

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/168

10:00 a.m., December 5, 1983

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

Executive Directors

A. Alfidja
B. de Maulde
R. D. Erb

J. E. Ismael
R. K. Joyce
A. Kafka

R. N. Malhotra

A. R. G. Prowse
G. Salehkhoul

J. Tvedt

Zhang Z.

Alternate Executive Directors

w. B. Tshishimbi
H. G. Schneider

J. Delgadillo, Temporary

T. Alhaimus
T. Yamashita
Jaafar A.
L. Leonard

G. Grosche
G. Gomel, Temporary

J. E. Suraisry
T. de Vries

O. Kabbaj
S. M. Hassan, Temporary
S. E. Conrado, Temporary

T. A. Clark
Wang E.

L. Van Houtven, Secretary
J. C. Corr, Assistant

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CONTRACTING PARTIES - Fund Guidance Page 18
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Also Present

African Department: O. B. Makalou, Deputy Director. Asian Department: H. O. Roden. European Department: K. A. Swiderski. Exchange and Trade Relations Department: D. K. Palmer, Associate Director; W. A. Beveridge, Deputy Director; S. Mookerjee, Deputy Director; M. Allen, H. W. Gerhard. External Relations Department: H. O. Hartmann. Legal Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy General Counsel; A. O. Liuksila, S. A. Silard. Middle Eastern Department: S. Thayanithy. Research Department: R. R. Rhomberg, Deputy Director. Secretary's Department: J. W. Lang, Jr., Deputy Secretary. Treasurer's Department: D. Williams, Deputy Treasurer; D. S. Cutler, D. Gupta, Q. M. Hafiz, A. J. Mathuran, D. V. Pritchett, M. A. Tareen, T. M. Tran, G. Wittich. Western Hemisphere Department: J. Ferrán. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: S. R. Abiad, A. A. Agah, H. A. Arias, C. J. Batliwalla, K. A. Hansen, W. Moerke, Y. Okubo, I. R. Panday, P. D. Péroz, P. Peterfalvy, D. I. S. Shaw, D. C. Templeman. Assistants to Executive Directors: E. M. Ainley, H. Alaoui-Abdallaoui, J. Bulloch, M. B. Chatah, M. Eran, G. Ercel, V. Govindarajan, H. Kobayashi, M. J. Kooymans, G. W. K. Pickering, E. Portas, J. Reddy, A. A. Scholten, S. Sornyanontr.

1. POLICY ON ENLARGED ACCESS - SIMPLIFICATION

The Executive Directors considered a staff paper on the simplification of the policy on enlarged access (EBS/83/245, 11/14/83).

Mr. Erb made the following statement:

Let me begin by saying that I can go along with the request of the staff and support the two proposed technical changes in the decision on the policy of enlarged access concerning the application of the mixing ratio between ordinary and borrowed resources. It is my understanding that the proposed changes in the proportions of ordinary and borrowed resources will make it easier to administer and to explain to members seeking the use of Fund resources under the policy of enlarged access. It is also my understanding that the proposed changes will have very little impact on the Fund's financial structure. Finally, the proposed changes do not preclude a more fundamental change in the mix between ordinary and borrowed resources in the future should the Fund's financial circumstances warrant.

I cannot, however, support the staff's proposal for the following addition to the decision on the policy on enlarged access:

A member contemplating use of the Fund's resources under successive stand-by arrangements in the context of a medium-term strategy of steady progress toward a sustainable balance of payments position shall consult the Managing Director before making a request for an arrangement. A request for any such arrangement will be met under the policy on enlarged access.

The proposal is too imprecise and would in effect codify an open-ended adjustment period under the policy on enlarged access. For example, it is not clear what time period is meant by the words "medium term," and the words "steady progress toward a sustainable balance of payments position" do not make it clear that the expected outcome at the end of the "medium term" should be a sustainable balance of payments position and not simply "progress toward" a sustainable position. In addition, it is not clear that the word "strategy" would encompass with respect to a statement of economic and financial policies.

In contrast, the language of the decision on the policy on enlarged access states quite explicitly the criteria that should be satisfied before a request is granted by the Fund and also states quite explicitly the outer limits of the expected adjustment period. In particular, I would like to underscore section 3 of the decision on the policy of enlarged access, which is reproduced on page 6 of the staff paper EBS/83/245. Of special relevance is the clause that states:

(ii) on the basis of a detailed statement of the economic and financial policies the member will follow and the measures it will apply during the period of the stand-by or extended arrangement, that the member's program will be adequate for the solution of its problem and is compatible with the Fund's policies on the use of its resources beyond the first credit tranche or under the extended Fund facility.

