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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/166

10:00 a.m., December 2, 1983

J. de Larosière, Chairman

Executive Directors	Alternate Executive Directors
A. Alfidja	W. B. Tshishimbi
	H. G. Schneider
B. de Maulde	X. Blandin
	M. Teijeiro
R. D. Erb	
M. Finaish	T. Alhaimus
	T. Yamashita
J. E. Ismael	Jaafar A.
R. K. Joyce	L. Leonard
A. Kafka	
	G. Grosche
G. Lovato	
R. N. Malhotra	
	J. E. Suraisry
J. J. Polak	T. de Vries
A. R. G. Prowse	
G. Salehkhou	O. Kabbaj
F. Sangare	E. I. M. Mtei
	S. E. Conrado, Temporary
J. Tvedt	
	T. A. Clark
Zhang Z.	Wang E.

L. Van Houtven, Secretary
K. S. Friedman, Assistant

Also Present

African Department: R. J. Bhatia, Deputy Director; O. B. Makalou, Deputy Director; M. Sidibe, A. C. Woodward. Asian Department: H. C. Kim, H. O. Roden. European Department: L. A. Whittome, Counsellor and Director; L. L. Perez. Exchange and Trade Relations Department: C. D. Finch, Director; D. K. Palmer, Associate Director; W. A. Beveridge, Deputy Director; S. Mookerjee, Deputy Director; M. Allen, H. W. Gerhard, M. Guitian, S. Kanesa-Thasan, J. Martelino. External Relations Department: A. F. Mohammed, Director; H. O. Hartmann. Fiscal Affairs Department: C. A. Yandle. Legal Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy General Counsel; Ph. Lachman, A. O. Liuksila, S. A. Silard. Middle Eastern Department: Z. Iqbal. Research Department: W. C. Hood, Economic Counsellor and Director; A. D. Crockett, Deputy Director; R. R. Rhomberg, Deputy Director; L. Alexander, K.-Y. Chu, L. U. Ecevit, N. M. Kaibni, A. K. McGuirk, E. C. Meldau-Womack, P. R. Menon, E. A. Milne, A. Salehizadeh, H. H. Zee. Secretary's Department: J. W. Lang, Jr., Deputy Secretary. Treasurer's Department: D. Williams, Deputy Treasurer; D. Gupta, Q. M. Hafiz, A. J. Mathuran, O. Roncesvalles, M. A. Tareen, G. Wittich. Western Hemisphere Department: E. Wiesner, Director; S. T. Beza, Associate Director; C. Cha, R. A. Elson, J. Ferrán, T. F. Lehwing. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: S. R. Abiad, A. A. Agah, E. A. Ajayi, H. A. Arias, C. J. Batliwalla, J. Delgadillo, S. El-Khouri, K. A. Hansen, S. M. Hassan, W. Moerke, Y. Okubo, I. R. Panday, P. D. Péroz, M. Z. M. Qureshi, D. I. S. Shaw, D. C. Templeman. Assistants to Executive Directors: E. M. Ainley, H. Alaoui-Abdallaoui, R. Bernardo, J. Bulloch, M. Camara, M. B. Chatah, L. E. J. Coene, R. J. J. Costa, M. Eran, G. Ercel, G. Gomel, V. Govindarajan, D. Hammann, N. U. Haque, C. M. Hull, A. K. Juusela, H. Kobayashi, M. J. Kooymans, G. W. K. Pickering, E. Portas, M. Rasyid, J. Reddy, A. A. Scholten, Shao Z., S. Sornyanyontr, Wang C. Y., J. C. Williams, A. Yasseri.

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

The Executive Directors considered a staff paper containing a notification of a change in the exchange system of Costa Rica and a request by Costa Rica for a waiver under its stand-by arrangement (EBS/83/253, 11/28/83; and Sup. 1, 11/30/83).

Mr. Suraisry remarked that he had requested that the proposed decisions, which had been circulated for approval on a lapse of time basis, be discussed by the Executive Board because they raised two questions of principle concerning conditionality. The staff paper did not discuss the full implications of the proposed waiver, which would enable Costa Rica to make a final purchase under its stand-by arrangement before the Fund was assured that one of the agreed undertakings would be met. He doubted whether such a practice would be consistent with either the purposes of the stand-by arrangement or established Fund practice. Moreover, the proposed waiver was the second waiver concerning a multiple currency practice in Costa Rica. He had been willing to approve the first waiver on a lapse-of-time basis on the understanding that the authorities would eliminate the multiple currency practice in question--a tax on foreign payments--as planned. However, the inability of the authorities to eliminate the tax suggested that they might have difficulty in complying with the criterion concerning the elimination of multiple currency practices. A possible solution to the problem was to permit the drawing to be made if Costa Rica eliminated the tax before December 19, 1983, when the stand-by arrangement was due to expire. The Costa Rican Assembly was scheduled to consider the tax in early December. The Fund should apply conditionality clearly and consistently. In the case of Costa Rica, it should apply the agreed conditions in a manner that would give the country the opportunity both to meet its commitments and to make the desired drawing.

Mr. Conrado remarked that the merits of Costa Rica's request were clear. The performance under the present stand-by arrangement had been satisfactory: all the quantitative performance criteria had been observed; the adjustment effort had been significant; and the program had been kept on track. The recent unification of the banking and free exchange markets, and the setting of the exchange rate initially at a level that represented a depreciation of about 5 percent, further underscored the authorities' commitment to adjustment and their compliance with the program requirements.

Costa Rica's request for a waiver concerned a nonquantitative performance criterion--a multiple currency practice--and acceptance of the waiver would in no way detract from the adjustment effort, Mr. Conrado went on. Although the 1 percent stamp tax in question was formally inconsistent with the stand-by arrangement, it was in fact of minor significance. Nevertheless, the authorities had said that, if necessary, they would remain committed to its elimination even after the expiration of the program period; the Costa Rican Assembly was to discuss the tax in the near future. Given the temporary nature of the tax, Costa Rica's performance under the stand-by arrangement, and the importance of the waiver for Costa Rica's access to non-Fund resources, the proposed decisions should be approved.

Mr. Kafka stated that, while he sympathized with Mr. Suraisry, the matter at hand was not a significant one and he strongly supported the proposed decisions.

Mr. Erb remarked that he shared some of the concerns that Mr. Suraisry had expressed. However, as the authorities had moved rapidly to unify the exchange rates, had kept the adjustment program on course, and had expressed a desire to negotiate a follow-on program, the proposed decisions were acceptable. Moreover, the stamp tax was of relatively minor importance in the context of the whole program. Because of the expected follow-on program, he was not greatly concerned about the likelihood that Costa Rica would make a purchase before having eliminated the multiple currency practice. He looked forward to approving a follow-on program for Costa Rica, and he expected that by then the authorities would have have removed the multiple currency practice in question.

Mr. Teijeiro said that he fully supported the proposed decisions. The economic implications of the proposed waiver were negligible.

Mr. Joyce stated that, for the reasons that Mr. Erb had given, he accepted the proposed decisions. He, like Mr. Erb, attached importance to the removal of the 1 percent tax before any follow-on program was approved.

The staff representative from the Exchange and Trade Relations Department remarked that the staff shared some of the concerns expressed by Mr. Suraisry, particularly as the proposed waiver was the second that Costa Rica had requested. Still, the staff believed that the waiver was fully consistent with present practices and policies. The stamp tax was of relatively minor importance in the context of the whole program; all the performance criteria had been observed; and the exchange rates had been unified. There was little more that the authorities could be expected to accomplish. They clearly favored the elimination of the stamp tax, but the precise timing was in the hands of the Assembly.

The staff representative from the Western Hemisphere Department, responding to a question by the Chairman, recalled that at end-August 1983 the staff had proposed a waiver for approval in September to cover the period through October 15, 1983. At that time, the staff had been informed by the authorities that they hoped that the Assembly would agree on the elimination of the stamp tax in a matter of weeks. The stamp tax had been considered by a committee of the Assembly and, although it had been brought to the floor of the Assembly for discussion, there had been insufficient time to take it up. The authorities had taken steps to ensure that the stamp tax would be the first order of business of the extraordinary session of the Assembly that was to meet in the immediate future, and the staff was confident that the matter would be taken up during the coming week. The Executive Branch had stressed the importance of the issue, and there was every reason to feel that the Assembly would deal with it quickly.

Mr. Suraisry remarked that he had asked for a discussion of the proposed waiver because it was too important for approval merely on a lapse of time basis. The final disposition of the request was of course in the hands of the Executive Board.

The Chairman said that there was a clear understanding in the Executive Board that the 1 percent tax would be eliminated. Management and staff would certainly follow developments in Costa Rica closely if a follow-on program was desired by the authorities.

The Executive Board then turned to the proposed decisions, which it approved.

The decisions were:

I. Exchange System

1. The Government of Costa Rica has informed the Fund of the unification of the banking and free exchange markets and of the temporary continuation of the 1 percent stamp tax on most foreign payments.

2. The Fund welcomes the progress made by Costa Rica toward the elimination of its multiple currency practices, and in view of the expected temporary nature of the stamp tax and the authorities' intention to replace it with an increase in import duties, the Fund grants approval until December 19, 1983 for the retention of this multiple currency practice.

