

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/167

3:00 p.m., December 2, 1983

J. de Larosière, Chairman

Executive Directors

A. Alfidja  
B. de Maulde  
R. D. Erb  
M. Finaish  
J. E. Ismael  
R. K. Joyce  
A. Kafka  
G. Lovato  
R. N. Malhotra  
J. J. Polak  
A. R. G. Prowse  
G. Salehkhoul  
F. Sangare  
J. Tvedt  
Zhang Z.

Alternate Executive Directors

w. B. Tshishimbi  
H. G. Schneider  
X. Blandin  
M. Teijeiro  
T. Yamashita  
Jaafar A.  
L. Leonard  
G. Grosche  
J. E. Suraisry  
T. de Vries  
O. Kabbaj  
S. E. Conrado, Temporary  
T. A. Clark

L. Van Houtven, Secretary  
B. J. Owen, Assistant

Also Present

African Department: R. J. Bhatia, Deputy Director; O. B. Makalou, Deputy Director; I. Kapur, M. Sidibe, A. C. Woodward. Asian Department: H. O. Roden. European Department: 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, M. Guitian, S. Kanesa-Thanan. Legal Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy General Counsel; W. E. Holder, A. O. Liuksila, S. A. Silard. Middle Eastern Department: Z. Iqbal, S. Thayanithy. Secretary's Department: J. W. Lang, Jr., Deputy Secretary; A. P. Bhagwat. Treasurer's Department: D. Williams, Deputy Treasurer; D. Gupta, Q. M. Hafiz, M. A. Tareen, G. Wittich. 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, S. El-Khoury, K. A. Hansen, S. M. Hassan, W. Moerke, Y. Okubo, I. R. Panday, P. D. Pérez, M. Z. M. Qureshi, D. I. S. Shaw, D. C. Templeman. Assistants to Executive Directors: E. M. Ainley, H. Alaoui-Abdallaoui, J. R. N. Almeida, R. Bernardo, J. Bulloch, L. E. J. Coene, R. J. J. Costa, M. Eran, G. Ercel, C. Flamant, G. Gomel, V. Govindarajan, D. Hamann, N. U. Haque, C. M. Hull, H. Kobayashi, M. J. Kooymans, G. W. K. Pickering, E. Portas, M. Rasyid, J. Reddy, A. A. Scholten, Shao Z., S. Sornyanontr, Wang C. Y., J. C. Williams.

1. CRITERIA FOR AMOUNT OF ACCESS IN INDIVIDUAL CASES

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

Mr. de Maulde said that he was unhappy with the staff paper for a number of reasons. First, by its very style, which bordered on that of a technical service manual, the paper appeared to him to be contrary to the traditions of the Executive Board. For nearly 40 years the Board had done its best to apply general guidelines to particular cases, trying to take intelligent decisions on members in the light of the broad principles of the need for effective monetary cooperation and for equality of treatment of member countries. The use of EBS/83/233 as a basis for decisions would tie the Board's hands for the future and would in fact mean that the Executive Board would work henceforth by the book rather than by its judgment. Of course, the staff could invoke an excuse for the breach of precedent in the language of the communiqué of the Interim Committee, which had asked the Executive Board to establish criteria governing the amount of access in individual cases. His own interpretation of that language was that members of the Committee had not had the time to take up the problem with the attention it deserved and had considered it more expedient to delegate it to Executive Directors. Had the Committee found the time to discuss the matter, he had no doubt that the members would have discovered for themselves the merits of flexibility and practical experience.

Second, Mr. de Maulde continued, at the time of the Interim Committee's twenty-first meeting, Committee members had had two thoughts on their minds. First, there had been a serious risk that the quota increase decided on earlier in the year would not become effective, and that the Fund would not find the additional financing it was seeking from certain members. It would be recalled that the rumors about the attitude of the U.S. Congress had been less than encouraging, and that the President of the United States had made his strong commitment to the quota increase only after the meeting of the Interim Committee. Second, there had been the flagrantly exaggerated forecast by the staff, in EBS/83/133, of likely drawings by developing and smaller industrial countries, amounting to SDR 9.3 billion, even with access limits at 102/408 percent. The revised figure given in EBS/83/233 was SDR 7 billion, or 25 percent less. He therefore wondered whether the Committee might not have left out the lower access limit of 102 percent altogether, had it known the outcome of the two issues.

Expanding his criticism of the paper as not reflecting the Interim Committee's intentions, either on the arithmetic or on the recommendations, Mr. de Maulde referred first to the way in which the overall limits and the problem of the small-quota, low-income countries had been dealt with by the staff. The entire reasoning of EBS/83/233 on the overall limits was that a new range of zero to 102 percent of quota should be substituted for the present range of zero to 150 percent of quota, with a

narrow escape clause permitting 125 percent of quota to be drawn in exceptional circumstances. As already noted by a number of Directors, particularly Mr. Kafka, that reasoning was a distortion of the Ministers' recommendation, which mentioned two limits of 102 percent or 125 percent of quota, without giving precedence to one over the other. In addition, the Committee had provided for an escape clause for drawings above 125 percent of quota in exceptional circumstances. The Interim Committee had reached a compromise, which had to be put into practice. There were many possible ways of doing so, including setting the limit in normal or standard cases somewhat between 102 percent and 125 percent. But the specific method selected by the staff was clearly inconsistent with the compromise arrived at in September.

Paragraph 5(f) of its communiqué, in which the Interim Committee asked the Fund to be "particularly mindful of the very difficult circumstances of the small-quota, low-income member countries," could be interpreted in two ways, sequentially or cumulatively, Mr. de Maulde observed. By not inserting either the word "or" or the word "and" between the words "small-quota" and "low-income," Committee members had left Executive Directors in doubt about what they really wanted. The staff had chosen the cumulative interpretation, without even explaining why, and he would appreciate its comments on the issue.

In determining the member countries with small quotas, Mr. de Maulde added, the staff referred to a threshold set as far back as 1959, as mentioned in a staff paper outlining the Fund's policies and practices on minimum quotas (EB/CQuota/82/12, 12/13/82). He failed to understand why that threshold should have remained untouchable; the number of member countries had greatly increased, as had the size of quotas, quite apart from the effects of inflation. Almost one half of the Fund's members had had quotas under the equivalent of SDR 25 million at that time. To arrive at the same quota distribution among the present membership, the threshold for a small quota would have to be set at SDR 70 million. Such a figure would allow the Fund to give sympathetic consideration to nearly all lower-income developing countries in helping to meet their needs, thus fulfilling the twofold recommendation of the Interim Committee with respect to small-quota, low-income countries. At the very least, the threshold of SDR 25 million, which the staff proposed to continue to use, should be doubled. A dividing line at SDR 50 million would include 26 of the 36 countries listed as lower-income countries, a somewhat grudgingly low proportion, but not a totally unreasonable one.