Although not reproduced in the staff paper, section 6 of the decision on the policy on enlarged access is also quite explicit on what should be the outer limits of the expected adjustment period:

The period of a stand-by arrangement approved under this decision will normally exceed one year, and may extend up to three years in exceptional cases. The period of an extended arrangement will be normally three years.

In practice, the Fund has been quite flexible and adaptable when implementing the policy on enlarged access. Given world economic and financial conditions, considerable flexibility has been necessary and desirable. This chair has supported a flexible approach, including the approach of applying enlarged access in cases where the period of adjustment remained highly uncertain and where it was not possible as required by the decision to provide a detailed statement of the economic and financial policies that the member planned to implement during the adjustment period. However, I have also been quite explicit when my authorities have believed that the criteria of the decision have been stretched too far. In addition, I have continually stated that when the criteria of the enlarged access decision are interpreted more loosely, the magnitude of resources committed in any one year as a percentage of quota should be lower. This is why I have pressed for principles and criteria for determining the scale of access in individual cases.

What is ironic and more than a little disturbing is that those countries that have benefited the most from a more flexible interpretation of the policy on enlarged access apparently believe that the Fund is discriminating against them. In particular, I have heard frequent criticisms during recent months from some Executive Directors that the Fund was discriminating against small countries, and low-income countries, and countries with limited access to commercial capital markets in favor of big countries faced with severe commercial debt problems. Such charges were again repeated in last week's Board discussion of the criteria for determining the amount of access in individual cases. If anything, I believe the Fund has acted in favor of small countries, low-income countries, and countries that have

limited access to the capital markets by interpreting the quite explicit and strict criteria of the decision on the policy on enlarged access broadly and flexibly.

As I said above, my authorities generally have been willing to support such an interpretation of the decision, but they want to be assured that such flexibility will not become the norm or become stretched too far by the Board. If anything, they believe a stricter interpretation of the decision will be called for as world economic and financial conditions improve. That is why they wanted Board understandings on the principles and criteria for setting the amount of access in individual cases during the coming year. I have not yet reported in detail on last Friday's Board discussion of this subject, but I did indicate to some of my authorities that the Board was unwilling to agree to the principles and criteria proposed by the staff and management and that it was quite clear that many members of the Board want much more generous and longer-term lending under the policy on enlarged access. This desire has also been evident during several Board discussions of stand-by requests in recent months, when some Directors have argued for larger resource commitments and for longer-term commitments, even though the strict criteria of the decision on the policy on enlarged access that I cited above were not satisfied.

One of the questions that arise is where the Fund would obtain the financial resources to finance a broader lending policy. Regarding this question, the staff paper on the review of access limits for special facilities (EBS/83/232, 10/31/83) included the statement that in addition to the potential financing requirements of the special facilities, "the liquidity position of the Fund will, of course, depend on the availability of resources under the quota increase and borrowing arrangements, on the one hand, and the demands for the Fund's resources under tranche policies (and reserve tranche drawings) on the other. In this regard, the setting of new access limits would clearly entail an understanding within the membership that the Fund would be able to secure the borrowed resources it would need to meet projected demands in 1984." My authorities believe that the Fund's borrowed resource requirements will depend not only on the access limits, but also on how access will be applied in individual cases. That is why they attached great importance to the statement in the Interim Committee communiqué that, "within these limits, the amount of access in individual cases should vary with the circumstances of the member, in accordance with criteria established for this purpose by the Executive Board." Thus, they have been more than a little interested in the outcome of the Board's discussion on such criteria. My authorities also believe that the Fund's need for borrowed resources will also be influenced by the degree to which the Fund extends itself in structural adjustment financing. This is why I have asked for more discussions of the relative roles of the Bank and Fund in structural adjustment financing.

Mr. Chairman, you made a clear statement at the very end of last Friday's discussion on the criteria affecting access in individual cases that you would continue to apply the policy on enlarged access in a flexible manner but also in a manner that recognizes the potentially deleterious policy and financial implications if the strict criteria of the decision on the policy on enlarged access are applied in too broad a fashion. I am sure that your concluding remarks will provide considerable assurance to those members, including my country, that have been providing almost all of the Fund's financing in recent years. However, in failing to develop criteria on access in individual cases and with many Executive Directors pressing for a broader interpretation of the enlarged access criteria, the Executive Board has sent a clear message that will make my authorities extremely uneasy.

In sum, my authorities have been quite explicit regarding the Fund lending policies that they believe appropriate during the coming year given the expected evolution of the world economy and consistent with the financing that the United States can support. World economic and financial conditions may turn out different from those now expected, and my authorities would adapt their views accordingly. However, my authorities believe that if other Executive Board members seek larger-scale and longer-term lending under a broader interpretation of existing Fund policies and the access limits, the question would remain as to where the financial resources to support such policies would be found.