Decision No. 7571-(83/166), adopted
December 2, 1983

II. Waiver Under Stand-By Arrangement

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

2. The Fund finds that no further understandings are necessary.

Decision No. 7572-(83/166), adopted
December 2, 1983

2. ACCESS LIMITS - SPECIAL FACILITIES

The Executive Directors considered a staff paper reviewing the access limits under the special facilities (EBS/83/232, 10/31/83).

The Chairman recalled that at the end of the previous discussion on access limits under the special facilities (EBM/83/164, 11/28/83), he had proposed a compromise solution. He invited Executive Directors to comment on his proposal.

Mr. Lovato said that during the previous discussion on the access limits under the special facilities he had expressed a preference for a limit of 83 percent of quota, which corresponded to the reduction to 125 percent of quota of the limit on annual access under the enlarged access policy. He had also said that he would be prepared to go along with a limit of 85 percent, and that position had turned out to be the basis for a possible compromise. He was prepared to accept the Chairman's proposal for an access limit of 85 percent for each compensatory financing decision and 105 percent for the two decisions combined.

Mr. Erb commented that the proposed access limit of 85 percent and the proposed threshold--50 percent of quota--for the upper and lower segments of the compensatory financing facility continued to cause difficulties for his authorities. They preferred a threshold midway between the upper and lower segments of the compensatory financing facility and an access limit below the range of 80-85 percent that the Chairman had suggested.

Mr. Kafka said that a decision reducing the access under the special facilities in the period after an increase in quotas would set an unfortunate precedent. However, in a spirit of compromise, he was prepared to support strongly the Chairman's proposal.

Mr. Conrado considered that the Chairman's proposal was sensible and, in a spirit of compromise, he was willing to accept it.

Mr. Ismael said that he continued to prefer maintaining the present access limits for the special facilities. The arguments in favor of the present limits were still valid, and particularly the argument that there was no logical link between changes in access limits for the credit tranches and changes in access limits for the special facilities. However, in a spirit of compromise, he was willing to support the Chairman's proposal.

Mr. Erb remarked that he agreed that there was no rigid or explicit link between the enlarged access limits and the access limits for the compensatory financing facility. As he had stated on previous occasions, the position of his authorities on the access limits for compensatory financing and on other policy issues was not based on a principle of proportionality or on an explicit link between the access limits for compensatory financing and enlarged access. At the same time, they recognized that the various decisions that the Executive Board would adopt concerning access and related matters in the coming weeks would ultimately determine the financing requirements of the Fund in 1984. All of the decisions on the various interrelated issues, such as the access limits for compensatory financing, the enlarged access policy, access limits in individual cases, remuneration, and charges, had to be taken into account when any one of those decisions was considered. The main question was whether the various policy elements, including the access limits, would constitute a total package that could be supported and financed in 1984. In that sense, there was a relationship--but not a formal link--between the limit on enlarged access and the access limits for compensatory financing.

Mr. Tshishimbi said that he too continued to prefer the present limits on access for compensatory financing, for the reasons he had stated on previous occasions. Executive Directors who favored much lower limits had not clearly stated the reasons why they had taken that position. The staff had indicated that the additional cost to the Fund of an access limit for compensatory financing of 85 percent, rather than 68 percent, would be only SDR 500 million. Executive Directors who had said that they were willing to accept a limit of 85 percent, rather than the 100 percent limit that they had originally supported, had already shown a generous spirit of compromise. It seemed appropriate for those who favored a much lower limit to accept the Chairman's sensible compromise.

Mr. Grosche stated that he had difficulty in accepting the proposal for a threshold of 50 percent of quota. He agreed with the staff that the most straightforward solution seemed to be to continue to use the midpoint between zero and the ceiling as the threshold, as it would preserve equality of access under the two segments of the compensatory financing facility. As for the access under both compensatory financing facilities, his chair had favored adjusting the limits roughly in proportion to the change in the access limits under the enlarged access policy. While he was willing to accept a limit above the 70 percent that he had favored, in order to help reach a compromise, he would have difficulty in accepting a figure as high as 80-85 percent.

Mr. Clark said that he too would have difficulty in accepting limits in the range proposed by the Chairman. In addition, he attached importance to maintaining the threshold at the midpoint.

Mr. Schneider remarked that his chair had taken the middle position on the issues at hand. As he had indicated during the previous discussion, he favored access limits in the range of 80-85 percent. He could go along with the Chairman's compromise proposal.

Mr. Yamashita said that he continued to believe that the access limits for the compensatory financing facility should be in line with the new access limits under the enlarged access policy and should therefore be 68 percent of quota. However, in the light of the previous discussion and in a spirit of compromise, he was prepared to go along with a quota limit of about 80 percent if there was a broad consensus in favor of it. The consensus should reflect appropriate views on the various related financing issues. As for the threshold between the upper and lower segments of the compensatory financing facility, he continued to prefer the midpoint. A threshold of 50 percent of quota seemed to be on the high side. It was important to bring compensatory financing into line with members' adjustment efforts.

Mr. Suraisry stated that he preferred the existing limits on access. However, the Chairman's proposal was a sensible compromise, and he could go along with it.

Mr. Sangare commented that he had repeatedly stressed that, as 15 of the 17 countries in his constituency would suffer a reduction in absolute access if the limits for compensatory financing were drastically reduced from the present limit of 100 percent, it would be best to maintain the existing access limit. However, the Chairman's proposal reflected the Chairman's understanding both of the problems facing many countries and of the need for a compromise. Although the compromise proposal clearly was not fully in the best interests of the members of his constituency, they could go along with it. Executive Directors who wanted even lower access limits should be urged to accept the Chairman's compromise. He did not accept the idea that there should be a link between access under the enlarged access policy and access under the special facilities either at the present stage or at any time in the future.

The Chairman remarked that there seemed to be a move toward the compromise that he had proposed. At the same time, there was obviously some resistance to his proposal, and he preferred to consider the matter further in the hope of gaining a stronger consensus on what was clearly an important matter. The reluctance to accept his proposal was due in some degree to the preference of some Executive Directors for the midpoint--rather than 50 percent of quota--as the threshold, and to the feeling of some Executive Directors that access of 85 percent of quota was on the high side. Apparently some Executive Directors would probably accept access limits in the upper part of the range that he had proposed once they had been better informed of the financial outlook for the Fund in the coming years, and the Executive Board was due to consider a number of relevant policy matters in the immediate future. An access limit of 85 percent seemed to constitute a good compromise, and he hoped that Executive Directors who had had difficulty in accepting it at the present meeting would reconsider their position. It was important to bear in mind that a limit of 80 percent would involve a reduction in the absolute access of a number of countries, something that was difficult for some Executive Directors to accept, particularly Directors whose constituencies included small countries whose economies were subject to the vagaries of the weather and to fluctuations in international prices for their exports. The issue of the threshold should be further discussed. Countries that were playing the major role in financing the Fund were justified in wishing to know more about the financial implications of the policy decisions that were to be taken in the coming weeks.

Mr. Erb considered that the Chairman had fully described the issues at hand. At the present stage, it was difficult for him to move toward the compromise that the Chairman had proposed. He looked forward to learning more about the financial implications of the compromise during the discussions on related issues in the coming weeks. He was certainly prepared to compromise in an effort to reach final agreement on the various issues.

Mr. Malhotra commented that progress by the Executive Board was impeded by the supposed interrelationship of the various issues; there seemed to be some feeling that any increase in access would involve a cost in terms of increased remuneration and conditionality. The Executive Board would certainly find it difficult to make progress if each each policy decision had to be taken in the light of the total financing picture for the Fund. Such an approach merely complicated issues and did relatively little to resolve them.

The Chairman said that he fully understood Mr. Malhotra's concern. The intention was not to require that any access limit above 70 percent should be offset by, say, increased conditionality and remuneration.

Mr. Erb remarked that he agreed with the Chairman. There were no trade-offs involved in the various issues under consideration. The present discussion represented the culmination of a series of discussions over the previous year, including discussions designed to bring the Fund's lending and financing policies in line with each other so that the Executive Board could be fully confident that the Fund could carry on with its work in 1984. As Mr. Malhotra had mentioned on an earlier occasion, various interrelated decisions would eventually have to be brought together. Hence, various aspects were interrelated in the sense that the goal was to bring all the relevant policies in line with each other by 1984.

Mr. de Maulde said that, on a personal basis, he was prepared to go along with the Chairman's compromise proposal.

Mr. Malhotra commented that his authorities continued to believe that there should be no link between access under the enlarged access policy and access under the special facilities. As he understood it, Mr. Erb did not favor rigid proportionality, while he himself objected to what appeared to be a broader link, between access under the enlarged access policy and access under the special facilities. In any event, he continued to believe that the present level of access was appropriate, and he had noted that some Executive Directors continued to prefer lower access limits than the Chairman had proposed as a compromise. If those Executive Directors were willing to accept the compromise, his authorities might be prepared to support it.

The Chairman said that it seemed best not to attempt to reach a final decision at the present meeting. In considering the matters in the coming days, Executive Directors should bear in mind that a number of Executive Directors who preferred the existing access limits had made a major concession in accepting his own compromise solution. It seemed to be in the best interests of the Fund to find a solution along the lines of what appeared to be emerging as a possible compromise. In reaching a compromise, Executive Directors would of course have in mind the financial position of the Fund, even though there was no mechanical link between that position and the access limits for the special facilities. It was therefore impossible to keep the consideration of the access issues separate from the discussion on the Fund's financial position. He hoped that the various issues, including access, charges, and remuneration, could be fully dealt with soon.