Nor could he agree, Mr. de Maulde went on, with the staff's interpretation of the intentions of the Committee. First, a singularly narrow definition had been given in the staff paper to the word "circumstances" in paragraph 5(d) of the communiqué, which read: "Within these limits, the amount of access in individual cases should vary with the circumstances of the member, in accordance with criteria established for this purpose by the Executive Board." For the staff, those circumstances encompassed only a limited number of financial criteria, including the member's need to use the Fund's resources, the speed of adjustment, and

past and present use of Fund credit. In the mind of many of the Committee members--including his own Minister--the word "circumstances" had been chosen because it was vague enough to encompass many other important factors, especially the level of income and greater or lesser ability to carry out any required adjustment, for both technical and social reasons. By excluding such factors from its consideration of particular cases, the Executive Board would undoubtedly fail to implement what the Interim Committee had asked it to do.

Second, Mr. de Maulde remarked that he was distressed by what was said on page 4 of EBS/83/233 about the treatment to be reserved for those countries suffering from the most difficult problems. The subject was too complex to deal with in the framework of the present discussion. He would state only that he considered that the Fund should go well beyond the ill-defined role of a catalyst in such cases and, with the World Bank, reorganize the type of active and efficient cooperation that his authorities had been calling for during the past two years.

On a point of procedure, Mr. de Maulde said that he had been surprised to hear a request for a deletion from the staff paper, which was not in the form of a decision. Without prejudging the manner in which the Chairman might wish to conclude the meeting, he would prefer that the Executive Board limit itself to taking note of the Chairman's concluding remarks, which would as usual, by reflecting the sense and the various nuances of the discussion, provide the necessary guidance while leaving enough flexibility for the exercise of judgment in the treatment of future requests. The staff itself would soon discover that such a solution would be far better for conducting the delicate work with which it was entrusted than having its hands and feet tied by the kind of detailed criteria it had advocated. As far as Executive Directors were concerned, as Mr. Erb had recalled, the essence of the Executive Board's work was to find acceptable compromises. Directors should not be afraid to report to their Ministers that, in responding to their request, the use of good sense had been the most important consideration.

Mr. Prowse stated that he endorsed Mr. de Maulde's suggestion that the discussion be concluded with a summing up rather than with a formal decision. Drafting a decision could be a lengthy process that might threaten the essential flexibility that had always, in his experience, been characteristic of the Executive Board's approach and that should be retained.

On a minor point, Mr. Prowse asked the staff whether any legal or formal significance was attached to the different ways in which reference was made to the range of access in EBS/83/233 and in the Interim Committee communiqué. The staff referred to access limits of 102 percent and 125 percent of quota, whereas the Interim Committee mentioned annual limits of 102 percent or 125 percent of quota.

It was notable that the estimates of commitments to all members in 1984 had been reduced substantially, from the SDR 12.5 billion estimated

in mid-1983, to SDR 7-9 billion, Mr. Prowse considered. Of particular interest to him was the reduction to SDR 2 billion in the provision for drawings by the smaller industrial countries, the non-GAB countries. His chair had previously queried the estimate of SDR 3.5 billion for that group of countries, and SDR 2 billion was also likely to be high. The most important estimate was that of the Fund's requirement for borrowed resources in 1984--SDR 2.5-4 billion--and the prospects for obtaining further borrowed funds. That matter should be taken up before the discussion of access limits was concluded.

As for the actual guidelines or criteria for access, there was an unreal quality about the staff paper, and even about the discussion, Mr. Prowse commented. The limits agreed by the Interim Committee, of 102 percent or 125 percent of quota, had been the outcome of a compromise. Among the factors leading to that compromise was the insistence of some members of the Committee that all Fund members should keep the absolute access to which they had been entitled before the Eighth Quota Increase came into effect. The significance of that factor in the compromise outcome made it all the more difficult for the staff and the Executive Board to rationalize the agreement, as the Interim Committee had requested.

Whatever the background, however, it was appropriate for the Executive Board to offer its thoughts to the staff and management on how the access limits should be applied, Mr. Prowse continued. As in the past, it was essential to retain the flexibility to exercise judgment. He would therefore propose that in all papers proposing arrangements under the enlarged access policy and requesting the use of the Fund's resources, the staff should indicate to the Executive Board as clearly as possible how the particular amount of access under each arrangement had been determined. In that way, a case history could be built up, which might be of assistance when the enlarged access policy came up for review once again.

Because of the need to rationalize the compromise reached by the Interim Committee, Mr. Prowse remarked, the staff's exposition, as some Directors had observed, was general and in some respects rather vague, usefully so on both counts in his view. Other Directors had noted that, despite the elaboration of criteria for the purpose of establishing access for individual members in various categories, the only real determinant of whether the limit of 102 percent or the limit of 125 percent would apply was the extent of the need. It was appropriate to determine how far any member's purchases could go within the overall limit of 125 percent on the basis of need. But as a consequence, it would be necessary to make a distinction between the first two categories of access, zero percent to 102 percent of quota, and 103 percent to 125 percent of quota. There was also a third category, covering purchases in excess of 125 percent of quota; a fourth, catalytic, category; and finally, the category of small-quota countries. In his view, the range from zero to 125 percent of quota should be seen as a continuum, just as the Fund had treated members in similar circumstances in the past. It seemed unnatural to draw the barrier at 102 percent of quota, a limit that had little rational application to actual cases. The only way to overcome that barrier seemed to be to adopt the kind of criteria sketched by the staff, but to

take them as determining the actual level of access over the entire range from zero to 125 percent, without attempting to draw any boundary line based on other considerations. In practice, there should still be a continuum in the limits up to 125 percent, whatever had to be done for the sake of appearance. Therefore, he would happily adopt the staff's outline of the criteria to be considered for the first two categories of access--up to 102 percent of quota and 125 percent of quota--retaining scope for flexibility in each arrangement.

