FOR AGENDA

EBS/83/79
Correction 1

CONFIDENTIAL

April 25, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Review of Enlarged Access Policy

The following corrections have been made in EBS/83/79 (4/20/83):

Page 2, line 8: for "access guidelines and a draft decision."
read "access guidelines. A draft decision will be issued in the light of the Board discussion."

footnote 1, line 1: for "(Original Articles)"
read "(until the Second Amendment)"

Page 7, para. 2, lines 11-14: for "67 per cent in 1981...13 per cent approved in 1982."
read "67 per cent of all arrangements in 1981...13 per cent of those approved in 1982."

Page 8, para. 3, lines 5 and 6: for "quotas continued with"
read "quotas combined with"

Page 22, 1st full para., line 19: for "Table 2" read "Table 3"

Page 25, para. 1, line 9: for "ordinary borrowed" read "ordinary and borrowed"

line 11: for "SDR 9-10 billion" read "SDR 8-10 billion"

line 15: for "SDR 13 billion" read "SDR 12-14 billion"

Corrected pages are attached.

Att: (5)

INTERNATIONAL MONETARY FUND

Review of Enlarged Access Policy

Prepared by the Treasurer's and the Exchange and Trade Relations Departments

Approved by Walter O. Habermeier and C. David Finch

April 19, 1983

I. Introduction

The policy on enlarged access to the Fund's resources was established on March 11, 1981 under Decision No. 6783-(81/40). Paragraph 15 of this Decision provides for a review not later than June 30, 1983, and annually thereafter as long as the Decision remains in effect. Under the Decision, the Fund may approve arrangements involving borrowed resources under the enlarged access policy at any time until the Eighth General Review of Quotas becomes effective, but may also decide to extend this period.

An important aspect of the enlarged access policy concerns the amount of resources to be made available under a stand-by or extended arrangement approved under the Decision. These amounts are determined according to guidelines adopted by the Fund from time to time. Following its meeting in Washington on February 10-11, 1983, the Interim Committee issued a communique which read in part:

> 4. The question of the limits on access to the Fund's resources was raised in the Committee. It was noted that the Executive Board will review this matter before June 30, 1983. The Committee invited the Executive Board to take note of the views expressed in the Committee by those favoring maintenance of the present enlarged limits in terms of multiples of quotas and also by those stressing the need to have regard to developments in the Fund's liquidity. It also invited the Managing Director to report on this matter at the next meeting of the Committee.

The next meeting of the Committee is scheduled to be held on September 25, 1983.

Among other aspects of the decision on enlarged access that need to be reviewed are the proportions of ordinary and borrowed resources provided under the policy.

The first section of this paper deals with the use of the Fund's resources under the policy on enlarged access. It focuses on the amount of access to Fund resources that has been been available to members and the nature of the adjustment programs supported by the policy. The second section treats the application of the policy under current conditions in both the period preceding and that following the effective date of the Eighth General Review of Quotas. The third section treats the relationship between the enlarged access policy and the Fund's liquidity. The fourth section discusses the mix of ordinary and borrowed resources and related matters, such as charges and repurchase terms. The paper concludes with proposed new access guidelines. A draft decision will be issued in the light of the Board discussion. A separate paper to be issued shortly will discuss access limits under the compensatory and buffer stock financing facilities.

II. The Use of the Fund's Resources Under the Policy on Enlarged Access

1. Annual and triennial access limits

The Annex traces the evolution of the policy on access limits. As described in the Annex, these limits have been altered several times during the past six years both in magnitude and with respect to the conditions under which exceptions and waivers might be considered. The present limits of 150 per cent of quota per year or 450 per cent of quota over a three-year period, with a cumulative limit, net of repurchases, of 600 per cent, have been in effect since December 1980 when the Seventh General Review of Quotas became operative. The 150/450 limits may be exceeded in exceptional circumstances, e.g., when the quota of a member is unusually low in relation to its economic size. In practice, the Fund has been very vigilant not to allow these limits, or the access limits that were effective previously, to become the norm in the design of arrangements. The amount of resources provided in any particular case has depended upon a number of considerations, such as the nature of the payments problem, the speed and intensity of adjustment, the need for financing and the extent to which this could be met from other sources, and the outstanding use of the Fund's resources by the member. This pragmatic and prudent approach is reflected in Appendix Tables 1-3 which show the amounts of the Fund's resources as a proportion of the member's quota for arrangements approved since 1975.