Mr. Joyce remarked that he was pleased that Mr. Erb's authorities were not insisting on maintaining a rigid link between access under the enlarged access policy and access under the special facilities. As he understood it, Mr. Erb preferred to consider all the relevant matters together, not because there was a rigid link between them, but rather because each one had a bearing on the other. Indeed, the Interim Committee had agreed that the question of the access limits for the special facilities should be included in each review of the enlarged access policy. Since a review of the limits under the enlarged access policy was likely to take place each year, the Executive Board would probably have to review the access limits under the special facilities annually.

His authorities, Mr. Joyce went on, were worried about the future of the compensatory financing facility. They were prepared to accept a reduction in the access limits for the facility, despite the increase in quotas, roughly along the lines of the Chairman's compromise. However, enlarged access was a temporary policy, and he was concerned that those who were pressing for its phasing out sooner rather than later would also press for a further reduction in the access limits for compensatory financing. It would help to establish a climate conducive to compromise to receive further comments by some Executive Directors on the intentions of their authorities at the present stage; they could usefully make a firm distinction between the future of enlarged access, and likely developments with respect to the compensatory financing facility.

Mr. Erb commented that his authorities had explicitly stated that the temporary character of enlarged access should be maintained, and that the access limits should eventually be phased down as the world economy recovered. However, that phase-down had not been linked in any way to a reduction in the access limits for compensatory financing. Access for compensatory financing should be considered separately. His authorities had no proportionality concept in mind in considering the relationship between the compensatory financing facility and enlarged access.

Mr. de Maulde said that he wished to associate himself with Mr. Joyce.

Mr. Grosche commented that the enlarged access policy and the policy governing compensatory financing were different in character. Enlarged access was a temporary policy, while the compensatory financing facility was permanent.

Mr. Suraisry said that he too felt that Mr. Joyce had made an important point, and he was encouraged by the responses of Mr. Erb and Mr. Grosche. Indeed, his acceptance of the Chairman's compromise proposal at the present meeting did not mean that he agreed in principle to any further reduction in access for the compensatory financing facility, to which he attached great importance.

The Executive Board agreed to return to the review of access limits under the special facilities in the near future.

3. CRITERIA FOR AMOUNT OF ACCESS IN INDIVIDUAL CASES

The Executive Directors considered a staff paper on the criteria for the amount of access in individual cases (EBS/83/233, 10/31/83; and Cor. 1, 11/9/83).

Mr. Ismael said that it was difficult for him to support the draft criteria, as they were unclear, difficult to interpret, and not in keeping with the most recent Interim Committee compromise on ceilings of 102 percent of quota and 125 percent of quota. In making its proposals in EBS/83/233, the staff had exaggerated the views of the minority of the Interim Committee members and had ignored the prevailing view that underlying economic conditions and the size of a member's adjustment did not call for low levels of access.

The staff's unclear presentation would make the draft guidelines difficult to interpret, Mr. Ismael considered. The staff had effectively divided access by members into three zones, or intervals, characterized by varying degrees of difficulty in terms of access. The first zone covered access of up to 102 percent of quota for what the staff had termed "normal cases." The grounds for qualification for such access included the member's need for adjustment and the Fund's need to preserve the revolving character of its resources, both of which were mentioned in the decision on the enlarged access policy. But the staff had added three qualifications: that a member's outstanding debt with the Fund should not be large, that the member should have undertaken a comprehensive adjustment program, and that the Fund should be satisfied that the member had demonstrated its willingness and ability to implement the adjustment program. There were two additional qualifications for the second zone of access, between 102 percent of quota and 125 percent of quota: that a member's balance of payments need should be especially large; and that a sizable adjustment by the country should be seen to be required. The third zone of access--above 125 percent of quota--would be available only in exceptional cases.

The multitude of qualifications that he had described contributed to the confusion about the likely interpretation and application of the proposed guidelines, Mr. Ismael continued. Having two ceilings tended to confuse the issue rather than to clarify it, and greater simplicity should be sought. He doubted whether a member that at present qualified for access of up to 150 percent of quota would fit the proposed criteria. Such a country would naturally seem to fall in the range of access between 102 percent and 125 percent of quota, but the staff's calculations suggested that the access would be no more than 102 percent, an outcome that would certainly be inappropriate.

The staff should return to the guidelines drawn up by the Interim Committee, Mr. Ismael recommended. In a spirit of compromise the members of the Interim Committee who preferred to preserve the present limit of 150 percent of quota had stated that they could accept 125 percent, although they had stressed that such access was inadequate for the relatively large adjustments that many members were required to make. At the same time, Interim Committee members who had said that they preferred access of less than 125 percent had said that they could go along with that figure, leaving only three participants who had remained committed to a lower ceiling. The limit of 125 percent was therefore the ceiling preferred by a sizable majority of the Interim Committee, and that position should naturally and properly be reflected in the criteria for the amount of access in individual cases. The ceiling of 125 percent of quota should be the dividing line between the "normal" and exceptional cases. In other words, the conditions that applied at present to access of 150 percent of quota should be applied to access of 125 percent of quota under the new guidelines. Accordingly, the qualifications mentioned by the staff for access at, or close to, 102 percent of quota under the new guidelines should in fact be applied to the ceiling of 125 percent of quota, and the two additional qualifications for access between 102 percent and 125 percent of quota should be applied in exceptional cases. Members would then understand that even access of about 102 percent of quota would have to be subject to relatively close scrutiny.

The proposed criteria concerning the catalytic role of the Fund were also difficult to interpret, Mr. Ismael considered. It was unclear to him how they would fit in the continuum of access limits. What was the difference between the definition of access in exceptional circumstances and access in cases in which the Fund was playing a catalytic role? Presumably, the Fund would play a catalytic role when a member's payments problem was serious and as much assistance as possible was called for. Assistance that was either symbolic or insufficiently large would not be meaningful and would not promote domestic and external confidence.

In the last paragraph on page 3 of EBS/83/233, Mr. Ismael noted, the staff had proposed that, if an adjustment period was expected to exceed three years, the Fund would approve successive stand-by arrangements within the context of a medium-term strategy. Why was such a strategy more advantageous than a three-year extended arrangement followed, if necessary, by a stand-by arrangement? The strategy that he favored seemed more sensible, as it would address the structural problems and enhance the supply side of the economy instead of merely concentrating on macroeconomic policies. In such cases, close collaboration with the World Bank would be appropriate.

In considering guidelines, Mr. Ismael concluded, the Executive Directors should be guided by the Interim Committee discussions. During the most recent meeting of the Interim Committee the majority had clearly agreed that for normal cases access should be 125 percent of quota. In addition, the Executive Board should be guided by the principle that any assistance that the Fund--a cooperative institution--provided, should be meaningful; any lesser amounts would be inconsistent with its purposes and objectives.

Mr. Grosche considered that, while the draft of the proposed criteria was useful, several clarifications seemed called for. In paragraph 1, the deletion of the word "possible" would show that the Fund should respond to a clear payments need, rather than to one that might or might not emerge. In paragraph 2, the second sentence did not provide criteria for cases in which access might exceed 102 percent of quota. The second sentence was insufficiently precise, and should contain the same criteria mentioned in the first sentence, although the criteria would be applied even more stringently in the cases covered by the second sentence. To that end, the word "relevant" in the second sentence should be replaced by "aforesaid."

The final sentence of paragraph 2, Mr. Grosche noted, dealt with the exceptional circumstances in which the access limits would exceed 125 percent of quota. The sentence, however, contained only one criterion--the stability of the international monetary system--which was the criterion for the activation of the General Arrangements to Borrow (GAB). Mentioning that criterion alone would underplay the other criteria that would have to be met if access in excess of 125 percent was to be granted. It seemed best not to mention any criteria for exceptional cases, thereby leaving the decision to the discretion of the Executive Board. The final sentence in paragraph 2 should therefore stop after the word "provided." Alternatively, the final two sentences of the paragraph could be deleted. If Executive Directors wished to say something about the exceptional circumstances, the reference should be included in the third sentence in paragraph 2, which referred to all cases, and which could be shifted to the end of paragraph 2.

If the proposed criteria were approved through an Executive Board decision, Mr. Grosche commented, it should be clearly understood that they were to apply only to decisions on enlarged access adopted in 1984. An introductory sentence was therefore needed to introduce the criteria. It could be: "Enlarged access resources will be made available in 1984 in accordance with the following criteria."

Commenting on the body of the paper, Mr. Grosche said that it would be useful to know the importance attached by the staff to its conclusions in Section II. Certain clarifications were called for, especially if the the conclusions were, in effect, to be a part of the decision on enlarged access. The present text described principles that had been developed on an ad hoc basis to deal with an exceptional situation. He was prepared to continue to apply those principles in 1984, but they should not be seen as the main elements of future Fund policies. In particular, he objected to the strength and general nature of the adjustment process described in Section II, which seemed to suggest that a viable balance of payments position was one that enabled a member to make repurchases from the Fund; in fact, such repurchases could be financed through a series of arrangements with the Fund. A viable balance of payments should be seen to involve the permanent elimination of an overall external disequilibrium. Hence, extended arrangements, as well as a series of stand-by arrangements created in the context of a feasible medium-term strategy, should be used to help a member to achieve a viable balance of payments position while maintaining the revolving character of the Fund's resources. The latter could be preserved only if adjustment programs supported by the Fund reached their goals within the stipulated period. The Fund had no role to play in cases in which essentially permanent financial assistance was thought to be necessary.