The remaining categories of use mentioned by the staff did call for more specific comment, Mr. Prowse considered. For instance, the staff had mentioned that annual access exceeding 125 percent of quota might be provided in exceptional circumstances that "may include cases where failure to provide orderly adjustment might impair the stability of the international monetary system." Certainly, that would be a sound reason, but it could not be the only one. The staff paper did not really examine the other factors that might justify access in excess of 125 percent of quota; unless it did so, however, the clear implication would be that eligibility for an arrangement with annual access of more than 125 percent of quota would be limited to members in situations that threatened the stability of the system. The likelihood that members would be granted access above the limit of 125 percent of quota was, in practice, small--especially given the stringency of the proposed criteria for arrangements in an amount not exceeding 102 percent of quota--but the possibility should not be excluded. He suggested that the Executive Board should simply recognize that possibility, without attempting to specify the circumstances that would justify exceeding the upper limit. The provision for annual access above 125 percent of quota, linked as it was by the staff to the possible impairment of the system, appeared to envisage use of the General Arrangements to Borrow, which would seem to go beyond the intention of the Interim Committee. Perhaps the staff would clarify what it had in mind.

He had great difficulty with the fourth category of cases, where the need for exceptional balance of payments finance was likely to persist beyond the medium term, Mr. Prowse said, because the staff's approach seemed to suggest a willingness to abandon countries whose problems were too large or too difficult for the Fund or banks to deal with. If that concept was held to be acceptable, and was reflected in the summing up, it would have to be more fully spelled out. It was proper to refer to the important and appropriate catalytic role of the Fund, but not to suggest as a conclusion that in the absence of effective supporting commercial financing, there would be no role at all for the Fund in countries needing exceptional balance of payments finance beyond the medium term. It was also not immediately evident to him that a country still in need of exceptional balance of payments support would be in a position during a continuing and difficult adjustment period to make net repurchases, as suggested by the staff in its proposal that the Fund would provide limited support if certain conditions were met, including the prospect of sufficient improvement in the balance of payments over the medium term to allow the member to start making net repurchases.

The category remaining for consideration, to which the Interim Committee had specifically addressed itself, was that of small-quota countries and low-income members, Mr. Prowse observed. He noted, as Mr. de Maulde had, that it might be necessary to increase the limit for a small quota from SDR 25 million at least to the point at which countries regarded as having small quotas until the Eighth Quota Review had their status restored. There would be 22 member countries with quotas of less than SDR 25 million when all countries had taken up their quota increases, compared with 29 such countries under the previous quotas; the 7 members that would be graduated from small-quota status had not undergone a change in size or circumstance or indeed in the difficulty of their situation. The consideration of the issue had not been advanced at all by the staff's treatment of it. As had already been pointed out during the discussion, the conclusion reached by the staff was that if small, poor countries satisfied all the criteria, stringent as they were, they should be able to obtain access to the Fund's resources under an extended arrangement. That was neither a new nor an encouraging view. Presumably, the real constraint on the analysis of the problem was the provision requiring uniform treatment of members. If the staff could not exercise further ingenuity, he would propose, at the very least, that the summing up cite the exact language of paragraph 5(f) of the Interim Committee's communiqué. Flexibility could then be exercised on the basis of that paragraph. Some of the other possibilities that might have been looked at would include a variation of the mixing provisions under which drawings of such countries might be made, up to certain access limits, entirely in ordinary resources. Another more palatable solution would be to include some sympathetic mention in the guidelines in terms of proposed access limits for such countries. It might also have been useful for the Executive Board to have had before it the staff paper on the problems of small island economies, before being required to take up the particular issue of access for small economies. He hoped that that paper, which had been under preparation for some time, would be forthcoming fairly soon.

He had noted once again the fascination of some Directors with the revolving character of the Fund's resources, Mr. Prowse remarked. Presumably, if members made drawings and then repurchased, there was movement in the Fund's resources. Drawings by member countries were not grants, and they were not open-ended loans. Member countries were required to make specific repurchases, with interest, of the resources they had drawn from the Fund. The amount of outstanding use of the Fund's resources was restricted by the provisions on access. Without going into the matter in depth, he noted with interest the definition on page 2 of EBS/83/233 of the revolving character of the Fund's resources as the ability of the member to service its indebtedness to the Fund. That was probably the best short definition to be had readily, and for his part, it was an acceptable one.

In conclusion, Mr. Prowse reiterated, his emphasis was not on pinning the staff, the management, or the Executive Board down to a formula, but on retaining flexibility to adumbrate criteria that were relevant to judgment but that were not mechanical. His other two concerns were that



the catalytic category of cases should be developed further, and that the failure to respect the injunction of the Interim Committee to be mindful of the difficult circumstances of small-quota, low-income member countries should be remedied.

Mr. Suraisry observed first that the Interim Committee, in asking the Executive Board to establish criteria for access in individual cases, had set a task that was not easy, but that Executive Directors had to try to accomplish. It was important to find the right balance between clear, general criteria, and the specific needs and circumstances of individual countries.

Second, Mr. Suraisry remarked, it was particularly important for the Executive Board and management to have the flexibility to respond appropriately in individual cases. If access criteria were too detailed or too stringent, they would impair the principle of flexibility.

Third, Mr. Suraisry agreed with previous speakers that the guidelines proposed by the staff should be clarified to reflect more closely the recommendations of the Interim Committee, including the recommendation on small-quota countries. In particular, it should be made clear that the limit of 125 percent of quota had the same weight as the 102 percent limit. There should be no doubt that access up to 125 percent of quota was not exceptional; countries eligible at present to draw up to 150 percent of quota should be allowed to draw 125 percent of quota in the future. There might also be particularly serious cases where access beyond 125 percent of quota was needed. As others had said, those cases should not be confined to circumstances in which the stability of the system might be impaired.

Fourth, he had noted in paragraph 3 of the proposed criteria that in cases where external adjustment was likely to take a long time, the annual amount of access would be "well below" the 102 percent quota limit, Mr. Suraisry added. He understood why the staff had proposed that wording, but he wondered whether access well below 102 percent of quota would be sufficient in all such cases. Flexibility could be introduced to allow for exceptions, perhaps by adding the phrase "in most cases" or replacing the words "well below" with "below."

Fifth, Mr. Suraisry declared that the staff paper confirmed the growing trend toward one-year stand-by arrangements. As his chair had said before, the extended Fund facility should not be discarded; it could play a useful role for several members in the recovery phase of the world economic cycle.

Finally, Mr. Suraisry extended his support to Mr. de Maulde's proposal for not taking a decision but for relying on the Chairman's usual thorough and well-balanced summing up. As Mr. Prowse had remarked, taking a decision might lead to several drafting sessions, which might be neither helpful nor productive.

