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AGENDA**

EBS/83/132
Correction 2

CONFIDENTIAL

July 11, 1983

To: Members of the Executive Board

From: The Acting Secretary

Subject: Review of the Policy on Access to the Fund's Resources -
General Considerations

The following correction has been made in EBS/83/132 (6/27/83):

Page 4, first full para., lines 7 and 8: for "November 1981 when the Board
discussed the issue of cooperation,
there have been 18 cases"
read "November 1981, there have
been 18 cases"

A corrected page is attached.

Att: (1)

partial limits, would primarily affect the potential access of developing countries, since other members are unlikely to make much use of the special facilities.

In principle, any reduction of potential access will limit the Fund's ability to respond to members' needs. However, any particular limit needs to be examined to determine how severe a constraint it will prove to be in practice. On the basis of current arrangements and outstanding drawings, it would appear that a limit of 500 per cent of quota would preclude substantial additional assistance to only one or two member countries in the immediate future, while a substantially lower limit would make it difficult to respond in many more cases to further financial difficulties, including a number of major developing countries with adjustment programs currently in place. Perhaps a figure slightly higher, say 520-550 per cent could have the advantage of not pushing countries too often to their limits.

III. Use of the Conditional and Special Facilities

Several Executive Directors have emphasized the need to pursue a balanced policy on access to the Fund's conditional facilities (the credit tranches and the extended Fund facility, including enlarged access resources) and its special facilities (the compensatory and buffer stock financing facilities). The question of balance must be addressed whether or not a comprehensive ceiling is established for access to all facilities; the issue becomes more complex with such a ceiling.

Historically, the distinction between the use of the conditional facilities and that of the special facilities has been based on the nature of the balance of payments problem. When the problem is self-reversing, the primary need is for finance to tide the member over the temporary period of strain. As the deficit is expected to be automatically reversed, repurchase poses no special problem and the principle of the revolving character of the Fund's resources is preserved. Thus, access to the compensatory and buffer stock financing facilities, which are designed to be used in these cases, is determined on the basis of a set of criteria which reflect the temporary nature of the problem being addressed. In other cases where the problem is not self-reversing and requires changes in policies to achieve balance of payments improvement, the provision of resources by the Fund must carry adequate safeguards that repurchase can be made within the prescribed period. Access to resources in the credit tranches is therefore conditional upon the adoption of an appropriate adjustment program.

In practice, however, the distinction between problems that are self-reversing and those that require adjustment is not always so clear cut. A country experiencing an export shortfall in terms of the compensatory financing decision may at the same time face balance of payments problems that require policy changes. If a country has need to adjust,

it is important that use of the Fund's special facilities not postpone that adjustment. Failure to adjust is likely to lead to an aggravation of the imbalance, undermining the country's ability to make repurchases when they fall due.

In fact, in nearly all recent cases of export shortfalls due largely to exogenous circumstances, the balance of payments of the member has suffered at the same time, and usually to a much greater extent, from imbalances caused by other factors--mainly of domestic origin. This has called for a careful assessment of the requirement of cooperation that is a criterion for the use of the special facilities. Since November 1981, there have been 18 cases where the upper tranche of the compensatory financing facility (CFF), to which the criterion of stricter cooperation applies, was used and in all of these cases the member either had an existing upper credit tranche arrangement with the Fund or concluded one concurrently with the use of the CFF. Use in the lower compensatory financing tranche has been approved in 22 cases in this period; in 6 there were existing or concurrently approved arrangements while in a number of others important adjustment measures were adopted just prior to the use of the facility. Thus, under current circumstances, use of the CFF cannot be considered as unconditional as would have been the case had export shortfalls been the sole cause of payments difficulties.

The use of the CFF enables a member with an existing or concurrently approved arrangement to augment the Fund resources available to it. There remains, however, an important distinction between use of the CFF and use of the upper credit tranches since purchases under the CFF, like those in the first credit tranche and unlike those in the upper tranches, are not phased. The member thus obtains the additional resources immediately and, from the Fund's point of view, the safeguard that is inherent in performance criteria and phased disbursements is absent. To some extent, however, this safeguard could be created if an annual ceiling on disbursements under the CFF were reintroduced, as was the case before 1979.

The ratio of potential access under conditional facilities to that under special facilities has fluctuated over time as the various limits have been modified. In April 1978, after the Sixth General Review of Quotas came into effect, access to regular facilities could amount to 165 per cent of quota, while access to the compensatory and buffer stock financing facilities could reach 125 per cent. With the introduction of the supplementary financing facility and the enlarged access policy, there was a decisive shift in favor of conditional resources as the Executive Board and Interim Committee reassessed the need for support to be given for programs of adjustment. Thus, in mid-1980 annual and triennial access to conditional facilities was raised to 200 per cent and 600 per cent of quota (with no explicit cumulative limit), while combined access to special facilities increased to 150 per cent of quota. In December 1980 with the introduction of the new quotas under the Seventh General Review, annual and triennial access to conditional facilities was reduced to 150 per cent and 450 per cent of quota and a cumulative ceiling of