Commenting on Section III, Mr. Grosche said that he was somewhat surprised that the staff expected an augmentation of existing arrangements of about SDR 1 billion during 1984. Credit arrangements had been concluded for specific amounts, and changing the amounts for a large number of the arrangements in the coming months would not be appropriate. Existing arrangements should be implemented as the Executive Board had envisaged them, and follow-up programs, wherever necessary, should be considered on a timely basis. Finally, the staff's approach in Section IV to small-quota, low-income countries was welcome. The matter was a difficult one, as a balance had to be struck between the need to adhere to the principle of equal treatment of members and the wish to respond to the difficult problems facing a number of small-quota countries. However, the Fund should avoid becoming involved in long-term development financing. It seemed best to deal with small-quota countries on a case-by-case basis.

Mr. Finaish considered that the explanation of the general criteria for access in individual cases contributed to a clearer understanding of the matter. However, the criteria should not be set out in a way that would make them rigid. The conditions of member countries seeking Fund assistance could differ markedly, and the policy on the determination of the scale of access should provide considerable flexibility. It ought also to be recognized that such flexibility in the criteria gave substantial room for judgment by the staff in proposing access levels in individual cases. In addition to providing a careful statement of the criteria, it would be equally--if not more--important to ensure that the room for judgment was used objectively. In that connection, it would be helpful, as the staff had previously suggested, to include in staff reports on requests for the use of Fund resources a clear statement of the way in which the size of a particular arrangement had been determined.

The most recent communiqué of the Interim Committee, Mr. Finaish noted, stated that "access to the Fund's resources under the [enlarged access] policy during the period of extension...will be subject to annual limits of 102 percent or 125 percent of quota...depending on the seriousness of the balance of payments needs and the strength of the adjustment effort." The same criteria should determine access between 102 percent and 125 percent of quota. An implication of the Interim Committee's statement was that access in individual cases during the period of extension of the policy on enlarged access would be determined along a continuous spectrum of increasing seriousness of balance of payments need and strength of adjustment efforts, up to a maximum access of 125 percent of quota. In other words, 125 percent of quota would be the upper limit of access corresponding to the previous limit of 150 percent. It should also be noted that, according to the agreement reached by the Interim Committee, access beyond the limit of 125 percent--and not access beyond 102 percent--should be termed "exceptional." The relevant statements in the present staff report were consistent with that understanding.

Commenting on the criterion of balance of payments need, Mr. Finaish said that it was correct to say that a member's need for Fund financing would be affected by the amount of financing that was available from other possible sources. However, care should be taken that the criterion of "taking into account the availability of other financing" mentioned in the staff report was not interpreted to mean that the Fund would consider providing financing only after all other potential sources of financing had been exhausted.

One of the proposed criteria, Mr. Finaish noted, was the expected speed of improvement in a member's balance of payments. That criterion was meant to ensure that, in cases in which access was close to the limits, the balance of payments would improve with sufficient rapidity to enable the country to make repurchases on schedule without strain. However, the idea expressed in paragraph 2 of the proposed criteria--that all arrangements involving access close to the limits should, as a general rule, require substantial front-loading of adjustment--was unclear. Even if access close to the limits was granted only in cases in which a rapid turnaround in the balance of payments was expected by the time repurchases were to fall due, it would still not follow that adjustments should necessarily be front-loaded in all such cases. It was well known that certain adjustment measures required implementation over an extended period; the appropriate phasing of adjustment could be conditioned to a significant degree by the particular characteristics of each case.

A similar point could be made about the criterion of the strength of a member's adjustment program, Mr. Finaish went on. It should be assessed assessed in relation to the adjustment that was required to achieve balance of payments viability over the medium term, rather than in relation to some general, absolute standard.

The proposed criterion of the scale of past use of Fund resources would also have to be applied carefully, Mr. Finaish remarked, if only because, as had been noted in the recent discussion of upper credit tranche arrangements, a continuing need for Fund resources might not necessarily imply poor performance or deficient program implementation by members under previous arrangements.

As for the provision for approval of access beyond the 125 percent limit in exceptional circumstances, Mr. Finaish continued, the staff suggested in paragraph 2 of the proposed criteria that the provision could be used in cases "where failure to provide orderly adjustment might impair the stability of the international monetary system." It was his understanding that that statement had been used merely by way of illustration, and that the use of the exceptional circumstances provision would not be confined only to such cases, which would involve only large economies. In the future, as in the past, the Fund should have the flexibility to approve access beyond the upper limit in all cases in which, on the basis of the relevant criteria, the need for financing from the Fund in support of adjustment was deemed to be exceptionally large in relation to quota. Indeed, if access beyond the limits in exceptional circumstances had been restricted in the past only to cases involving a threat to the stability of the international monetary system, the Fund would have been prevented from exercising that option in all of the few cases in which it had been used.

Commenting on the text on small-quota, low-income countries, Mr. Finaish said that the staff's suggestion to use the extended Fund facility to assist some of those countries was appropriate. However, the staff had noted that, because of the particular nature of the small-quota, low-income countries, a large share of Fund assistance to them had been in the form of compensatory financing and emergency drawings, and that the share of such drawings by those countries had been larger than the share for other countries. He concluded that the level of access under the special facilities was of greater immediate interest to the small-quota, low-income countries, and that any reduction in the access limits for those facilities might have a proportionally greater impact on the overall effective access of the smaller members.

Although the group of small-quota, low-income countries was not large, the diversity among its members was significant, Mr. Finaish remarked. It included countries with per capita GNP levels ranging up to SDR 1,800 and countries classified as "least developed" by the United Nations. It was important to remember that the group was not a homogeneous one. He also recalled that some of the smallest countries in the group, including the smallest, Maldives, had benefited the least from the rounding scheme that had been used for the Eighth General Review of Quotas.

Mr. Salehkhou recalled that in preparing for the previous meeting of the Interim Committee, the Executive Board had considered the issue of access, including access under the enlarged access policy. He, like many others, had expressed a number of reservations about the guidelines proposed at that time, particularly because they had introduced considerable rigidity and would have deprived management of its present discretion and flexibility, which it needed both to handle the normal business of the Fund and to address serious difficulties in individual countries seeking Fund assistance. The present report contained basically the same guidelines, although they were more detailed and even more restrictive. Although broad guidelines seemed necessary, particularly in view of the Interim Committee's compromise agreement establishing two sets of different access limits--a conclusion that his constituency had not supported--the proposed criteria underscored the need to keep some leeway in dealing with the various conditions of individual member countries.

In discussing the two-tier system proposed by Mr. Wicks in August 1983, Mr. Salehkhou recalled, some Executive Directors from industrial countries had expressed their concern that the upper limit would tend to become the normal access limit, while other Executive Directors had said that they were worried that, in practice, members would be given access only up to the lower tier. Although the Interim Committee's agreement on the new access limits was rather vague and referred only to the seriousness of members' payments needs and to the strength of their adjustment efforts, the staff had clearly interpreted the Committee's agreement in the most restrictive possible manner. Under the staff's proposed criteria, the lower tier of 102 percent would become the normal maximum limit; access beyond it would be provided only in cases in which a member's payments problems were especially difficult and the prospects for improvement were particularly promising. That outcome was certainly not the intention of most of the members of the Interim Committee, whose agreement on limits of 102/125 percent of quota was a compromise and not the view of one particular group of participants. Furthermore, even though a large number of the members of the Interim Committee had insisted that no individual country's access should be reduced in absolute terms, the criteria in the present report clearly curtailed the absolute access of most potential users of the Fund's resources. He wished to associate himself with Mr. Ismael's conclusions on the matter, and particularly that 125 percent of quota should be seen as the normal maximum access limit.

He was also worried, Mr. Salehkhou went on, by the staff's insistence on including the prospects for improvement in a member's balance of payments as one of the main determinants of the amount of access in individual cases. Such an improvement, which was obviously the objective of any adjustment program, would generally depend as much on external and exogenous developments as on the strength of the adjustment effort; that was particularly true in the case of developing countries, which had little influence on the international economic environment. The insistence on rapid improvement might force the pace of adjustment under

Fund-supported programs and leave members little room for maneuver to adapt to adverse developments. In any event, the idea of rapid improvement was not consistent with the understanding that the adjustment problems facing the developing countries were major and would take some time to correct.

The staff's proposed criterion concerning a member's record in avoiding continuous use of Fund resources was not helpful in any way, Mr. Salehkhou went on. Because the concessional element of Fund assistance was clearly on a downward trend while the corresponding conditionality was becoming harsher, no country requested the institution's assistance as a first choice. The present difficulties in the international financial system had made recourse to Fund resources compulsory for most developing countries seeking rescheduling of their external debt or further commercial and official foreign lending. In any event, a member's outstanding use of Fund resources automatically reduced its further access and was a factor in the determination of amounts under new arrangements. The criterion of avoiding continuous use of Fund resources would unnecessarily complicate the provision of Fund assistance.

Commenting on the financial implications of the proposed access limits, Mr. Salehkhou noted that the number of cases of access that were expected to go beyond the lower limit in 1984 was smaller than had originally been estimated. That fact hardly justified the adoption of the staff's very restrictive proposed criteria.