Mr. de Vries noted that it was stated in paragraphs 1(a) and 1(b) of the proposed decision that: "...thereafter purchases will be made with borrowed resources only." While the amount of ordinary resources had constituted a significant constraint on the Fund's operation in recent years, it could turn out that a lack of borrowed resources could be a major constraint at some time in the future. He invited the staff to comment on the paragraphs in question in light of the uncertainties with regard to future borrowing by the Fund, particularly the proposed 1:1 ratio between ordinary and borrowed resources.

The staff representative from the Treasurer's Department replied that the mixing ratio of ordinary and borrowed resources had been discussed at an earlier meeting reviewing the enlarged access policy (EBM/83/110 and EBM/83/111, 7/25/83). At that meeting, Executive Directors had generally seemed to favor retaining broadly the ratio currently in effect, rather than switching to a mix using substantially more, or substantially fewer, borrowed resources in conjunction with ordinary resources. That consideration was one reason for the staff's proposal to unify mixing proportions at close to the present ratio of 1:1 and 1:1.2. In addition, the projected demands on the Fund's resources during the first two-and-a-half years of the period for which the Eighth General Review of Quotas would be in effect were large, and it did not appear wise to propose the use

of a larger share of ordinary resources at present. Such use could possibly lead to severe pressure on the Fund's ordinary resources and a need to borrow more extensively at a later stage when the Fund's liquidity position might be strained and borrowing more difficult.

The Chairman commented that if the enlarged access policy were financed completely through ordinary resources in an endeavor to eliminate the need to borrow, ordinary resources would be used up rapidly, and it would be difficult, if not impossible, to adhere to the five-year framework of the quota review exercise. The proposed borrowing mix would reduce the Fund's ordinary resources to less than SDR 10 billion by the end of the five-year period. A larger share of ordinary resources in the borrowing mix would reduce ordinary resources further, possibly placing a significant strain on the Fund's liquidity position.

Mr. de Vries asked whether, given the uncertainties with regard to the Fund's borrowing and its liquidity position, the proposed decision was likely to be changed frequently in the light of changes in the Fund's financial position, or whether it was intended that the Fund would borrow whatever resources were needed to implement the decision consistently.

The Director of the Legal Department said that review of the borrowing mix was specifically covered in the decision on enlarged access policy (Decision No. 6783-(81/40)). The proposed decision on the extension of the enlarged access policy that would be discussed by the Board shortly would provide for an annual review of all the relevant considerations, including the ability of the Fund to borrow.

Mr. Zhang observed that the proposed simplification of the policy on enlarged access would have an unfavorable impact on countries using ordinary resources below the level of 100 percent of quota in the credit tranche under a one-year stand-by arrangement not designed "in the context of a medium-term strategy." Such countries would be penalized by having to pay a higher rate of interest than at present. It would not be sufficient justification to say that such cases would be few. Furthermore, if a country used both ordinary and borrowed resources, in what proportions would it make the successive repurchases? Would it be permitted to make the repurchases of borrowed resources first?

The staff representative from the Treasurer's Department replied that the proposal in paragraph 3 of the decision was not intended to affect access to ordinary resources by members whose needs could be met within the credit tranches. It would normally change only the timing of purchases of ordinary and borrowed resources by members whose requirements were such that they were foreseen eventually to require enlarged access. The repurchase terms were prescribed in the applicable decision. Repurchases of ordinary resources were made in quarterly installments between three and five years after the initial purchase, and repurchases of borrowed resources were made between three-and-a-half and seven years after the initial purchase. That policy would not be affected by the proposed decision. Nor was it intended to change the method of interest

calculations on borrowed resources. Thus, insofar as some members would use borrowed resources at a later stage than under the present mixing method, their cost would be lower. In other cases, however, some members might use borrowed resources at an earlier stage, thereby increasing their cost. In practice, most members exhausted their ordinary resources in the course of a Fund-supported program and entered into a stage in which only borrowed resources were being used.

The Director of the Legal Department added that Mr. Zhang's point would hold true if it were assumed that the member did not use the Fund's resources beyond 100 percent of quota. The proposed decision was intended to cover a situation in which a member entered into a stand-by arrangement that did not involve a use of the Fund's resources beyond the four credit tranches but in which it could be expected that the member would eventually wish to use additional resources.