Appendix Table 1 deals with stand-by arrangements that are generally for one year, although in some cases the period is a few months longer or shorter. Between 1975 and mid-1980, when there were no explicit annual access limits in effect, 1/ there was a wide distribution of the amounts approved as a fraction of quota and no arrangement involved more than 100 per cent of quota until 1979. As shown in the chart to the Annex of this paper, substantial resources

1/ Other than the provision of Article V: 3(iii) (until the Second Amendment) that the Fund's holding of a member's currency would not increase by more than 25 per cent of its quota during a twelve-month period.

The movement toward longer arrangements can be seen clearly from Appendix Table 7. While at the start of the 1970s all upper tranche arrangements were for 12 months, by 1977 42 per cent of such arrangements were for a longer period. This figure showed a big increase in the next two years, reaching 78 per cent in 1980.

As discussed in the "Review of Recent Extended and Upper Credit Tranche Stand-by Arrangements" (EBS/82/97, June 9, 1982), the implementation of many of these longer term arrangements fell short of expectations, as some of the major assumptions on which they were framed were not fulfilled, in part because of exogeneous developments. As practical experience accumulated, it became evident that monitoring the adjustment effort by means of consecutive shorter term arrangements was in some circumstances preferable to following a pre-established framework, because of the flexibility of such arrangements in coping with new developments. As a consequence, the number of upper credit tranche arrangements exceeding the one-year period dropped to 67 per cent of all arrangements in 1981 and further to 39 per cent in 1982; and those exceeding 18 months amounted to 52 per cent of all arrangements in 1981 and only 13 per cent of those approved in 1982. However, as an indication of the continuous nature of the Fund's association with some members, it should be noted that 12 of the 19 one-year stand-by arrrangements approved in 1982 immediately followed or replaced earlier arrangements.

The policy with respect to the appropriate period of Fund arrangements was recently restated by the Managing Director in his concluding remarks to the Executive Board during the discussion of the Fund's liquidity position and financing needs in October 1982. 1/ Three-year programs, and in particular those supported by the extended Fund facility, should have a genuinely medium-term character and emphasize structural measures aimed at mobilizing, and improving the utilization of resources, and a reduced reliance on external restrictions. There also needs to exist a reasonable degree of confidence that the major part of the necessary adjustment measures would be put in place within the confines of a three-year program.

For other countries that need medium-term adjustment, but where for a variety of reasons it is impossible to enter into an extended arrangement, the Fund is prepared to proceed with a series of one-year arrangements. Such arrangements are designed within the context of a medium-term adjustment strategy, and progress needs to be ensured from one arrangement to another, so that after a time there is a progressive reduction in the net indebtedness to the Fund. Nevertheless, the need to ensure their revolving character limits the period during which the Fund can contemplate a member's continued use of its resources. This of course does not preclude the approval of an indefinite succession of "precautionary" stand-by arrangements.

1/ EBM/82/139, October 29, 1982.

III. The Application of the Enlarged Access Policy in the Near Future

The decision on enlarged access provides that the policy will continue until the entry into force of the Eighth General Review of Quotas, although the Fund may extend the period during which it approves arrangements under the policy. During the discussion at COW/Quotas/82/14-15, (November 10, 1982) Executive Directors generally supported the idea that the enlarged access policy should continue beyond the date of the Eighth General Review of Quotas becoming effective, but also indicated that it might be necessary to adjust the limits on access at that time. The Interim Committee at its recent meeting stressed the enhanced importance in current circumstances of the Fund's role in providing balance of payments assistance to member countries that engage in adjustment programs. It is proposed, therefore, that the policy on enlarged access should continue; indeed this policy is a necessary complement to the initiatives taken by the Interim Committee to agree ahead of schedule on the Eighth General Review of Quotas and on the enlargement of the General Arrangements to Borrow. The question that the Committee has invited the Executive Board to consider at this time concerns the limits on access to the Fund's resources under the enlarged access policy.

1. Access limits

A number of members of the Interim Committee favored the "maintenance of the present enlarged limits in terms of multiples of quotas." If this position is interpreted to mean the continued application of the present limits of 150 per cent of quota a year or 450 per cent over three years with a cumulative ceiling of 600 per cent in terms of the new quotas, each member's potential access to Fund resources would increase by the amount its quotas has been raised under the Eighth General Review. These amounts vary from 22.1 per cent 1/ to 182.1 per cent, and the median increase is 38.3 per cent.

At the Executive Board discussion on November 10, 1982 referred to above, reference was made to the desirability of at least maintaining access in absolute terms following the entry of the new quotas into force. However, unlike the situation following the Seventh General Review of Quotas, where the proposed uniform increase in quotas combined with the subsequent adjustment in access limits 2/ had the same effect on each member's potential access, there are a number of possible interpretations of the "maintenance of access in absolute terms" in the current circumstances.