He had assumed, Mr. Salehkhou concluded, that the staff paper would pay more attention to small-quota, low-income member countries, in line with the specific request of the Interim Committee. While the paper reviewed the particular circumstances of those members, no practical or special procedures had been suggested for their treatment. He hoped that the definition of the group of countries could be amended to include a quota larger than the SDR 25 million suggested by the staff.

Mr. Schneider commented that, in keeping with the recommendations of the Interim Committee, the Executive Board faced the task of devising criteria that would enable the staff to determine the amount of access in individual cases. He broadly agreed with the considerations outlined by the staff in Section II (EBS/83/233). Balance of payments need was the first condition to be met for the use of Fund resources, and the amount of the Fund's assistance should never exceed a country's balance of payments need. The fact that the concept of balance of payments need was not very precise gave the Fund some flexibility. Because Fund assistance was aimed at improving a country's balance of payments position, the strength of the country's adjustment effort and the timing of the expected improvement in its balance of payments were crucial factors. Those principles were adequately reflected in the text on page 3 describing the circumstances in which it would be appropriate to apply various limits on access. However, Section V, containing the proposed criteria for 1984, and Section II had apparently been written by different persons. Insufficient care had been taken to ensure that the proposed criteria were in line with the discussion in Section II. The staff had stated in Section II that, when a member had an especially large payments need, Fund financing could exceed the 102 percent limit and reach up to the 125 percent limit. However, paragraph 2 of the proposed criteria provided that "given a particularly large financing need in relation to quota... access could be at or close to the annual limit of 102 percent of quota." That definition was clearly inadequate. Moreover, the same criterion provided that "in some circumstances, where a judgment on the basis of the relevant criteria so warrants, access may exceed the limit of 102 percent and reach up to the limit of 125 percent of quota." In his view, a financing need that was particularly large in relation to quota or the balance of payments need itself would justify access between 102 percent and 125 percent. The criterion of the size of the need should be the basis for the determination of access limits in general, and of access between 102 percent and 125 percent of quota in particular.

He had even greater difficulty with the criterion for access above 125 percent of quota, namely, impairment of the stability of the international system, Mr. Schneider continued. Hitherto, that criterion had been a special feature of the activation of the GAB and had not been used in determining access limits in individual cases. The use of such a criterion for access in individual cases would implicitly favor large countries, as their imbalances, and not those of smaller countries, were likely to impair the stability of the international monetary system. The criterion could also imply that the adjustment requirements might become less stringent for larger countries than for smaller ones. A decision whether or not to exceed the limit of 125 percent of quota should be determined on the basis of the same criteria that would be used to determine access below 125 percent of quota. It seemed obvious that, once all the appropriate criteria had been met, access should be provided above 125 percent of quota in cases of exceptionally large payments imbalances.

Even in cases in which adjustment efforts were likely to take somewhat longer than usual, Mr. Schneider continued, annual access should not automatically be well below 102 percent of quota. All of the relevant criteria, such as the size of the payments imbalance and the outstanding use of Fund resources, should also be taken into account. In the case of an adjustment program that covered several years, access above 102 percent of quota might well be warranted in the first year in order to launch the adjustment effort and to restore confidence. In the later years of an arrangement, the Fund's role should perhaps be that of a catalyst. In general, in considering a specific access limit the staff should not stress any particular criterion; a global judgment involving all the relevant criteria would be required.

Commenting on Section III, Mr. Schneider said that it was not obvious to him how the considerable scaling down of access could be envisaged by the staff before any decision on the criteria determining access had been adopted. In any event, a further explanation of the scaling down seemed called for, and particularly of the reasons why some countries were no longer expected to use Fund resources or were expected to use much smaller amounts than had been originally anticipated. The statement that "many new arrangements in 1984 are expected to amount to considerably less than 102 percent of new quota" seemed rather awkward in a paper that was supposed to propose criteria; the awkwardness was particularly striking in the light of the inconsistency between Sections II and V.

He supported Section II, Mr. Schneider concluded, which dealt with the considerations governing the amount of access in individual cases. However, the analysis in Section II had been translated in a rather rigid way into the proposed criteria, which he had great difficulty accepting as drafted.

Mr. Polak said that he agreed with most of the distinctions that were made in Section II. However, he had trouble supporting the distinctions in Section II, and in the proposed criteria in Section V, between access cases involving 102 percent of quota, 125 percent of quota, and in excess of 125 percent of quota. On page 3 (EBS/83/233), the staff had devoted a paragraph each to the limits of 102 percent and 125 percent of quota, but there was little difference between them; the words used to describe the different conditions in which each access limit would be applied were nearly synonymous. Apparently the only difference between the upper limit of 102 percent and the upper limit of 125 percent was the size of the member's balance of payments need. No attempt had been made in the proposed criteria to make a distinction between the access limits; there were merely references to relevant criteria. That approach differed from the Interim Committee's agreement, which included two criteria: the seriousness of the balance of payments need, and the strength of the adjustment effort. In his view, the balance of payments need and the adjustment effort should be greater for access under the higher limit than under the lower limit. It was probably impossible to provide language that would guide the staff and the Executive Board in determining access in individual cases. Over time, however, larger access should be accompanied by a greater balance of payments need and a stronger adjustment effort than would characterize access at lower levels.

He agreed with previous speakers, Mr. Polak continued, that it was probably unwise to limit exceptional cases to those that threatened the stability of the international monetary system. Indeed, cases in which the stability of the system was at stake probably would not warrant access above 125 percent of quota. Such access should be given primarily to countries with small quotas--particularly quotas that were small compared with calculated quotas--and to countries that had limited access to other forms of international credit, provided, of course, that the Fund was satisfied that the quality of the country's adjustment program would ensure that repurchases could be made on time. Countries whose imbalances posed a substantial threat to the whole system were by definition large countries for which financing from a variety of resources could be marshaled. Fund financial assistance was undoubtedly important for large countries, but he doubted whether in recent cases such as Mexico and Brazil an extra, say, 25 percent in financing from the Fund would have been critical. In contrast, it might be impossible to develop an adequate program for smaller countries in Africa without Fund assistance in excess of 125 percent of quota. Another reason for not focusing exceptional access on large countries was that the extra 25 percent of quota for those countries would take up a considerable portion of the Fund's resources, thereby seriously limiting the Fund's ability to assist other countries.

Previous speakers had mentioned, that the access issues under discussion at the present meeting had to be considered in the light of certain interrelated matters, Mr. Polak noted. However, it seemed difficult at the present stage to discuss the need for borrowed resources. According to the latest staff estimates, the Fund would need to borrow SDR 2.5-4.0 billion to support enlarged access in 1984. Even if developments occurred as the staff expected, he was not confident that the Fund had a good idea of the likely sources of the additional borrowing. Embarking on an extension of the enlarged access policy without having a clearer indication of the sources of financing seemed highly undesirable.

Mr. Tvedt considered that the criteria mentioned by the staff in the body of its report were reasonable. The idea of relating the degree of financing to the degree of adjustment was particularly appropriate. On the other hand, the proposed guidelines were somewhat unclear to him. At the present stage, it was of course difficult--and probably undesirable--to aim for exactness in the framing of access criteria. In any event, the Fund should maintain considerable room for maneuver in coping with the large variety of problems facing member countries and it should be flexible in its approach to the problems.

The staff's distinction between a member's access within the annual limits of 102 percent and 125 percent of quota and access beyond those limits seemed to be rather restrictive, Mr. Tvedt continued. Presumably the general criteria for drawing under the enlarged access policy would still be valid in all circumstances, but he had some difficulty in distinguishing between cases in which drawings should be about 102 percent of quota and cases in which access could rise up to 125 percent of quota. At the same time, the staff had clearly suggested that the bulk of the drawings in 1984 would be about 102 percent of quota, or even considerably lower. While he hoped that global economic activity would gain momentum in 1984, he suspected that a substantial number of countries would continue to face sizable financing problems in 1984, and that the limit of 102 percent of quota would have to be exceeded more often than the staff had suggested.

The criteria mentioned on pages 3 and 9 for the annual limits of 102 percent, 125 percent of quota, and above 125 percent of quota seemed nearly identical, Mr. Tvedt remarked. The staff could usefully comment on the exceptional circumstances mentioned at the end of paragraph 2 of the proposed criteria, and particularly the idea that the cases might include those that could impair the stability of the international monetary system.

He basically agreed with the general thrust of the staff paper, Mr. Tvedt concluded. In particular, he fully endorsed the emphasis on flexibility in approaching the various problems, including those of small-quota, low-income countries. The Fund should continue to attach importance to the underlying causes of balance of payments deficits in order to determine whether the factors involved were temporary or permanent. In that connection, he was pleased that medium-term strategy and projections would play an important role.

Mr. Sangare said that his authorities were greatly concerned about the staff proposals. The staff paper had been written at a time when the outcome of the Eighth General Review--and, therefore, the future of the Fund's liquidity position--had been uncertain. Even when that factor was taken into account, however, the staff's approach seemed incorrect.

He agreed, Mr. Sangare went on, that a country wishing to use the Fund's resources must have a balance of payments need. Furthermore, its adjustment program should be appropriately designed, so that implementing the program would strengthen the balance of payments. The country's outstanding purchases should also be taken into account, since drawings were of course subject to quota limitations. However, the staff's preoccupation with the revolving character of the Fund's resources appeared to be out of place. It would be useful to have the staff comment on its experience with repurchases. The information might shed some light on the question of whether or not the staff was overconcerned about the minor inconveniences arising mainly from the harsh international environment and was aiming to further tighten conditionality.