It had been suggested by Mr. Erb that the language in paragraph 3 of the proposed decision was too vague, the Director of the Legal Department continued. The staff had not intended that the paragraph should be interpreted as a loosening of the enlarged access policy. At present, a member could enter into a series of stand-by arrangements with the Fund that, taken together, involved a large use of resources relative to quota. The staff was proposing that that type of situation should be brought under the enlarged access policy, which did not cover it at present.

Mr. de Maulde stated that he could support paragraphs 1 and 2 of the proposed decision. The modification of the mixing ratio would simplify the Fund's procedures, and the financial consequences were relatively minor. The elimination of the "catching up" provisions was also welcome. However, paragraph 3 was difficult to interpret. The paragraph stated that a member had to receive the approval of the Managing Director before entering into a series of stand-by arrangements. That situation was already covered under the enlarged access policy. The paragraph did not exclude the possibility that a series of stand-by arrangements based on the sole use of ordinary resources, i.e., outside the enlarged access policy, could be ruled out by the Managing Director if he judged that a mix of ordinary and borrowed resources ought to be used in the case in question. Such a ruling would conflict with the rights of members with regard to the use of credit tranches as specified in the Articles of Agreement. The paragraph should be amended to deal with that ambiguity. With regard to the general question of the respective use of ordinary and borrowed resources, his authorities continued to advocate a larger use of ordinary resources.

The Director of the Legal Department remarked that paragraph 3 was intended to cover a situation in which a member had a large need relative to quota but requested only a relatively small amount of Fund financing. Previously, it had been unclear whether such a case could be covered by the enlarged access policy or not. Under the proposed decision, it would clearly be brought within the scope of the enlarged access policy and would therefore involve both borrowed and ordinary resources.

Mr. de Maulde said that such a proposal would be contrary to Article V, Section 3(b)(iii) of the Articles of Agreement.

Mr. Malhotra stated that he agreed with Mr. de Maulde that a member's right to make purchases under the regular tranches could not be abrogated by a Board decision. If the member did not wish to apply for enlarged access at a particular time, and if it were prepared to live with the shorter repayment period involved in the use of the credit tranches, its right would have to be respected.

Mr. Kafka remarked that he agreed with those Directors who had commented that the intent of paragraph 3 was unclear. If that part of the proposed decision were applied, it appeared that members would be given the same mix of borrowed and ordinary resources as under the enlarged access policy, but they would not, in practice, have enlarged access. Instead, they would have three unrelated stand-by arrangements bound by a "strategy," with less assurance than they had at present under the enlarged access policy that they would be allowed to draw on the Fund in the second and third years of the arrangement, except in the context of a completely new negotiation.

The staff representative from the Treasurer's Department recalled that, at the Executive Board discussion of the then proposed supplementary financing facility, the question had arisen whether a member should be permitted to use all its ordinary resources first and to use borrowed resources only after ordinary resources had been exhausted. Directors had come to the conclusion that, when it was foreseeable that the member needed more resources than available under normal access, the mix proposed for the supplementary financing facility should be used from the outset, thereby safeguarding the Fund's liquidity. Those mixing arrangements had been retained for the enlarged access policy. The staff had not intended to suggest that the Fund should limit the access of members whose needs could be satisfied within the normal access limits; in such cases, the member could draw solely on ordinary resources if it wished. The purpose of paragraph 3 of the proposed decision was to make more consistent the Fund's policy toward members that entered into a multiyear arrangement and those that entered into the first of a foreseeable series of one-year arrangements.

Mr. de Maulde remarked that if the member made clear that it wished to exercise its right under Article V, Section 3, it could not be challenged.

The staff representative from the Treasurer's Department agreed that if the member believed that its needs could be met through the use of ordinary resources, and the analysis of its balance of payments and adjustment program confirmed that view, it would be entitled to use ordinary resources only.

The Director of the Legal Department observed that the more usual situation occurred when a member needed a large amount of resources relative to quota but felt unable at the time of its request to enter into a multiyear arrangement. That was the type of situation that paragraph 3 of the proposed decision was intended to cover.

Mr. Kafka said that there continued to be confusion about the difference between an extended arrangement and a stand-by arrangement entered into in the context of a medium-term "strategy." Such fine distinctions could only complicate the Fund's operations.

The Deputy Managing Director noted that the staff had stated on page 7 of EBS/83/245:

This would mean that ordinary resources would be mixed with borrowed resources in any arrangement that was formulated within a medium-term strategy of steady progress toward a sustainable balance of payments position, even if the initial arrangement would not exceed four tranches.

As he understood it, that statement simply repeated existing policy, and the proposed decision was not intended to be a departure from that policy. Recently, Niger had entered into a stand-by arrangement involving the use of ordinary resources only. If paragraph 3 of the proposed decision had been in effect, would Niger have been treated differently from the way in which it had been treated?