1/ Excluding Democratic Kampuchea for which no quota increase has been proposed.

2/ From 200/600 per cent of old quotas to 150/450 per cent of new quotas.

If the Fund wished to avoid too rapid a depletion of its ordinary resources, a number of different approaches could be considered. One possibility would be to substitute larger use of borrowed resources under stand-by and extended arrangements. For a material change in the relative use of ordinary and borrowed resources it would, as mentioned, be necessary to adopt very substantial modifications in the relative use of ordinary and borrowed resources. 1/ Alternatively, procedures could be devised to reduce what is now considered normal access to ordinary resources, i.e. an amount equivalent to a member's quota in the credit tranches, and to 140 per cent of quota under the extended facility. Such a change in present practices--the implications of which are not pursued further in the present paper--could be considered in order to put the Fund in the financial position to meet the need for balance of payments finance considered appropriate by an adaptation to its financing needs of the Fund's gearing ratio, that is to say the relation between subscribed and borrowed resources. Finally, consideration could be given to the use of borrowed instead of ordinary resources in purchases under special facilities that do not require the adoption of an agreed program of adjustment policies.

The Fund's prospective liquidity position after the coming into effect of the new quotas would suggest that the Fund should on balance tend to avoid a rapid decline of its ordinary resources, particularly because the Fund's uncommitted ordinary resources will already be very low when the new quotas are expected to come into effect. Demands on the Fund's resources are expected to continue to be large, and the size of reserve tranche positions and loan claim liabilities are expected to be very large.

3. Financing new access limits

Projections of the Fund's liquidity position through April 30, 1986 with alternative access limits are shown in Table 3. In these projections it is assumed that any commitment gap arising before the end of 1983, when the increased quotas are expected to enter into effect, will be covered by new lines of credit, so that net uncommitted resources at the beginning of 1984 may be of the order of SDR 5.5 billion. The usable assets provided by the quota increases would be in the range of SDR 13-16 billion, with a possible point estimate at SDR 15 billion. 2/ These assets will be augmented by about SDR 5.4 billion from scheduled

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1/ For example, if the mix were raised from use of equal amounts of ordinary and borrowed resources to a ratio of 1:2 up to the limits for ordinary resources, additional use of borrowed resources in financing arrangements through April 1986 shown in Table 3 below would be about SDR 1 billion, with a corresponding reduction in the use of ordinary resources. With a ratio of 1:5, the use of borrowed resources would increase, and of ordinary resources decline, by an estimated SDR 3.0 billion.

2/ See EBS/83/59, Table 6, page 15.

repurchases net of repayments to lenders over the period January 1, 1984-April 30, 1986, with the result that total usable resources available to the Fund over the period may be some SDR 26 billion. 1/

Several points are of interest as regards the demand for Fund resources, the components of which are shown in Section 2 and 3 of Table 3. First, it is assumed that commitments under all arrangements will be financed with a mix of ordinary and borrowed resources of 1:1 up to the limits for ordinary resources, and thereafter entirely from borrowed resources. With these mixing proportions it is estimated that the actual aggregate use will be about 2/5 ordinary to 3/5 borrowed resources at the lower levels of access, and in a ratio of about 1 to 2 with access of 125/375 per cent of quota. This means that relatively large amounts of the financing would need to come from newly established borrowing arrangements (including the enlarged GAB--if the conditions for use of these arrangements are met). The Fund's need for new EAR lines of credit to cover commitments under the policy of enlarged access over the range of access limits used above would thus continue after the quota increases. Second, the level of purchases under the compensatory and buffer stock facilities will depend on any decisions affecting access to these facilities that may be taken by the Executive Board when this matter is reviewed. The lower end of the estimate (SDR 4 billion) in Table 3 reflects present access in absolute amounts and is consistent with the estimate in EBS/83/59; the higher end (SDR 6 billion) is highly tentative but assumes access to the CFF at 100 per cent of new quotas. However, these estimates do not provide for substantial use of the compensatory financing facility by oil exporting countries. The question of access limits under compensatory and buffer stock financing facilities will be examined in a separate staff paper. 2/ Third, unlike the practice in the liquidity papers, a specific estimate (of SDR 5 billion) is shown for reserve tranche purchases. This estimate is no more than a tentative indication of use of positions in the Fund by those members that have at present projected current account deficit positions, although reserve tranche use may not be restricted to that category of members. Fourth, no provision has been made for repayment of loan claims other than repayment of short-term EAR borrowings. To the extent that these latter repayments would be financed out of new borrowing, the call on ordinary resources would be reduced but the borrowing requirements in the period January 1, 1984-April 30, 1986 would be increased.