The staff was excessively optimistic about the ability of front-loaded adjustment policies to restore a viable balance of payments position, Mr. Sangare remarked. For instance, on page 2 the staff had stated that "for stand-by arrangements, it should therefore be expected that substantially all adjustment measures would be implemented at an early stage." It was of course true that countries should be encouraged to introduce corrective measures at an early stage, but attempts to hasten the pace of adjustment unduly might prove to be counterproductive. In any event, some policies could be implemented only over an extended period, and an excessively rapid pace of adjustment could lead to costly mistakes, particularly if the design of a program was not fully adequate. The widespread problem of inadequate program design indicated the need for a degree of caution in approaching the various access issues.

The staff paper gave the impression that the normal access limit would be 102 percent of quota, Mr. Sangare commented, and the apparent conclusion that access in excess of 102 percent of quota would require extraordinary justification caused him great concern. The Interim

Committee had agreed on limits of 102 percent and 125 percent of quota as a compromise that would ensure that no country would experience a reduction in absolute access when the new quotas became effective. Any attempt to set the access limit in practice at 102 percent of quota while considering 125 percent of quota as a theoretical limit would be inconsistent with the understanding reached by the Interim Committee and would involve a reduction in absolute access for 15 of the 17 countries in his constituency. The appropriate course of action was to tailor access to the circumstances in individual cases consistently with the intentions of the Interim Committee.

He was also greatly concerned about the staff's categorization of members into various groups for the purpose of determining access, Mr. Sangare continued. The first group consisted of countries that could draw up to, or close to, 102 percent of quota. Some countries could qualify for access of up to 125 percent, or more, even though the strength of their adjustment programs and their degree of commitment to adjustment were the same as those for countries that did not qualify for such access. The higher access would apparently be determined on the basis of the size of the economies of the countries concerned and on the probable effect of inadequate financing from the Fund on the international monetary system. Another category consisted of countries whose access limit would be set "well below the limit of 102 percent of quota" irrespective of the strength of their adjustment programs, the commitment by the authorities concerned, or the countries' immediate financing needs. The determining factor would be the staff's perception of whether or not the country would need a succession of Fund-supported programs. Hence, in such cases, at the outset of the program its failure would be nearly a foregone conclusion because of a lack of adequate Fund financing; that outcome was particularly likely in the light of the present declining trend in official development assistance.

The third category, Mr. Sangare noted, consisted of countries that were thought to require a long period of adjustment. In those cases, the Fund's role would be one of a catalyst, and the Fund itself would provide token financial assistance. Even that minimal assistance would be dependent on the adoption of a program that would ensure eventually a net flow of resources from the member countries concerned to the Fund. Many developing countries, particularly those in Africa, that had been using Fund resources would fall under the third category. The question naturally came to mind how the staff expected the Fund to be able effectively to perform its role as a catalyst in a country in which it provided minimal financial assistance, especially as such countries would have limited access to the private capital markets and could expect to receive only small amounts of official development assistance and multilateral credit. The staff did not seem to appreciate that the poorer countries were precisely the ones that most needed Fund assistance. The Fund could not abandon such countries in midstream without tarnishing its own image. In any event, the much-discussed principle of equal treatment of members seemed to have been abandoned by the staff in its effort to meet the current challenges. Instead of creating categories, the Fund should treat countries on a case-by-case basis. In addition, members should acknowledge the inadequacy of quotas and impress upon various governments the need to deal with that matter rather than attempt to redefine the role of the Fund.

In its proposals for dealing with small-quota, low-income countries, Mr. Sangare observed, the staff had recommended that extended arrangements should be considered for many of the 22 countries concerned. The staff had not said anything new in responding to the wish of the Interim Committee to see steps taken to deal with the needs of the small-quota countries. The SDR 25 million ceiling used to determine the group of small-quota, low-income countries had been fixed in 1959 and, because of subsequent increases in quotas and the rate of inflation, it was no longer appropriate. In any event, while the staff had suggested that extended arrangements would be justified for small-quota, low-income countries, it had made no mention of the access limits for such countries. Access in excess of 125 percent of quota was to be given to large countries, and particularly those whose imbalances could adversely affect the international financial system. None of the small-quota countries would be able to qualify for such access.

He was surprised that access in excess of 125 percent of quota was to be limited to countries whose imbalances posed a threat to the international monetary system, Mr. Sangare went on; such a practice certainly had not been intended by the Interim Committee, and Mr. Grosche's position on the matter was encouraging. Drawings under the credit tranche policies should not be based on the same principles that were applied to the GAB. Although the quotas of the small-quota countries were limited in absolute terms, they were usually large in relation to the countries' financing needs. Hence, such countries could usefully be given access in excess of 125 percent of quota; and there seemed to be no reason not to do so. The arguments that the staff had made in favor of extended arrangements for the small-quota, low-income countries could be applied to most other developing countries. The difference between the groups of countries was the magnitude of the commitments under the extended arrangements, which would be small for small-quota countries. The kind of programs adopted by members would be determined not by the nature of the problems facing the countries, but rather by the possible commitment of the Fund. If Fund-supported programs were to have the desired effect in the long run, the Fund should not close its eyes to the nature of the underlying balance of payments problems in individual cases, and programs should be designed accordingly. The issue of small-quota, low-income countries was an important one and should be further examined by the staff in a separate paper.

Mr. Kafka remarked that the Interim Committee had given the Executive Board a difficult task that had not been made any easier by the staff paper. The staff's proposals were unclear and were inconsistent with the Interim Committee's conclusion that access should be either 102 percent or 125 percent of quota. The staff had in effect proposed that access should be 102 percent of quota, rather than 125 percent. The staff would have to clarify its proposals before he could accept the analysis in Section II or the criteria in Section V. He fully agreed with Mr. Ismael's comments on the staff paper.

Mr. Conrado said that he wished to make some general comments before turning to the proposed criteria for access in 1984. It was important to keep in mind the setting in which Fund resources would be made available in 1984, when the adjustment process of the world economy would be at a critical juncture. Whether or not the recovery in the largest industrial countries was maintained, it was clear that the economic conditions in developing countries--which were the main users of Fund resources--in 1984 would be grim. Even in the best of scenarios, the developing countries would have to wait until the lagged effects of growth in the major economies had any significant impact on their economic well-being. The present time was a difficult one for the world economy and a critical one for most developing countries. The Executive Board's decision on the structure of access to Fund resources should reflect the circumstances. The Executive Directors should not become preoccupied with purely statistical considerations; they should pursue the main objective of safeguarding the stability of the world financial system.

New access limits of 125/375/500 percent of quota should be considered the normal maximum limits and the proper equivalent of the previous maximum limits of 150/450/600 percent of quota, Mr. Conrado continued. That conclusion should be kept in mind when the proposed basic principles governing the amount of access in individual cases were applied. Any proposal or practice under which 102 percent of quota would be the normal maximum annual limit was entirely unacceptable. Of course, the figures of 102 percent and 125 percent of quota were limits and not targets; it should therefore be clearly understood that 125 percent of quota was the proper equivalent of the previous limit of 150 percent of quota.

Commenting on Section V, Mr. Conrado said that it was important to stress that the proposed criteria should be applied very flexibly, particularly in the light of the variety of member countries' circumstances and the uncertainties surrounding financial programming. Another important factor was the relationship between adjustment and financing in Fund-supported programs. The staff's points about the degree of adjustment to be attained under individual arrangements were well taken. As the staff had noted, even full implementation of a set of arrangements might not necessarily lead to the attainment of a sustainable external balance. In those cases, the Fund should certainly provide additional financial support, even if it involved a prolonged relationship with a member. The Fund's resources should revolve in order to enable the institution to help members deal with successive payments imbalances. If the distribution of payments imbalances in the world was concentrated heavily on a group of countries, it was to be expected that those countries would use the Fund's resources over a prolonged period. As the staff had noted, that policy approach was implicit in the fact that the cumulative access limit permitted additional financing even when a member country had exhausted the normal maximum access. The need to deal with such cases was another reason for maintaining a very flexible approach to the application of the structure of access limits.

He did not agree with the staff's conclusion in paragraph 3 of Section V, Mr. Conrado continued, that in cases in which the process of balance of payments adjustment was likely to take longer than normal, the annual amount of access should be well below the limit of 102 percent of quota. There might well be many cases involving an initial adjustment effort that would require much more Fund financing than that implied by the limit of 102 percent of quota, even though the remaining adjustment effort could be made with the support of annual amounts well below that limit. In commenting on such cases, the staff had mentioned on page 3 that in cases in which it was clear at the outset that the adjustment period would have to be stretched beyond three years, further support should normally be in the form of successive shorter term stand-by arrangements. In fact, in some of those cases an extended arrangement would be appropriate, and he saw no reason why that option had been practically ruled out by the staff. Although the staff paper admittedly was not meant to address in detail the alternative of the use of the extended Fund facility, it unduly relegated the facility to a meager role. Indeed, an outsider reading the staff paper alone probably would have no idea that there was an alternative to successive stand-by arrangements.