The staff representative from the Treasurer's Department replied that, in that particular case, it was foreseen that a second and perhaps a third arrangement would follow the present arrangement, which would increase Niger's access beyond the four credit tranches. Had the proposed paragraph 3 been in effect, a mix of ordinary and borrowed resources would have been used from the outset.

Mr. Suraisry remarked that there appeared to be a policy shift in favor of one-year stand-by arrangements.

The Director of the Legal Department said that paragraph 3 of the proposed decision was not intended to change the Fund's practice with regard to one-year or multiyear arrangements. The effect of the paragraph would be simply to bring certain arrangements involving an initial use of Fund resources up to but not beyond 100 percent of the member's quota within the context of the enlarged access policy.

Mr. Erb commented that the perception that the Fund was forcing members into one-year programs was invalid. On the contrary, the strict criteria of the decision on enlarged access policy had been stretched to permit lending by the Fund to countries that were unable to define the appropriate type of concrete adjustment path and policy measures required by the decision. So far from forcing countries to borrow for one year, the Fund was permitting countries to borrow under a decision that, strictly applied, would not warrant such generosity.

The Chairman remarked that, by interpreting the criteria of the decision on enlarged access policy broadly, the Fund could be said to be stretching the scope of the decision; on the other hand, it could be argued that the Fund, in so acting, demonstrated justifiable flexibility in assisting members.

Mr. de Maulde suggested that paragraph 3 of the proposed decision could be amended to read:

3. A member contemplating use of the Fund's resources above the amounts, or beyond the period, referred to in Article V, Section 3, under successive stand-by arrangements in the context of a medium-term strategy of steady progress toward a sustainable balance of payments position shall consult the Managing Director before making a request for an arrangement. A request for any such arrangement will be met under the policy on enlarged access.

In that way, the paragraph would be consistent with the Articles of Agreement.

The Director of the Legal Department observed that the Articles prescribed that a member was entitled to make purchases subject to certain conditions, one of which was that the member's use of the general resources of the Fund would be in accordance with the provision of the Articles of Agreement and the policies adopted under them. The Executive Board was in the process of discussing what those policies should be. Paragraph 3 of the proposed decision, if adopted, would bring within the scope of the enlarged access policy the case of a member that wished to enter into successive arrangements with the Fund for a total use of resources large in relation to quota, provided, of course, that the member was willing to implement a medium-term strategy aimed at producing over the period in question a sustainable balance of payments position. It should be borne in mind that, even under the existing policy on multi-year arrangements, specific policies were normally agreed upon only for the first year, with subsequent years open to negotiation within the framework of the overall strategy of the program.

Mr. Kafka said that, while the Fund should retain flexibility in interpreting how detailed a program had to be to qualify for assistance, attempting to codify distinctions among such terms as "a medium-term strategy," "an extended strategy," and the like would only lead to confusion.

Mr. Malhotra commented that there appeared to be an assumption that a member entered into a one-year arrangement simply because it was unable to set out policies for a longer period. However, the member might prefer in its particular circumstances at a given time to enter into a shorter-term rather than a longer-term arrangement. It was not clear whether paragraph 3 was meant to cover a situation in which a member had difficulty in laying out a longer-term strategy or a situation in which,

despite the fact that it was prepared to set out such a strategy, the Fund judged that the strategy would not be successfully implemented. In any case, the paragraph should be amended to make clear that members' rights under the Articles of Agreement would not be adversely affected.

The Chairman stated that there was certainly no intention to abrogate members' rights under the Articles of Agreement. If the Executive Board considered the paragraph unclear in that regard, it would have to be amended. The paragraph might also have to be amended to make clear whether a member that was able to set out detailed policies for only one year, but within the context of an overall medium-term strategy, would be entitled to draw under the enlarged access policy.

Mr. Prowse asked whether a legal distinction could be drawn between what might be called a "traditional" one-year stand-by arrangement and a situation in which the member entered into a multiyear arrangement but, for whatever reason, was unable to complete the second or third year of the arrangement? In such circumstances, could there be a retroactive change in the mix of resources?

The Director of the Legal Department replied that there could not be a retroactive change in the mix of resources. In connection with the reference to the medium-term strategy under the decision on the enlarged access policy, it was clear that authorities entering into a multiyear arrangement with the Fund would set forth at the outset the objectives and general policies that they intended to pursue for the period of the intended arrangement. The authorities would also state the specific policies and measures that they intended to implement in the first year of the extended arrangement, and they would reach understandings with the Fund regarding further measures in subsequent years. Thus, the overall framework was agreed upon at the outset, but with detailed policies for only one year.