Mr. Erb emphasized that in discussing the criteria for the amount of access in individual cases, Directors should not lose sight of the fact that the use of enlarged access was not to be automatic, that the criteria set out in the decision on the policy on enlarged access would remain valid as long as the decision did, and that there might be circumstances in which it would be appropriate to consider whether or not to apply the policy on enlarged access. If the world economy recovered in the year or two ahead, and financial pressures eased, fewer countries seeking use of the Fund's resources might qualify for use of enlarged access.

Like a number of other Directors, Mr. Erb continued, he had found Section II of EBS/83/233 helpful in setting out the general principles that ought to guide determination of the amount of access in individual arrangements within the limits. It was not only those principles that were important, but the emphasis given in the staff paper to applying them in a flexible way. He joined others in visualizing access within the limits as a continuum. The general principles laid out in the staff paper would be of help in deciding where a country's access might best fit in the continuum. It was interesting to note from Table 1 of the staff paper that that kind of continuum had been the practice under the application of the policy on enlarged access in 1982 and 1983. Access during those two years had been distributed throughout the continuum of the range between the upper and lower quota limits.

Among the general principles, the staff had identified past experience and the record of countries' use of Fund resources as being important, Mr. Erb commented. He would take into account more broadly the types of policies and general economic performance of the country over time, as well as the economic circumstances that it had faced. Staff reports for Article IV consultations with members would provide useful background. Of course, major changes in a government could not be precluded, and would have to be taken into account in assessing past experience with the member in question.

Another dimension to the discussion of principles and their application within the limits was the concept of certainty, Mr. Erb considered. The strength and effectiveness of a program, and the period of adjustment, were among the areas in which expectations would differ in each case. Access within the limits would be influenced by the degree of certainty in the Fund's mind of the ability of the government to carry out the adjustments in policy, the degree of certainty it had about the impact of those policy adjustments on the current account, and the likelihood of achieving a sustainable balance of payments position within the expected period.

In applying the basic principles, the category of situations in which the staff paper stated that the Fund's role was likely to be that of a catalyst had posed problems for a number of Executive Directors, Mr. Erb continued. The right of way of describing that category was however much broader, because the Fund played a catalytic role in many different circumstances. As noted in the staff paper, countries in that category would have a balance of payments that was not likely to be in a sustainable

position within a foreseeable period and they were thus likely to have a need for continuing assistance. He believed that small-quota, low-income countries would also fit into that category, because they would have difficult access to markets, and would face severe economic problems. The Fund would be playing a positive catalytic role in such countries, primarily vis-à-vis the World Bank as well as other sources of development assistance. The staff was correct, however, in stating that the ability of the Fund to assist such countries was limited, because the commitment of its resources was not likely to be of a temporary nature. Therefore, great care would have to be exercised in dealing with countries in that category. He recalled that he had questioned in previous discussions whether it was even appropriate for the Fund to provide resources to members that were likely to use Fund financing over an extended period of time. Yet in cases where the Fund's role was that of a catalyst, it should bend over backward to try to provide financing when appropriate, but without making large-scale financial commitments when the prospects for repayment in the normal period were unlikely.

Referring to the proposed criteria outlined in Section V, Mr. Erb re-emphasized that the limits of 102 percent and 125 percent of quota were not to be regarded as norms or targets. As he had noted earlier, he would explicitly introduce the concept of certainty as one of the factors that would influence judgments on whether or not the provision of resources would be consistent with the temporary and revolving character of the Fund's assistance. As for where, within the range from 102 percent to 125 percent, the limit would be applied in each case, he would agree with those Directors who had emphasized the importance of the strength and speed of adjustment as well as the size of the underlying payments imbalance. Again, he reiterated the importance he attached to the certainty with which the Fund would judge the appropriateness of the degree of adjustment and the ability of the member to achieve it. He also agreed with other Directors that it would be better not to try to define any of the criteria that would qualify as an exceptional circumstance and thus permit access exceeding 125 percent.

He had no problem with the way in which the guideline in paragraph 4 of Section V was worded, Mr. Erb remarked, although he would emphasize once again his concern that in committing resources in countries that were not likely to achieve a sustainable balance of payments position and whose ability to repurchase in the normal period might thus be uncertain, the Fund must be careful to maintain the temporary character of its financing.

Reverting to Section IV of EBS/83/233 on small-quota, low-income countries, Mr. Erb agreed with donors that in being mindful, as the Interim Committee had directed, of the circumstances of small-quota, low-income countries, it would be desirable to examine the kinds of circumstances that would be particularly relevant. However, he would not support any codification of special treatment for small-quota, low-income countries, which would be no more appropriate for them than for any other category of country. He would also avoid drawing up a particular list of countries. The staff had suggested a list of countries with quotas of

SDR 25 million or less and an income level of SDR 1,000 per head. His personal view was that there were some countries with quotas slightly higher than SDR 25 million that would fit into the category of small-quota, low-income countries. In the same way, he felt that the income cutoff had been set somewhat high at SDR 1,000 per head, but he would not want to try to draw such a firm line. It was an area in which a continued effort would have to be made to develop the relationship between the IMF and the World Bank, and between the IMF and other donors, so that the Fund could play a more forceful catalytic role vis-à-vis other sources of financing, mostly of development assistance, for low-income countries in difficult circumstances.

He had been surprised, like Mr. Grosche, at the extent of the projected augmentation of existing arrangements, Mr. Erb said. He would join Mr. Grosche in stating that the augmentation of any program would have to be fully justified within the general principles underlying Fund policies.

He also agreed with Mr. Finaish and Mr. Prowse, and those who had supported them, that the staff should make an explicit statement in its presentation of why it had chosen a certain access limit, Mr. Erb noted. Such a statement was related to the need for a medium-term analysis and for the staff to make an explicit judgment on the ability of the country to repay the Fund within the expected period without putting the country under undue stress. The issue of the revolving character of the Fund's resources, although it might be discussed again at some point in the future, seemed to him to go beyond the question of the ability of the member to service its indebtedness to the Fund, the definition in the staff paper to which Mr. Prowse had referred. It was important to add the qualification that the Fund should not be in the position of lending new money to a country in order to enable it to pay its debts to the Fund. In drawing up the Articles of Agreement, the founders had had in mind a different concept of the revolving nature of the Fund.