He fully agreed with the comments by Mr. Schneider and Mr. Polak on the criterion for access beyond 125 percent of quota in exceptional circumstances, Mr. Conrado said. The proposed criterion, which singled out cases that might threaten the stability of the international monetary system, suggested that the limit of 125 percent of quota would be exceeded only for large countries. There might well be cases in which the limit should be exceeded for smaller countries. Indeed, given the relatively small size of their quotas and the relatively large size of their imbalances, the smaller countries might make greater use of the exceptional circumstances criterion than the large countries.

He agreed with most of the staff's comments on cases in which the Fund's role would be essentially that of a catalyst, Mr. Conrado concluded. He also agreed that, if sufficient external financing could not be obtained, the Fund should not be a residual source of finance; but that principle should be carefully applied. The cases in which it might be applied would be complex. Often it would not be easy to know whether a Fund-supported program was not in place because sufficient external financing was unavailable, or whether external financing could not be obtained because a Fund-supported program was not in place.

Mr. Lovato said that he broadly agreed with the considerations that had been taken into account in proposing the criteria in Section V of EBS/83/233. He had no difficulty in accepting the basic principles in the decision on enlarged access and the present established practice outlined in Section II. However, it was difficult to move from general statements concerning uniform and comprehensive criteria to the actual application of criteria to the variety of specific circumstances in member countries. Some leeway should certainly be given to the staff in deciding the appropriate amount of Fund financing in specific circumstances. The new access limits should be observed, but it should be understood that they were neither targets nor entitlements. Access should vary in accordance with a country's specific circumstances and should reach up to 125 percent of quota only in exceptional circumstances. The staff and the Executive Board should maintain the right balance between general criteria and a member country's specific needs and adjustment effort; the balance should be maintained uniformly for all member countries.

He agreed that the need to preserve the revolving character of the Fund's resources was an important factor in the determination of access in individual cases, Mr. Lovato went on. Cumulative and prolonged use of Fund credit by some countries should be avoided. In designing an adjustment program and extending financial support for it, the Fund must be able to presume reasonably that the country would be able to make repurchases on schedule. The attainment of a viable external position over the medium term and the delineation of the policies required to obtain it must be essential features of adjustment programs. If at the end of a program period the adjustment proved to be inadequate and repurchases could not be made on time, it would be important for the Fund to assess the extent to which that outcome had been due to circumstances beyond the member's control. In such cases, the Fund's approach should be flexible. In cases in which adjustment was expected to stretch beyond three years, Fund support should be consistent with the expected rate of improvement in the balance of payments and the debt service capacity of the member country. However, in such cases the Fund's role should primarily be that of a catalyst of external financing from other sources.

On page 5 of EBS/83/233, Mr. Lovato noted, the staff had stated that "the bulk of new arrangements...is expected to be in the form of stand-by arrangements rather than extended arrangements, and most of them are likely to be for one year." A further comment on the reasons for that conclusion would be helpful. In many cases, the Fund could appropriately lend its support in the form of a succession of stand-by arrangements, provided that they were framed in the context of a medium-term recovery strategy. However, he hoped that the suggestion to use such a strategy did not reflect a tendency to downplay the role of the extended Fund facility and to shorten further the average length of Fund-supported programs. Although some extended arrangements had been disappointing, in part because of the severity of the world recession, such arrangements could be valuable and his authorities considered them important.

Mr. Clark said that he broadly agreed with the staff approach. Most of his reservations about the staff's proposals had been expressed on previous occasions. He, like Mr. Polak, would have preferred a clearer distinction to have been made between the criteria for the limits of 102 percent and 125 percent of quota. Among those various criteria, stress should be placed on the strength of a country's adjustment effort. The further refinement that was needed for some of the proposed criteria should preferably emerge from experience over time. He preferred to avoid singling out at the present stage specific circumstances in which access beyond 125 percent of quota would be appropriate, and he agreed with Mr. Grosche's proposal for shortening paragraph 2 in Section V. The circumstances in which access beyond 125 percent of quota would be given would necessarily be exceptional, and they would best be dealt with on an ad hoc basis.

Mr. Zhang recalled that during the previous meeting of the Interim Committee, the Governor for China had stated that he did not agree with all the Committee's conclusions on the annual access limits. A limit of 115 percent of new quotas would have been more appropriate, and the range of 102-125 percent of quotas should not constitute a two-tier limit.

In proposing criteria for access to Fund resources in 1984 the staff had concluded that access in individual cases would depend upon four major factors that were described in paragraph 1 on page 9 of EBS/83/233, Mr. Zhang continued. Presumably those factors were the same ones that the staff had taken into account in the past, and the discussion in the present staff report was the first explicit and formal explanation of the factors by the staff. The staff paper was welcome, but the relative importance that the staff attached to each factor was unclear to him. In applying those factors to the annual access limits of 102 percent and 125 percent of quota agreed by the Interim Committee, the staff distinguished between two sets of circumstances. In general, the staff proposed that access would be at, or close to, the annual limit of 102 percent of quota, and that in special circumstances access might exceed that limit and reach up to 125 per cent of quota. That proposal suggested that the staff intended to introduce unwarranted changes in the present practice.

In his view, Mr. Zhang went on, if all the relevant conditions concerning balance of payments need, the adjustment program, and repurchases were met, the annual access limit should exceed 102 percent of quota and reach up to 125 percent, depending on the size of the balance of payments need, just as the access could range from 100 percent of quota to 150 percent under existing practice. Access in the range of 102-125 percent of quota should not be seen as exceptional or special; instead, it should be regarded as the parallel of the present range of 110-150 percent of quota. According to Table 1, 46 percent of the arrangements approved in 1982 and 1983 provided for access in the range of 105-150 percent of quota; hence, access in that range could not be regarded as having been provided in exceptional circumstances. Moreover, in the light of developments in the world economy, there was no reason to restrict further the application of the higher access limits. It was wrong to conclude that annual access above 125 percent of quota should be provided only in cases in which the stability of the international monetary system might be impaired. Such a principle would implicitly restrict the higher access to large countries.

In cases in which adjustment might have to be stretched beyond three years, Mr. Zhang said, the present practice of providing successive short-term stand-by arrangements with a moderate amount of access could be maintained, but it was important to bear in mind that the speed of adjustment would often depend upon the amount of resources available to the borrower. The staff had suggested that in cases in which the need for exceptional balance of payments finance was likely to persist beyond the medium term, the Fund's role would be that of a catalyst, and the institution would therefore provide only a limited amount of access. However, the term "exceptional balance of payments finance" was vague. Would it cover heavily indebted countries whose need for "exceptional balance of payments finance" arose from continuous large debt service payments? The staff had also suggested that exceptional balance of payments finance might be characteristic of countries where a substantial improvement in the balance of payments might call for "fundamental economic changes." What kind of fundamental changes did the staff have in mind? What did the staff mean in suggesting that the Fund should not have to play the role of the provider of a country's residual source of financing? Presumably there had always been widespread agreement that a country should approach the Fund in the early stages of its balance of payments problems. In practice, in many cases involving Fund financial assistance, the Fund might well be the only, or the main, source of financing, rather than the residual source. Finally, he agreed that in determining access limits for small-quota, low-income countries, the Fund should take into account the amount of resources that they needed to make a significant attempt to solve their balance of payments problems.

Mr. Yamashita stated that he broadly agreed with the staff views in EBS/83/233 and generally endorsed the proposed criteria for 1984. The annual access limits of 102 percent and 125 percent of quota should not be regarded as targets. Within the limits, the amount of access in individual cases should be determined carefully, according to the particular circumstances of the member country. To enable the Fund to act effectively and flexibly in different circumstances, the criteria should not be interpreted rigidly. Management and the Executive Board should have a flexible approach to the application of the proposed broadly defined criteria. A case-by-case approach would be particularly appropriate in the circumstances described in paragraphs 3 and 4 of the proposed criteria.

Limiting annual access to an amount much less than 102 percent of quota and limiting Fund financial assistance when the Fund acted as a catalyst would not in themselves justify the prolonged use of Fund resources by a member country, Mr. Yamashita remarked. Such cases should be examined carefully on their own merits. The need for augmentation, if and when it was sought by member countries currently using Fund resources, should be judged carefully on the merits of each particular request. Any augmentation should be justified on the basis of the criteria applied to any other request for Fund resources. The access limits should not be seen in any way as a country's entitlement, and any easy recourse to augmentation would jeopardize the continued adherence to the principle of uniformity. Finally, he had no difficulty in accepting Mr. Grosche's suggestion for shortening paragraph 2 by deleting the reference to the impairment of the stability of the international monetary system.

Mr. Tshishimbi said that he too had difficulty in accepting the proposed criteria. With the established access limits of 150 percent and 450 percent of quota, there had been two distinct categories of members. The first consisted of cases in which the balance of payments need had not been particularly large but a financing gap had existed and there had been a need for a Fund-supported adjustment effort. In those cases, access had usually been set at the 150 percent limit or somewhat below it. The second group of cases had involved members whose quota was unusually low in relation to the size of their economy, or whose adjustment program was exceptionally strong; in those cases, access above 150 percent of quota had been granted. Although at its September 1983 meeting the Interim Committee had agreed to reduce the access limits, it had not changed the fundamental grouping of countries that he had described.