A similar situation would apply to a series of one-year arrangements if the Executive Board adopted the proposed decision, the Director of the Legal Department went on. The term "medium-term strategy" was intended to cover the broad objectives and policies that the member intended to pursue over the period required to achieve a sustainable balance of payments position. It would involve the implementation of measures for the year of the arrangement, with the expectation that there would be subsequent arrangements and that understandings would be reached in the second and/or third year. The possibility that a member would borrow from the outset in a mix of ordinary and borrowed resources had been discussed in the past by the Executive Board, although a decision to that effect had not been adopted.

Mr. Prowse asked whether, given that it was being proposed that the mix of resources in the first year of a series of stand-by arrangements should be the same as under an extended arrangement, the access limits applicable to an extended arrangement could be applied under a series of stand-by arrangements.

The Director of the Legal Department explained that the present decision on the enlarged access policy did not permit that degree of flexibility.

Mr. Erb commented that the Executive Board had sometimes approved extended arrangements in situations in which the member had not provided the kind of detailed policy statement strictly required under the decision on enlarged access policy. The decision also referred specifically to an outer limit of three years for the adjustment period; nevertheless, the Board had sometimes approved arrangements when there had been a strong probability that the Fund would have to provide financial assistance for more than three years.

Mr. Joyce observed that there appeared to be at least two categories of stand-by arrangements about which Directors were concerned. In the first situation, a member requested what might be termed a "pure" or "traditional" stand-by arrangement under which it was entitled to the use of up to 100 percent of its quota in the form of ordinary resources. A number of Directors were concerned that the effect of the proposed decision would be to deny the member the use of ordinary resources only, if the Fund, not the member, judged that the adjustment would take longer than a year and would require a series of stand-by arrangements in the context of a "medium-term strategy." Other Directors were concerned about a situation in which it might take longer than three years for adjustment to be completed, whether through an extended arrangement or a series of stand-by arrangements, and for those Directors the term "medium-term strategy" provided insufficient assurance that the member would come up with the necessary detailed policies and measures to achieve a sustainable balance of payments position. There appeared to be considerable confusion surrounding the distinction between an extended arrangement and a series of stand-by arrangements. In particular, the implications for enlarged access policy were unclear, and he was not convinced that the proposed decision would do much to clarify the situation.

Mr. Suraisry asked the staff to provide information on the extent to which stand-by arrangements in recent years would have fallen within the terms of the proposed decision.

The Associate Director of the Exchange and Trade Relations Department said that the member's circumstances would determine whether it was appropriate for the Fund to give assistance in the form of a stand-by arrangement, successive stand-by arrangements, or an extended arrangement. The starting point was the provisions of the decision establishing the extended Fund facility (Decision No. 4377-(74/114), 9/13/74), which laid down the scope of the policies to be adopted under an extended arrangement--to correct structural imbalances and to improve resource mobilization and utilization--and which stated that they should be adequate for the solution of the member's problem. An extended arrangement should be backed by a full policy commitment on the part of the government for the entire three-year program period and should aim at a decisive improvement in the member's balance of payments. Successive stand-by arrangements would also

have to be as determined as possible, but the authorities might not be able to make as full a commitment to the policy measures inherent in the medium-term adjustment strategy.

The appropriate form of the arrangement was not directly related to the amount of access, the Associate Director of the Exchange and Trade Relations Department continued. While in some cases of successive stand-by arrangements the amount of access had been relatively small, in others access had approached the limit. The enlarged access policy had, in fact, been applied to one-year stand-by arrangements since its inception. Most uses of the credit tranches at present were associated with medium-term adjustment strategies. There had been only a few recent cases in which members had come to the Fund with modest balance of payments problems and no previous use of Fund resources, and in which an arrangement involving the first and perhaps a few more credit tranches had been appropriate. In those cases, there had been no need to outline a medium-term adjustment strategy, but they were at present the exception rather than the rule. Usually it was clear from the outset whether the current arrangement would in itself resolve the member's problem.

Mr. Grosche stated that his authorities supported the proposed simplification of administering the policy on enlarged access. The present provisions on catching-up and reverse catching-up had become complicated to administer, and it was not easy to understand the logic of having a different mixing ratio of resources between stand-by and extended arrangements insofar as they came within the scope of the enlarged access policy. He could accept the staff's analysis of the likely impact of the proposed simplifications for arrangements expected to be approved until the end of 1984. He could also accept the proposal that any remaining amount of supplementary financing available for use under the enlarged access policy would be used only under extended arrangements.