The present discussion could be brought to a conclusion, Mr. Erb suggested, either by means of a summing up or by an attempt on the part of the staff to recast the guidelines it had suggested. The entire staff paper, including not only the proposed criteria but the background material in Sections II, III, and IV would serve as a useful reference during the year ahead. Without being a basic text for the application of the access limits in individual cases, and bearing in mind that the general guidelines and principles outlined would be modified as experience was gained, the staff paper would provide the framework within which the Executive Board could shape its decisions.

Mr. Malhotra said that, like many other Directors, he had serious concerns about the staff paper under discussion because it did not advance but could, in fact, blur a clear understanding of how the criteria for lending in individual cases should evolve and be applied.

His authorities had not favored proposals to reduce access consequent on the Eighth Quota Review, Mr. Malhotra continued. They had also seriously doubted the advisability of adopting alternative access limits, which could result in arbitrariness and discrimination between members. There was evidence in the staff paper to indicate that such difficulties could indeed arise. It was not his intention to suggest any deviation from the recommendations of the Interim Committee, although he recalled that his authorities, along with those of several other Executive Directors, had entered clear reservations regarding some of those recommendations. The best way to proceed was to consider how to handle the complex outcome, and he saw some hopeful signs emerging from the discussion. First, there was fairly broad agreement on considering access up to 125 percent of revised quotas as a continuum. He was glad to find that Mr. Erb appeared to share that view. Second, several Directors had made the point that if a choice had to be made at all between one or the other limit, the only sensible criterion would be the need of the members as established by the Fund staff in consultation with the authorities concerned.

Like many other Directors, he also thought that the proposed criteria and the approach underlying their formulation would lead to rigidities and derogate seriously from the ability of the staff and management to exercise discretion and flexibility, Mr. Malhotra remarked. Further, conditionality, which was already very tight, would become even tighter, so much so that it would impinge on the orderliness of the adjustment process.

Another matter for concern was the explicit de-emphasis on extended arrangements and expression of strong preference for short-term and recurrent programs in the staff paper, Mr. Malhotra stated. The shift of emphasis, which had been under way for some time and was being further advanced, and in a sense formalized, could in his view seriously derogate from the policy on enlarged access. That policy was intended to assist members confronting medium-term problems requiring a measure of restructuring of their economies. Such problems would take considerable time to resolve. Further, he recalled certain statements by the staff to the effect that, since in the context of annual stand-by arrangements it would not ordinarily be possible to visualize clearly how the adjustment process would evolve in the medium term, Fund support might have to be well below the normal access limits. Therefore, he was worried not only because an approach that emphasized short-term, recurrent programs over extended arrangements might be incompatible with the enlarged access policy, but because it could have restrictive implications for the level of financing.

The directive of the Interim Committee on access to Fund resources by small-quota, low-income member countries had also been given inadequate treatment, Mr. Malhotra considered. On that point, he endorsed the views expressed by Mr. de Maulde, Mr. Joyce, and Mr. Prowse. There could be no doubt that the definition of small quota envisaged as far back as 1959--\$25 million or SDR 25 million at present--was out of date. A new threshold would therefore have to be established. Moreover, while he

appreciated the theoretical problem posed by the requirement of uniform treatment of members, he found that no serious attempt had been made at responding adequately to the politico-economic directive handed down by the Interim Committee. The staff had in the past managed to overcome that difficulty, especially where larger countries were involved. He expected similar ingenuity to be brought into play where small-quota or low-income countries' needs were at stake. As those perceptions were shared by many Directors, he suggested that the directive of the Interim Committee should be translated into an operational guideline. There was no mention in Section V of EBS/83/233 of how criteria for access to Fund resources would be applied to small-quota, low-income members. If the omission could be handled in the summing up, that would be acceptable to him. In whatever way the matter was handled, it was time to abandon what appeared to be a lukewarm response to the Interim Committee's recommendations and to take seriously the directions that Governors had handed down to the Executive Board.

He also shared the concern of several other Directors over the reduced level of Fund financing in 1984 projected in the staff paper, Mr. Malhotra remarked. He was uncertain whether the restrictive criteria for determining access limits proposed in EBS/83/233 had already been taken into account in arriving at the reduced level of financing envisaged during 1984, SDR 7-9 billion as against the previous estimate of SDR 12.5 billion. It would indeed be unfortunate if that were the case, as the Executive Board had yet to discuss and take a view on the criteria. Such a substantial reduction in the estimates of financing requirements in a short period could perhaps imply that the overall borrowing requirement up to April 1986 would be much less than had been indicated to the last Interim Committee meeting. As Governors' views on access limits were influenced primarily by the previously projected level of borrowing required to support the limits, an exaggerated estimation of borrowing could have resulted in a more restrictive approach on the part of the Interim Committee. As Mr. de Maulde had mentioned, the Committee might not have thought of introducing the lower access limit of 102 percent of quota. Possibly, Governors might even have been ready to accept an upper limit of 150 percent.

If, however, the proposed criteria had not affected the new, lower estimates of the level of financing, Mr. Malhotra observed, then there would be reason to question whether the direction indicated in the staff paper, of a persistent tightening of access to the Fund's resources, was the correct one.

The staff paper was less than specific in referring to countries where the Fund would be playing only a catalytic role, Mr. Malhotra noted. Clear reference had however been made to highly indebted countries. Mr. Erb had pointed out that some low-income countries with medium-term or longer-term balance of payments financing problems would also fall into that category. He was aware that it had often been suggested that the Fund should provide only small amounts of financing to such low-income countries, limiting itself to the catalytic role of exhorting the World

Bank or aid donors to provide the necessary financing. He recalled that he had had occasion in the past, particularly when the request of Bangladesh for an arrangement had been discussed in the Executive Board, to point out the limitations of that approach. The exhortations of the Fund would not create more money in the World Bank. Most such countries in need of medium-term balance of payments assistance were dependent on IDA resources. Yet, the World Bank had limits on the amount of IDA assistance each eligible country would receive; and IDA was confronting serious replenishment problems. Similarly, the amount of financing available from bilateral sources was also limited. Therefore, while he fully supported the Fund putting its weight behind poorer countries and urging donors to put up more money, certain realities had to be borne in mind. As an institution, the Fund must adopt a sympathetic approach to its smaller, poorer, members, which were in any case entitled to the normal rights of membership, namely, Fund support in times of balance of payments need if they adopted appropriate policies. The Fund would indeed be discriminating against many countries if it laid down an arbitrary rule that in certain cases it would play only a catalytic role by minimizing access to its own resources. He recognized that questions could be raised about the ability of poorer countries to make repurchases. There could be no absolute assurance as to whether a country would adjust: adjustment took place in various ways and in varying degrees. Some countries reduced imports, others took different action. The balance of payments position of Bangladesh, for instance, had changed markedly for the better in a matter of six months. It was thus not appropriate for the Fund to adopt a broad-brush approach, providing adequate financing in some categories of cases, and being only a catalyst in others.

