Board to determine whether that total was sufficient.

If the Executive Board were to decide that the staff should resume discussions and negotiations with members, the Treasurer said, it was possible that a few missions might return before end-November; hence, a considerable number of requests--for amounts of commitments that could equal SDR 3 billion--might well come before the Executive Board in December or in early 1984.

Mr. Erb observed that the clarification by the Treasurer presented a far more dismal picture of the Fund's liquidity position than he had earlier thought was likely. The total of available resources at end-November seemed extremely low in light of the potential claims on reserve positions, and he therefore felt strongly that it would be a mistake for the Executive Board to make any new commitments of its resources until there was greater certainty that the resource gap would be closed. He could still accept, albeit far more reluctantly, that the five cases for which negotiations had been completed or virtually completed should be presented to the Executive Board for consideration on a normal schedule.

The Treasurer noted that the total figure he had mentioned might be increased somewhat in the event that a member with an improved position did not draw on the remainder of its agreement; the total of uncommitted resources at end-November could then rise to SDR 3.8 billion.

Mr. Sangare inquired about what approach would be taken in the case of Sierra Leone; he had been informed that the authorities had concluded negotiations with the staff but had not yet signed the letter of intent because of circumstances they considered beyond their control. He had understood that only a shortage of available Fund staff had delayed management's approval of the arrangement and the signing of the letter of intent.

The Treasurer observed that a mission was at present set to visit Sierra Leone for further discussions.

Mr. Malhotra said that he was somewhat confused about why the present commitment gap of SDR 4.1 billion should be deducted from the total of available resources. His own preference was to treat the SDR 4.1 billion, and the increased commitment that might be involved in approval of the five cases mentioned in the staff paper, as separate problems. Since the enlarged access policy was to continue in 1984, the Fund could not proceed on the assumption that additional borrowed resources would not become available.

The Chairman responded that the calculations had been made because it was necessary for the Fund to be aware of what resources might be available if the quota increase or the lending operation should not become effective for whatever reason; that was not to say that the worst case scenario should be the basis on which policy decisions were adopted.

Mr. Kafka said that he was puzzled by the tendency of one of his colleagues to take a different attitude toward the issue in question on the basis of the Treasurer's latest mathematical clarification. The difference between SDR 4.2 billion in available resources and SDR 3.7 billion was not so great that he himself would change his previously stated position on what approach to the Fund's liquidity problems should be adopted in present circumstances.

Mr. Erb agreed that the Executive Directors should not take any decision on the basis of a worst case scenario; that was why he had accepted that discussions and negotiations with members should be continued on the assumption that the hoped-for replenishment of the Fund's resources would take place. At the same time, however, the Fund should be careful not to commit further resources until it was absolutely clear that they would in fact be available.

The Chairman made the following summing up in concluding the discussion:

> A number of Directors indicated during the discussion that they felt directly responsible for the financial policies of the

Fund and they attached great importance to the exercise of prudence in the formulation of those policies. I am heartened by that indication, which gives even more importance than usual to the remarks of each individual Executive Director.

All speakers recognized that the liquidity position of the Fund is at present extremely strained and that the problem must be approached with the prudence expected of a financial institution like the Fund. But a number of Directors also made the point that we should not overlook the impact of our decisions on the financial system itself, on the catalytic role of the Fund in relation to the financial community in present circumstances, and on the adjustment role that the Fund has undertaken with a number of countries. They noted that both the financial and the policy credibility of this institution must be kept intact.

A number of Directors said that they were reasonably confident that the SDR 6 billion borrowing operation by the Fund would eventually be forthcoming, and they based their judgment on a number of elements which they saw emerging from the previous week's discussions. Those were, inter alia, the agreement of the Interim Committee to continue the enlarged access policy in 1984; the statement by President Reagan at the opening of the Annual Meetings, at which he expressed an "unbreakable commitment" to the Fund and to the quota ratification process; the language of the Interim Committee communiqué regarding the immediate borrowing needs of the Fund; and the statements of a number of Ministers and Governors to the effect that their countries would eventually participate in a lending operation to the Fund. In this last respect, I would like to thank those Executive Directors who confirmed or clarified those commitments during today's discussion, including Mr. Wicks, Mr. de Groote, Mr. Lovato, and Mr. Joyce. I am gratified as well by the strong support for management's effort to continue its encouragement of potential contributors, and I have noted your desire that I participate in the forthcoming Basle group meetings with a view to reaching an agreement on a lending operation to the Fund.