Commenting on the application of enlarged access policy to successive one-year stand-by arrangements within the context of a "medium-term strategy," Mr. Grosche observed that the staff proposal would mean that the member would borrow a mix of ordinary resources and borrowed resources even if the initial arrangement did not exceed four credit tranches. He could accept the proposal, although the language of the decision presented problems, as Mr. Erb had indicated. The important point was that successive one-year stand-by arrangements should not result in permanent financing by the Fund but should, as was expected under multi-year arrangements, lead to a sustainable balance of payments position within three years. With regard to the financing of an augmentation of an arrangement following the coming into effect of the quota increase, his authorities wished to reiterate their view that in principle the quota increase should not lead to an augmentation of existing arrangements. Any additional borrowing needed by a member country should be financed only under a new adjustment program.

Mr. Prowse said that he could support the proposals to eliminate catching-up and reverse catching-up and to modify the mixing ratios in the upper credit tranches. He noted that the effect on the Fund's

liquidity position was small. However, paragraph 3 of the proposed decision raised a number of difficulties, despite the staff statement that the proposal was a clarification of the existing policy on enlarged access that took into account the practices that had developed since the adoption of the policy in 1981. The legal and other implications of the proposal were not clear; it would be preferable not to adopt that part of the decision at the moment.

Mr. Yamashita remarked that he too could accept the proposed decision, except for the third paragraph. The present procedures for mixing ordinary and borrowed resources were too complex, and there was considerable merit in simplifying them. However, while he fully endorsed the staff proposal, it was important to bear in mind the principle that borrowed resources should not be considered a permanent source of financing. The proposed simplification should not be taken to mean a change in the principle that ordinary resources should be the primary source of funds for members.

With regard to the question of eliminating the floating character of the extended facility in the first credit tranche, Mr. Yamashita continued, the Executive Board had had only preliminary discussions on that issue. Contrary to the staff's conclusion that the proposal had been generally considered undesirable by the Executive Board, there had been hardly any substantive discussion on the point at EBM/83/110 and EBM/83/111 (7/25/83). In the papers prepared for that discussion, in particular EBS/83/133 (6/28/83), the staff had referred to potential problems associated with the floating character of the extended facility. It would be reasonable to require members to use any access remaining in the first credit tranche before making purchases under an extended arrangement, as such an approach would avoid some of the arbitrary differences in the manner of financing purchases under stand-by and extended arrangements. He hoped that the Executive Board would come back to that question at an early opportunity.

His authorities accepted the position that there could be cases in which it would be more practicable to negotiate successive stand-by arrangements in the context of a medium-term strategy than to put in place a multiyear arrangement, Mr. Yamashita went on. However, they found it difficult to incorporate explicitly into the proposed decision the recent flexibility in that regard because it could be premature to make a firm judgment on whether such flexibility would find a proper place in the framework of the policy on enlarged access without undermining the overall adjustment efforts that would be called for under that policy.

Mr. Alhaimus commented that he had no difficulty in agreeing to the modification of the mix of ordinary and borrowed resources suggested in paragraph 1 of the proposed decision. The modification was intended to simplify the relevant procedures; at the same time, it would have only a small effect on the use of the Fund's ordinary resources and on its borrowing requirements. His main concern was the proposal for successive stand-by arrangements incorporated in paragraph 3 of the decision. It

raised larger issues; therefore, it could scarcely be considered a simplification of the policy of enlarged access. He agreed with the points raised by Mr. Kafka, Mr. Malhotra, and Mr. Suraisry on that issue.

Mr. Schneider said that he could agree in principle to the staff's proposal for simplifying the policy on enlarged access. The new mixing procedures for stand-by arrangements and the abolition of the catching-up and matching-up provisions would make it easier for member countries to understand better the Fund's policy on the mix of its resources. However, the rationale for retaining a different mix for purchases in the first credit tranche remained unclear; could that aspect of the policy also be simplified? He agreed with the suggestion that the new mix of resources should be applied to already existing arrangements based on the quota in effect on the date of approval of the arrangement.

Turning to paragraph 3 of the proposed decision, Mr. Schneider observed that the staff proposal to treat any arrangement formulated within the context of a medium-term strategy as falling under the policy of enlarged access, even if the specific arrangement did not exceed four tranches, would do away with the rather arbitrary distinction between the policy on enlarged access and the normal use of the credit tranches. He agreed with Mr. de Maulde that it should be made clear that the staff did not intend to change the existing practice with respect to members' rights under Article V, Section 3. It was perhaps worth asking what absolute access limit would apply during the first year of a stand-by arrangement if a country applied for a stand-by arrangement under tranche policies, up to 200 percent of its quota, and if the Fund's management judged that only a medium-term strategy would solve the country's problems and the country agreed with that view.