Referring to the broad criteria proposed in Section V of the staff paper, Mr. Malhotra said that he had no problem with the criterion in paragraph 1(a), except to note that it should not imply that the Fund was a lender of last resort. It was important for needy members to be able to make an early approach to the Fund. And a balanced and realistic view should be taken by the Fund of the availability of financing from other sources. The criterion in paragraph 1(b) cited the nature of a payments imbalance, and the expected speed of its improvement. In paragraph 2, specific mention was made of "major adjustment measures to be taken at the start, and adjustment expected to be substantially completed before repurchases fall due." While the pace of adjustment and the nature and timing of measures were relevant issues, the Fund was dealing with a variety of countries, which were affected in varying degrees by exogenous factors, and which had different administrative, legislative, and political systems. Many governments had to obtain legislative approval for adjustment measures, and in other countries finance ministers were bound by convention to protect the confidentiality of budgetary measures. It was therefore unrealistic to expect countries to take major adjustment measures at the outset of a program. The result of such an approach could be that the need of members for balance of payments financing might not be met, and the adjustment process would be retarded.

It was well recognized, Mr. Malhotra considered, that, whether under an extended arrangement or under recurring annual programs conceived in a medium-term perspective, the adjustment process took time. The speed of adjustment had to be tailored to the domestic and exogenous circumstances of member countries. Furthermore, forecasts regarding the evolution of macroeconomic parameters over the medium term ought to be regarded with caution and a measure of humility. He had, however, been struck, during a recent review of upper credit tranche arrangements (EBM/83/155 and EBM/83/156, 11/16/83) by the lack of self-criticism on the part of the staff insofar as the design of country programs was concerned. It was perhaps time for the institution to set up a mechanism or unit, totally separate from the operational departments, to examine critically and in depth the evolution and design of such programs. The Fund could not afford to be complacent in such a difficult and complex area.

There was little justification for the statement in paragraph 3 that "in cases where the process of balance of payments adjustment is likely to take somewhat longer, the annual amount should be well below the limit of 102 percent of quota," Mr. Malhotra stated. In negotiating a program the first step usually was to assess the member's need for Fund support, after taking into account the availability of financing from other sources, including aid and commercial borrowing. The other important requirement was whether the member's program was such that the management would be in a position to bring it to the Executive Board with the expectation of its approval. It was not clear to him from the proposed criteria in paragraph 1 and paragraph 3 that the Fund would retain its well-established practice of ensuring that a member's financing gap was fully covered. If the gap was not filled, what would the impact be on the adjustment process of the member?

The intrinsic weakness in laying down an injunction that the longer the process of adjustment, the lower the level of financing--well below the lower limit of 102 percent of quota--was the incompatibility between first determining a member's need for Fund resources and then deciding that only so much of that need would be satisfied because the adjustment would take place over, say, four or five years rather than three years, Mr. Malhotra stated. It was unfortunate enough that access limits were being reduced. It would be doubly unfortunate to further limit access to the Fund's resources because a member might not be in a position, either for domestic or, as in most cases, for exogenous reasons, to reach what might be considered a desirable level of adjustment as quickly as might be wished. If the member was taking appropriate measures, and if the Fund was able to agree with the member on a program that was suitable in the circumstances, it would not be rational to impose new financing limitations that might force a disorderly adjustment.

He recognized that the Fund would in many cases not provide financing up to 125 percent of quota, Mr. Malhotra added, but the objective of the Fund, as stated in the Articles of Agreement, was to encourage international trade and development, and not to force the kind of adjustment on member countries that could well lead to a decline in world trade. Therefore, he saw little justification for paragraph 3 of the proposed criteria.



On the question of exceptional circumstances that might justify going beyond 125 percent of quota, Mr. Malhotra continued, he agreed with those Directors who had taken exception to mentioning only cases where failure to provide Fund support might impair the stability of the international monetary system. For obvious reasons, the implication of specifying only one category of cases should be avoided.

To sum up, Mr. Malhotra noted, first, that access limits as a percentage of the revised quotas should be a continuum up to 125 percent of quota. If the conditions enabling a member to draw up to 150 percent of present quota were met, the Fund should be prepared to grant access up to 125 percent of quota, provided of course that the member had a balance of payments need. Second, limiting access to between 102 percent and 125 percent of revised quota should be a function of a member's need to borrow. Third, financing by the Fund and adjustment by the member should be realistic and appropriately tailored to the circumstances of the country. Obviously, the programs agreed with the Fund should be suitable, but if the period of adjustment had to be longer, the amount of financing should not arbitrarily be reduced below 102 percent of quota. Member countries should also not be discriminated against because their political and legislative processes called for scrutiny and approval of all measures necessary for the success of programs.

In considering the desirable period for effecting adjustment, the staff had emphasized the revolving character of the Fund's resources, Mr. Malhotra observed. In that connection, reference had been made to the need for adjustment within three years, after which period repurchases had to begin. Yet repurchases under the enlarged access policy were made, as far as borrowed resources were concerned, within seven years, and in ten years for the Fund's own resources. It was not the complete repayment of the original purchases at the end of three years that was involved, but the regular payment of the installments during the scheduled period of repayment that was important. Any rigid rule that the adjustment should take place fully within three years would unduly stretch the concept of the revolving character of the Fund's resources. After all, member countries had been meeting their financial obligations to the Fund, often without entering into new arrangements. He was certainly not suggesting that countries should weaken their adjustment efforts. Rather, adjustment had to be orderly so that it was not disruptive of international trade or of the economic growth of developing countries. Arbitrary and unrealistic criteria should not be allowed to undo what the Fund had been doing to assist its members under the enlarged access and other similar policies for several years, in many cases, very successfully.

Mr. Teixeira stated that he was not satisfied with the proposed criteria, which did not reflect the spirit of the Interim Committee's recommendations. The conditions to be met for access up to 125 percent of quota should be similar to those that had been relevant for access to 150 percent of old quotas. The first part of paragraph 2 of the proposed criteria was particularly unsatisfactory because it could be taken as underlying the idea that the annual limit of 102 percent of quota would be considered equivalent to the previous access limit of 150 percent of quota.