While fully agreeing on the appropriateness of the steps taken by management on September 14, all Executive Directors who spoke--including all those whose countries are potential contributors to the SDR 3 billion borrowing operation under discussion at present in the framework of the Basle group--accepted that the three cases that had been already agreed upon in principle by management before September 14 could be brought to the Board for discussion. It is fair to say also that most Directors who addressed the issue agreed to treat the two other cases mentioned in the staff report (EBS/83/213) in the same way, noting that agreement had already been reached with the staff on the main elements of the program before September 14, and that the letters of intent had been agreed with the staff before the end of the Annual Meetings.

The Board did not wish to take any decisions at the present stage on the measures to conserve the Fund's usable resources described in the staff paper. In particular, there was no strong support for what some called "changing the rules of the game" at present to respond to a liquidity problem that, in the view of many Directors, is temporary in character. Rather, the Board felt that it should address the issue in the light of the circumstances at the end of November. At that time, the matter would be considered fully in the context of the liquidity position of the Fund and the prospects and developments regarding the quota ratification and borrowing arrangements.

All Directors who spoke asked the management to rescind its instruction to refrain from initiating any new negotiations involving enlarged access resources and to resume the process of discussions already begun, even if those discussions involved borrowed resources. Most Directors were confident that few, if any, of such cases under discussion were likely to be brought to the Board before end-November, so that the financing of any programs would be dealt with according to the decisions to be taken at the end of November. However, it was also understood that all negotiations to be resumed or initiated should be conducted in a way that makes it absolutely clear to the authorities that there remains some uncertainty about the availability of Fund resources, so that caution will be required in proceeding with these discussions. Thus, it is understood that, in principle, no agreement formalizing management's acceptance of the substance of any new program will be notified to the authorities, in order to keep the options open to the Board. In the unlikely event that a case were to arise in which there was a real "need" to bring it to the Board before the end of November, management would consult with the Board beforehand; and it might then be necessary to devise a contingency clause to be inserted in the agreement that would indicate that at least part of the resources requested by the country would be subject to the availability of financial resources. Such an approach was not a preferred course of action, however, and it is to be hoped that no request will be so urgent that it calls for the management to consult with the Board before the end-November review.

With regard to the special facilities, the sense of the meeting was that no special treatment needs to be devised before the end of November; however, after that time, it is fair to say that all options would remain open. A number of Directors strongly made the point that, if and when measures to conserve the Fund's usable resources were to be taken, they should affect all uses of Fund resources, including ordinary resources and special facilities.

I noted with great interest Mr. Wicks's suggestion that we should have in the future a yearly assessment of the Fund's borrowing needs for the year ahead, in light of the commitments the Fund is likely to engage in, and to explore ways to cover these borrowing requirements.

Finally, I wish to say that the preference of the Executive Board for resuming the process of negotiations toward "new " agreements and dealing fully with the five cases mentioned above would not have been my own preference. Adopting the course of action recommended by the Board will leave less than SDR 4 billion in uncomitted ordinary resources at the end of November, and I would have thought that prudence might have dictated a somewhat more restrained stance. Given the fact that Executive Directors are better placed than I to know the views of their Governors, I would understand the approach adopted by the Executive Board today as implying that the Executive Directors whose countries are involved in the negotiations for lending to the Fund are reasonably confident that the lending operation will eventually be concluded. This is a precious indication for me, which I will keep foremost in mind when, as Executive Directors have urged, I participate in the November meeting of the BIS in Basle.

Mr. Alfidja said that he remained uncertain about whether Niger's request was to be included among those that would be coming to the Board for approval as scheduled.

The Chairman noted that Niger's request did not involve borrowed resources and would therefore be discussed by the Board in the normal course of events. On a related matter, while it was not considered likely that any new arrangements would be submitted for approval before end-November, there would be no attempt either to accelerate or to slow down normal procedures. If a case of great urgency were to arise, he would approach the Executive Board to see how the case should be handled; it might be necessary to incorporate in the arrangement an availability clause of the sort proposed by Mr. Polak. In general, the staff would need to make clear in its negotiations on any new arrangements in the weeks ahead that there was a problem of availability of resources.

The Executive Board then concluded its discussion and adjourned at 3:40 p.m.

APPROVED: March 16, 1984

LEO VAN HOUTVEN
Secretary