Mr. Tvedt stated that he agreed with the proposed simplification of procedures that had become excessively complicated, difficult to operate and to understand, and even arbitrary in their effects, according to the staff. The staff's suggested administrative simplification with regard to the use of ordinary and borrowed resources in arrangements involving enlarged access was fully justified because the present system appeared to encourage speculation on what the optimal mix of resources in individual circumstances should be. Moreover, the staff estimated that the Fund's borrowing requirements were generally insensitive to the proposed change in the resource mix. Therefore, he could support the proposed decision, including paragraph 3, the content of which he considered a consequence of abolishing the present catching-up rule. However, the wording of the paragraph could be clarified.

Mr. Alfidja said that he could support paragraphs 1 and 2 of the proposed decision, but he shared the concerns raised by Mr. de Maulde with regard to paragraph 3.

Mr. Suraisry remarked that there was clearly scope for improving the present procedures governing the mix of ordinary and borrowed resources under the enlarged access policy. Therefore, he could support in principle any simplification of procedures, provided that it was acceptable to other

members. He could support the specific proposals to change the mixing ratio for stand-by arrangements and to abolish the catching-up and matching-up provisions for the reasons outlined by the staff. The changes should make the procedures easier to understand and to administer; they should result in a more even treatment of borrowers; and they should have little effect on the Fund's financial position. However, he shared the concerns raised by other Directors with regard to the proposal to finance successive one-year stand-by arrangements within a medium-term context under the enlarged access policy. The proposal was important, but its purpose was not clear, nor was it clear who would benefit from it. It might be useful to have a short, separate paper examining the implications of the issue so that the Executive Board could return to the question at a later date.

Mr. Clark stated that he supported the proposals set out in paragraphs 1 and 2 of the proposed decision. With regard to paragraph 3, Directors' comments had made it clear that the issues were more than technical; he preferred to reserve judgment until the Executive Board could consider them further. Although the proposed changes in the mixing ratio might not have a large effect on the Fund's requirement for borrowed resources, it should be borne in mind that that requirement was estimated to be about SDR 2.5-4 billion; the question of how to finance it remained.

Mr. Joyce said that he fully supported paragraphs 1 and 2 of the proposed decision. He could support paragraph 3 if it were amended to make clear that the right of a member to seek a one-year stand-by arrangement under Article V of the Articles of Agreement would be preserved. Given the various concerns raised by Executive Directors, perhaps it would be better to defer a decision on paragraph 3 for the moment.

Mr. Hassan commented that the staff made clear that the present mixing procedures were difficult to understand, complicated to administer, and arbitrary in their effects. The proposed modifications--intended to standardize the mix of ordinary and borrowed resources purchased under a stand-by arrangement in the upper credit tranches and extended arrangements, and also to eliminate the catching-up and matching-up provisions--would considerably simplify the operational procedures under the policy on enlarged access. Moreover, the staff had shown that the proposed modifications would have no significant effect on the Fund's liquidity position, the existing commitment gap, or the borrowing requirement; therefore, he could support the proposals.

His main concern, like that of many other Directors, was with paragraph 3 of the proposed decision, Mr. Hassan continued. He had found no convincing argument for the suggestion that the financing of one-year stand-by arrangements formulated within the context of a medium-term strategy should be under the policy on enlarged access, even if the initial arrangement did not exceed four credit tranches. The discussion at the present meeting had made it clear that the proposal, if approved, might entail a change of policy and might also affect members' rights to access to the Fund's ordinary resources. He shared the views expressed by many Directors in that regard. Moreover, the proposed change in favor

of greater use of borrowed resources would increase the cost of using the Fund's resources under stand-by arrangements, a cost that was already high relative to the cost of extended arrangements. Therefore, he had difficulty in accepting that part of the proposed decision.

The Executive Directors agreed to continue their 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/83/167 (12/2/83) and EBM/83/168 (12/5/83).

2. RELATIONS WITH GATT - CONSULTATIONS WITH CONTRACTING PARTIES - FUND GUIDANCE

The Executive Board approves Fund representation at the consultations with the CONTRACTING PARTIES to the GATT in connection with their consultations with Brazil, Ghana, Peru, Tunisia, and Turkey, as set forth in EBD/83/311 (12/1/83).

Decision No. 7574-(83/168), adopted
December 2, 1983

3. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 83/94 through 83/96 are approved.

Adopted December 2, 1983

4. STAFF TRAVEL

Travel by the Managing Director as set forth in EBAP/83/294 (12/2/83) is approved.

APPROVED: April 4, 1984

JOSEPH W. LANG, JR.
Acting Secretary