He shared the view of others that the stability of the international monetary system was not a useful criterion for access beyond 125 percent of quota, Mr. Teixeira added. In general, flexibility should be preserved not only in deciding on access below 125 percent but also for access beyond 125 percent of quota.

The Director of the Exchange and Trade Relations Department explained that the staff paper was meant to provide a way of implementing the recommendations of the Interim Committee. The intention was that the principles and the proposed criteria should be read against the communiqué and not seen in any way as weakening or changing the Committee's recommendations. That was true also of the recommendation relating to small-quota, low-income member countries. Even though that matter had not been taken up in Section V on the proposed criteria, it had been clearly understood by the staff that the problems of those countries would be borne in mind.

It was difficult to find the precise language to convey an idea of how access between 102 percent and 125 percent would be determined, the Director commented. It was clearer from the proposed criteria in Section V than in the staff paper itself that the intention was that, among the group of countries with a large balance of payments need and with demonstrated ability to take strong measures of adjustment, only some would qualify for access above 102 percent. The access limit of 125 percent of quota was thus more restrictive. Obviously, however, experience, rather than the language of the principles or of the criteria, would be the determining factor.

In that connection, the Director recalled, Mr. Prowse and Mr. Erb had endorsed the inclusion in staff papers on requests for arrangements of an explicit justification by the staff for the amount of access proposed. It seemed to him that much of the disquiet about the ability at the present stage to describe the criteria adequately could be assuaged in the course of the year as the Executive Board reacted, in what would be a continuing process, to the interpretation by the management and staff of the guidelines. It should also be borne in mind that the decision to be adopted would only apply to enlarged access in 1984. Those who supported the continuation of the enlarged access policy would be aware throughout the year that the manner in which the discretion implied in the recommendations of the Interim Committee was exercised by the staff could affect the outcome with respect to the further continuation of the policy.

Another instance of difficulties with the language itself, the Director remarked, was the reference to "exceptional circumstances" in which access might exceed the limit of 125 percent of quota. The reference to the conditions under which the General Arrangements to Borrow would be activated as being a circumstance in which exceeding such a limit would be justified had been made only as an example: in no sense was it to be considered the only case in which the Fund would provide access exceeding 125 percent of quota. Mr. Polak had correctly cited a large balance of payments need relative to the size of a member's quota, as another circumstance that had been the justification for an arrangement

exceeding the upper limits in the only clear precedent, Korea. Nevertheless, the staff would generally agree with those Executive Directors who had stated that it was in the cases in which exceptional circumstances might exist that flexibility was most essential; and that therefore it would be wise not to try to define those circumstances precisely.

What had been interpreted as restrictive language with respect to circumstances where it was clear that the adjustment period would stretch beyond three years was merely a reflection of the existing decision on the extended Fund facility, the Director explained. Under that decision, the Fund had to be satisfied that the member had presented a program adequate for the solution of its problem. The passage in Section II of EBS/83/233 describing the type of support the Fund would provide in such circumstances had been drafted with that provision in mind. If it was known at the outset that a member's measures were not adequate to achieve adjustment within three years, and further action would clearly be necessary at the end of the program period, it would not be possible to provide resources under the extended Fund facility; another form of Fund support would have to be found. The estimates in Section III on possible arrangements in 1984 had been provided by the area departments. The indications were that most arrangements in that period were likely to be in the form of stand-by arrangements rather than extended arrangements. He could certainly reaffirm the willingness of the staff to propose extended arrangements when the conditions of the decision were met.

On the issue of the Fund's role as a catalyst, the Director, in responding to Mr. Zhang's question about what was meant by the Fund not being the residual source of finance, explained that if the member's balance of payments need was such that the amount of financing required was greater than would be available under the guidelines, the Fund would have to look for more adjustment, or another source of finance would have to be found. It was in no way being suggested that the Fund should not help a country in its time of need. As for Mr. Prowse's question whether a member should be expected to make net repurchases during the period of adjustment, the staff did believe that there would be circumstances in which it would be useful for the Fund to continue to have an arrangement with member countries, according to the principles set out in EBS/83/233; for instance, countries benefitting from the assistance of consultative aid groups often found an arrangement with the Fund to be helpful. Net repurchases would be made, if the member's circumstances were improving and the gross amount of financing provided under the criteria were less than the amount of its repurchases.

The question of whether the Fund might in a sense be discriminating against certain countries under the criteria set out in paragraph 3 of Section V had been raised on previous occasions, the Director of the Exchange and Trade Relations Department recalled. The remarks by Mr. Malhotra on the catalytic role of the Fund impinged also on the issue of the circumstances set out in paragraph 3 under which the Fund would provide support below the limit of 102 percent of quota. The staff felt that it was being flexible by not proposing a rigid standard for determining the access limits for countries where the process of balance of

payments adjustment would be too difficult to accomplish in the normal period. In addition, even though a country might be a low-income country where adjustment was likely to take longer, if there was reason to believe that it would take major actions and if there was a prospect of quick adjustment, the staff would agree that relatively large access could be provided, based on the member's need and the quality of its adjustment effort. By giving especially strong backing to a country that made a strong effort, the Fund would in fact be interpreting the policy on enlarged access in a positive manner rather than in the negative way of being unrealistic in its expectations. Many of the issues raised by Mr. Malhotra would be treated in the forthcoming staff paper on prolonged use of the Fund's resources.

The Deputy Treasurer said that the estimates of use of resources under the new access limits by the area departments were direct quantitative estimates. The only qualitative aspect of those estimates was that area departments had been asked to bear in mind that the Interim Committee in its communiqué had suggested 102 percent or 125 percent of quota as limits, not as targets.

As for the estimate of SDR 1 billion for the augmentation of existing arrangements in 1984, the Deputy Treasurer continued, the staff itself had found the figure to be surprisingly low, especially as the estimate made in July of SDR 2 billion had been regarded as somewhat conservative. At the time when the earlier estimate had been made, nine countries had been expected to have ongoing programs and to return on the basis of their increased quotas for an augmentation of their arrangements with the Fund. Area departments had advised the Treasurer's Department in mid-October that no more than four countries were expected to ask for an augmentation; the programs of three of the other countries were already either off track or so close to an end that requests for augmentation were unlikely.