1/ The supply of resources could be somewhat higher if currencies of one or more members that are not now judged sufficiently strong or are judged strong but that have outstanding purchases were added to the list of usable currencies.

2/ As indicated in the Managing Director's statement on the Work Program (Executive Board Meeting 83/51, 3/21/83), a staff memorandum reviewing the CFF and BSF is under preparation. This paper, scheduled for Executive Board consideration in June 1983, will inter alia cover the size of quota limits applicable to access to these two facilities.

It will be recalled that in EBS/83/59 it was indicated that even with the additions to the Fund's usable resources from payment of quota increases, the ratio of the Fund's uncommitted ordinary resources to its liquid liabilities would be at about 45 per cent at the end of 1983, about the same level as in December 1982, and the ratio could be expected to fall substantially in the course of 1984 and 1985. With access limits of 102/305 and 110/330 per cent of proposed quotas, the Fund's uncommitted ordinary resources may fall to a range of SDR 8-10 billion on the assumption of use of ordinary and borrowed resources as mentioned above. The borrowing need over the same period could be SDR 8-10 billion. With access limits of 125/375 per cent of proposed quotas, the projections of use of the Fund's resources suggest a serious depletion in the Fund's ordinary resources to the order of SDR 7-9 billion by April 30, 1986, and a projected need for borrowed resources of SDR 12-14 billion. Under all of these access limits and the assumed use of ordinary and borrowed resources, the level of uncommitted ordinary resources would appear very low in relation to the substantial expansion of liquid claims on the Fund and the Fund's liquidity would again come under pressure well before the end of the period to April 1986. This raises the question of the manner in which access to the Fund's resources decided by the Executive Board should be financed. This question would need to be considered further when the appropriate level of access has been determined.

The total of outstanding borrowing and unused lines of credit at December 31, 1983 is estimated at SDR 26 billion in EBS/83/59 (Appendix Table 1, page 23). The magnitude of potential borrowing needs indicated above would mean, net of repayment to lenders, totals in the range of SDR 32-37 million which would be around 35-40 per cent of the total of proposed new quotas. To the extent that a larger part of members' use of Fund resources were financed by borrowed resources, borrowing needs would, of course, be larger than these estimates. In this context, it may be noted that the guidelines on borrowing by the Fund will need to be reviewed before the new quotas come into effect.

V. Some Operational Aspects of Enlarged Access Financing

The present review of the enlarged access policy, and the pending increase in quotas, provide an opportunity to consider the main operational features of EAR, in particular the provisions determining the "mix" of ordinary and borrowed resources under stand-by and extended arrangements which it would be desirable to simplify. Other features which may deserve reconsideration are the schedule of charges for use of borrowed resources, and the repurchase terms arising from purchases financed with borrowed resources, but no changes are proposed.

1. The mix of resources

The EAR provides for simultaneous use of ordinary and borrowed resources until the customary limits on access to the Fund's ordinary resources are reached. 1/ In cases requiring further assistance, recourse thereafter is financed by borrowed resources exclusively to the agreed limits on use of the Fund's resources. This simultaneous use reflected a desire to safeguard the Fund's liquidity by avoiding premature exhaustion of its ordinary resources. Furthermore, because resources under EAR were to be provided for longer periods than use of the credit tranches under a stand-by arrangement, concurrent use of resources with different repurchase terms would result in a more even repurchase schedule. Finally, an appropriate mix of ordinary resources carrying concessionary charges and more costly borrowed resources would lead to more stable average cost of purchases from the Fund than would be the case if the Fund's own resources were used before borrowed funds.

The mixing procedures established for the EAR, which continued those adopted for the Supplementary Financing Facility (SFF) in 1977, have over time posed considerable operational difficulties, and on occasion have produced results that are difficult to explain to member countries or to defend on economic grounds. Two features in particular make the administration of the policy on enlarged access especially cumbersome:

a. Catching up--Because use of Fund resources in the credit tranches and under extended arrangements in the years preceding the

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1/ The existing proportions between ordinary and borrowed resources under EAR are as follows:

(i) In conjunction with a stand-by arrangement

	Ordinary Resources	Borrowed Resources
	(Per cent of Quota)	
1st credit tranche	25	12.5
2nd credit tranche	25	30.0
3rd credit tranche	25	30.0
4th credit tranche	25	30.0
Beyond 4th credit tranche	(-)	all borrowed resources

(ii) In conjunction with an extended arrangement

140 per cent of quota	140	140
Beyond 140 per cent of quota	(-)	all borrowed resources

It is to be noted that EFF arrangements float above the first credit tranche, and that prior use of Fund resources is taken into account, as discussed further below.