To reconcile the divergent views that had been expressed by various participants, Mr. Tshishimbi went on, the Interim Committee had distinguished in its communiqué between situations in which access would normally be at or below the new limits of 102 percent or 125 percent of quota, according to the particular situation of the member country concerned. However, in EBS/83/233, the staff proposed to distinguish three categories of access cases, rather than two. The first consisted of cases in which the outstanding use of Fund resources was not large and the Fund was satisfied with the country's past record of performance; in those cases, access would be limited to 102 percent of quota, irrespective of the strength of the proposed adjustment program. The second category proposed by the staff consisted of countries whose need for financing was especially large and whose adjustment program was strong, thereby suggesting that the improvement in the balance of payments position would be quick and durable; access in those cases could exceed 102 percent of quota but would be less than 125 percent. The proposed third category, which would exclude most countries, and certainly all the countries in his constituency, consisted of countries whose payments imbalances might impair the stability of the international monetary system; for them, access could exceed 125 percent of quota.

The staff proposals were not in keeping with the spirit of the Interim Committee's recommendations, Mr. Tshishimbi considered. The Committee's agreement was admittedly difficult to implement, and it was particularly hard to adhere to the principle of the uniform treatment of members. It was not easy to decide which countries facing similar problems should be granted access of 102 percent of quota and which should be given access of 125 percent, but the staff's proposed solution was not adequate. As Mr. Polak had noted, there was little difference between the staff descriptions of the cases in which 102 percent of quota would be appropriate and of the cases in which the limit of 125 percent of quota should be applied. The staff proposals were confusing, and the whole question of access required further examination. The Interim Committee had clearly wished to avoid a net reduction in the absolute access of any member country.

The Interim Committee had also wished the Executive Board to take into account the difficult circumstances of the small-quota, low-income countries, Mr. Tshishimbi continued. The staff proposals contained no specific recommendations for determining the criteria for access in 1984 for those countries. Indeed, under the staff proposals, those countries, together with most other members--none of which could have a significant impact on the international monetary system--would be excluded from making substantial use of Fund resources. The Executive Board traditionally was strongly opposed to discriminatory treatment of member countries, but in EBS/83/233 the staff assumed that the Board would willingly accept discriminatory treatment in favor of countries that had the potential to affect the international monetary system. As Mr. Polak had stressed, the countries that had such potential were precisely the ones that had sizable access to sources of credit other than the Fund, while other countries, and particularly those with small quotas and low incomes, typically did not have access to non-Fund credit. If the Fund was to develop its role as a catalyst, it should do so for the countries--particularly the small-quota, low-income members--that did not have access to non-Fund credit; the Fund had usefully played such a role in 1983.

The staff should re-examine the criteria for access with a view to restoring a proper balance between the two basic categories of members based on access limits of 102 percent and 125 percent of quota, Mr. Tshishimbi considered. In addition, the staff should address the question of small-quota, low-income countries in a more comprehensive manner than it had in the present paper. The definition of the group of small-quota, low-income countries should be reconsidered; it continued to be based on a quota size of SDR 25 million, a figure that had been set a number of years ago and had not been raised despite the many changes in the international economy and the series of adjustments in quotas.

In reconsidering the proposed criteria, Mr. Tshishimbi commented, the staff should also study possible mechanisms for Fund intervention in favor of countries whose balance of payments need was likely to persist beyond the medium term. On recent occasions the Executive Board had stressed the need for close cooperation between the Fund on the one hand, and the World Bank and other lending institutions on the other. The Fund should continue to play a strong leadership role in helping countries to make longer-term adjustments. He was worried that the proposals concerning the Fund's catalytic role might be taken to mean that there was nothing that the Fund could do to assist countries making long-term adjustments.

Mr. Joyce said that he generally agreed with the intent of the staff proposals. Criteria or guidelines were needed to give effect to the conclusions reached by the Interim Committee in September 1983. The basic principles governing access in individual cases should include such factors as the member country's actual or potential need for Fund resources, the preservation of the revolving nature of the Fund's resources, the timing and extent of the expected improvement in the country's balance of payments, and the country's record of use of Fund resources.

The access limits of 102 percent and 125 percent of quota should not be regarded as targets, Mr. Joyce considered. In some cases, it would be appropriate to use successive one-year stand-by arrangements formulated within a medium-term strategy, rather than an extended arrangement. That option was certainly worth preserving.

The staff, Mr. Joyce noted, believed that the need for Fund-supported programs with access above 102 percent of quota would be limited to relatively few cases in 1984. The staff might well be correct, but he was concerned that the proposed criteria were designed to achieve that objective, and he was opposed to any such solution.

Commenting on the proposed criteria in Section V, Mr. Joyce said that he, like Mr. Schneider, had difficulty in accepting paragraph 2, and particularly the idea that access should be at or close to 102 percent of quota in cases in which the financing need was particularly large in relation to quota and the adjustment program was strong. He agreed that, even in cases in which access was 102 percent of quota, a strong adjustment program might be necessary and desirable. However, there was nothing in the Interim Committee's conclusions suggesting that in such cases the balance of payments need should be particularly large in relation to quota. The Interim Committee had suggested that, if the need in relation to quota was not particularly large, it was unlikely that a country would be eligible for access of even 102 percent of quota. The word "particularly," which appeared in the proposed criterion, did not appear in the basic decision on enlarged access, and the staff's view on the application of the annual access limits seemed rather restrictive. It was true that the limits of 102 percent and 125 percent of quota should not be seen as targets, but it was also true that they should not be seen as a rigid maximum that could be reached only in circumstances of exceptionally pressing need. Criteria for exceptional access should be applied in cases in which access above 125 percent of quota might be appropriate.

He agreed with Mr. Grosche and Mr. Schneider that including a reference to the impairment of the stability of the international monetary system in the criterion for access exceeding 125 percent of quota could be misleading, Mr. Joyce continued. Such cases should perhaps constitute one kind of exceptional circumstance, but there were probably other kinds of cases in which access above 125 percent of quota would be appropriate.

He was also worried, Mr. Joyce said, that the Executive Board was edging toward the establishment of special rules for the larger countries, whose payments difficulties could pose a threat to the functioning of the international monetary system. Such an outcome would be akin to saying that, if the international banks had a large stake in a country and their exposure was high in relation to their reserves, the Fund should be prepared to show a relatively large amount of flexibility in the area of access. That undoubtedly was not the staff's intention, but it was certainly the impression given by the proposals.

He agreed with Mr. Polak, Mr. Joyce said, that the case for access in the upper ranges--even as high as 125 percent of quota or more--was easier to make for small-quota, low-income countries than for the larger countries. The smaller, poorer countries were likely to have less access to outside financing than some of the larger, more advanced developing countries. He was particularly concerned about the access for Caribbean countries, but the problem of adequate access was hardly confined to them. The approach in the staff paper to the smaller, poorer countries was quite negative. The Interim Committee had recognized the difficulties facing those countries and had urged the Executive Board to be particularly mindful of them. The staff had accurately concluded that "the difficult economic situation of many of these countries is beyond dispute," but it had not made any concrete suggestions for helping them. The omission was particularly important because the staff paper on access limits for the special facilities (EBS/83/232, 10/31/83) contained no detailed proposals specifically to help the smaller, poorer countries, even though the compensatory financing facility was critically important for those members. If nothing was to be done for those countries by way of their access to the special facilities, something would certainly have to be done in the context of enlarged access. The staff had merely concluded on page 9 (EBS/83/233) that, if a small, poor country met all the conditions for the use of the extended Fund facility, access to Fund resources through that facility would be appropriate. That conclusion was a grudging admission that even a small, poor country might on occasion have access to that facility, an approach that was not promising. The Interim Committee had charged the Executive Board with being particularly mindful of the circumstances of the smaller, poorer countries and, thus far, the Executive Board had failed to do so.

The conclusions on access under the enlarged access policy were likely to require substantial new borrowing by the Fund in 1984, Mr. Joyce remarked. The staff had estimated that the additional borrowing might amount to SDR 2.5-4.0 billion. The Executive Board would have to discuss the matter and in doing so three questions should be posed. First, what was the Fund's expected borrowing requirement over the entire period 1984-86? Second, what steps would be taken to meet the financing requirement expeditiously once the 1983 borrowing arrangements had in fact been finalized? Third, to what extent did the staff calculations assume either explicitly or implicitly an activation of, and drawings on, the GAB in the near term?

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/83/165 (11/30/83) and EBM/83/166 (12/2/83).

4. EIGHTH GENERAL REVIEW OF QUOTAS - INCREASES IN QUOTAS OF MEMBERS

1. The Executive Board determines that members having not less than 70 percent of the total of Fund quotas on February 28, 1983 have consented to increases in their quotas under the Eighth General Review of Quotas as required under Board of Governors Resolution No. 38-1.

2. The Secretary is authorized and directed to dispatch as soon as possible the communication set forth in Attachment II advising all members of this decision and related information.

3. The effective date of this decision is November 30, 1983. (EBD/83/300, 11/29/83)

Decision No. 7573-(83/166), adopted
November 30, 1983

5. ASSISTANT TO EXECUTIVE DIRECTOR

The Executive Board approves the appointment set forth in EBAP/83/287 (11/28/83).

Adopted November 30, 1983

6. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/83/288 (11/29/83) and by an Advisor to Executive Director as set forth in EBAP/83/290 (11/30/83), is approved.

APPROVED: April 4, 1984

JOSEPH W. LANG, JR.
Acting Secretary