According to the area departments, there were two main reasons for the scaling down of the estimated use of Fund resources in 1984--alongside the fact that many arrangements would be for less than 102 percent of quota--and for the absence from the list of members likely to enter into arrangements of some countries included in the survey made in July/August, the Deputy Treasurer noted. First, members' balance of payments needs had fallen, across the board. Second, a number of authorities were unprepared at the present time to enter into negotiations on a program with the Fund, for various reasons, in part to do with changes in government, or with the increased availability of alternative market sources of finance that might be more expensive but had certain advantages over use of the Fund's resources.

The fact that the bulk of arrangements was expected to be in the form of one-year stand-by arrangements was not an indication of a shift in policy away from extended arrangements, the Deputy Treasurer stated. In 1984, it was expected that 40 members would have arrangements, 30 of which would be for members whose arrangements had just expired, were off track, or would be extended during the year. Of those 30, 22 members

already had stand-by arrangements and were expected to enter into another arrangement. That pattern was not very different from the one of the past 18 months to 24 months. Eight of the 40 arrangements likely to be agreed in 1984 would be extended arrangements, and some were expected to be for rather large amounts; those arrangements would therefore claim a considerably larger proportion of the total expected commitment of Fund resources than would be accounted for by the number of individual stand-by arrangements.

The estimate of use by smaller non-GAB industrial countries of around SDR 2 billion for 1984 had not seemed high to the staff, the Deputy Treasurer observed. Balance of payments developments in at least four of those countries--one of which had a fairly large quota--had deteriorated significantly over the past few months. So far, however, there were no indications that any of those countries wished to use the Fund's resources at present.

Without knowing the access limits for calendar year 1985, it would not be possible to estimate the Fund's financing needs for the period from end-1984 to 1986, the Deputy Treasurer remarked. However, as suggested in the staff paper, the number of stand-by arrangements would indicate that the demand for Fund resources in 1985 was not likely to diminish, unless access limits were reduced. No account had been taken of the possibility of activating the General Arrangements to Borrow in the estimates of use of the Fund's resources.

The Chairman made the following summing up:

The thoughtful and frank comments of Executive Directors during the discussion were of great benefit to the staff and management. As has been suggested by a number of Directors, I will sum up the discussion rather than attempt to reformulate the proposed criteria in Section V of the staff paper EBS/83/233.

A number of Executive Directors noted that the broad thrust of the staff paper, particularly Section II, "Considerations Governing Amount of Access," was acceptable to them. I will now try to summarize the discussion; in doing so, I will note the reservations and nuances that have been expressed by several Directors, without referring back to the staff paper in detail. I have noted, in particular, the following nine points that were emphasized by Executive Directors:

1. The criteria for the use of the Fund's resources contained in the decision on the policy on enlarged access remained valid and would continue to be applied on a case-by-case basis.

2. The access limits of 102 percent or 125 percent of quota set out in paragraph 5(c) of the communiqué of the Interim Committee were not to be regarded as targets or entitlements.

3. The considerations pertaining to the use of Fund resources under the existing decision on enlarged access would continue to be applied in determining the amounts of individual access in what several Executive Directors had called the continuum going from zero to 102 or 125 percent of quota. Clearly, the criteria of the member's need and the strength of the adjustment program would be major guiding factors in setting those individual amounts. In response to comments made by some Directors, I can state that the staff did not intend to make use of the Fund's resources in the range between 102 percent and 125 percent of quota subject to a finding of "exceptional circumstances," in the sense of what governs access beyond the upper limit. In bringing forward requests by members for the use of the Fund's resources under the enlarged access policy, the staff will try to explain more fully how it had come to the access limits proposed in each case, in light of the framework that has emerged from the views expressed by the Executive Board.

4. The Fund should apply its criteria with the necessary flexibility and not in a mechanical way. Rather, the policy should be applied on the basis of experience and taking into account the analytical studies of the staff and the Board discussions of the staff papers. Today's staff paper was part of that background material.

5. The Executive Board preferred not to codify the exceptional circumstances that might entail utilization of the Fund's resources beyond the upper limit of 125 percent. In particular, the Board was opposed to singling out the impairment of the international monetary system as a criterion, because it might imply special treatment for larger countries. Several Directors had noted that, in their view, there might well be a good case for emphasizing the circumstances of smaller countries with no access to financial markets.

6. After a thorough discussion of the concept of the Fund's role as a catalyst, a number of Directors expressed the fear that this concept could lead to withholding the support of the Fund for countries with large problems and little or no access to financial markets. A number of other Directors stressed that in providing assistance to member countries where the process of reaching balance of payments viability would be lengthy, the Fund should be

guided by the principle of the revolving and temporary character of the use of the Fund's resources. Directors would have another opportunity to discuss that issue when they considered the paper that the staff was preparing on continuous use of Fund resources for long periods. A number of Directors stressed the importance of adapting the adjustment period to the circumstances of the country. All Directors agreed that the Fund should continue to concern itself with the type of cases referred to in this paragraph, and develop even closer links with the World Bank for this purpose.

7. A number of Directors expressed the view that the problem of small-quota, low-income countries had been dealt with inadequately in the staff paper, and that the Fund should carry out the injunction of the Interim Committee in paragraph 5(f) of its communiqué that, "in implementing its policies on access to its resources, the Fund should be particularly mindful of the very difficult circumstances of the small-quota, low-income member countries." A number of Directors felt that in considering such cases, the Fund should bear in mind that the limit of SDR 25 million for a small quota was outdated, and should be the subject of further consideration.

8. A number of Directors felt that the staff paper was biased against the use of the extended Fund facility. I wish to emphasize that that had not been the intention; on the occasion of the recent discussion in the Executive Board on the review of past programs under stand-by and extended arrangements, I stated that the staff and management had the firm intention of continuing to make use of the extended Fund facility, which had a valuable role to play but, of course, conditions would have to be adequate.

9. Several Directors called for a review of the Fund's borrowing requirements for 1984 and beyond, and for more of an indication of the methods of financing them. The methods of financing the resources that the Fund might need to borrow in 1984 could not be decided until the scale of the commitments to members and the size of the present commitment gap were better known. When they came to consider the liquidity position of the Fund in the first months of 1984, Executive Directors would be asked to express their views on how the Fund should meet its borrowing needs, in light of the amounts required. Some Directors emphasized that if requests for augmentation of existing arrangements on the basis of the new quotas and

the new access limits were to be received, they would have to be dealt with on a case-by-case basis, in the light of needs and the merits of particular cases.

APPROVED: April 4, 1984

JOSEPH W. LANG, JR.  
Acting Secretary