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**Concluding Remarks by the Chairman  
Charges on Large-Scale Use of Fund Resources; and  
Safeguards for the Fund in Cases of Very High Access—Preliminary Considerations  
Executive Board Meeting 96/111  
December 13, 1996**

This has been a useful discussion on a possible strengthening of the safeguards for the Fund in cases of very high access. Executive Directors emphasized that the primary safeguard for the Fund's resources remains the strength of a member's program. However, most Directors felt that there was a case for examining further the need for additional safeguards when the cumulative use of Fund resources reached very high levels, and in general, Directors welcomed the staff paper on possible options in this regard, even if several Directors considered that it would have been helpful to examine these suggestions in a broader context, in particular, including an analysis of the role of the Fund in a world of globalized capital markets.

Several Directors saw merit in indicating a threshold beyond which additional safeguards could be considered. In reflecting on the possible level of such a threshold, some Directors felt that the cumulative access limit under the credit tranches and the Extended Fund Facility—namely, 300 percent of quota—should be an important consideration in setting the threshold. However, other aspects, such as holdings and credit outstanding, were also mentioned. Some Directors believed that a possible threshold based on holdings of currencies could be set at 375 percent. However, other Directors would welcome further analysis of the appropriate level of the threshold.

Regarding the issue of higher charges on large-scale use of Fund resources, at least at this stage, the required support is not available based on today's discussion. Further reflection will be needed on this issue.

*A number of Directors favored a higher rate of charge or a surcharge on purchases in excess of an agreed proportion of quota. Interest was also expressed in the possibility of some form of a refundability feature. References were made to the need for higher precautionary balances, to incentives for early repurchases, and to considerations of equity. The objectives of protection of the Fund in cases of high exposure, and of providing incentives for preserving the revolving nature of resources, were also mentioned.*

Other Directors indicated that they needed additional information to enable them to form a definite view, or they considered that a convincing case for a higher rate of charge (or a surcharge) on use in excess of an agreed amount had not yet been made. Some of these

Directors stated that the purpose to be served by higher charges would importantly affect the view they would take on the desirability, or otherwise, of a proposal for differentiated charges.

A third group of Directors was opposed to higher charges or a surcharge on large-scale or exceptional use of Fund resources. These Directors considered appropriate adjustment programs the most important element in assuring the revolving nature of Fund resources. On the one hand, unless surcharges were very substantial, they were unlikely to induce early repayments to the Fund; on the other hand, a substantial surcharge—say, of several percentage points—was not compatible with the cooperative nature of the Fund, and could be counterproductive as it would add to members' balance of payments difficulties.

I will invite the staff to give further consideration to these issues in light of the three broad families of thought and to return to this matter as appropriate.

Directors generally agreed that the guidelines for early repurchases should be reviewed, as almost 20 years had elapsed since their introduction, and the world economic environment had changed considerably over that period. Such a review would examine, in particular, the causes of the underlying improvement in members' external financial positions, the formula that generates the amounts to be repurchased, the ways in which an early repurchase expectation can be met, and the possibility of applying remedies to a failure to meet an early repurchase expectation, specifically, the possibility of establishing the policies pursuant to which the expectation could be converted into an obligation.

Among the options put forward by the staff as conditions for the granting of a waiver under Article V, Section 4, in cases of high access, there was some interest in the possibility of making specific provision for early repurchases in individual cases, and the staff will consider this alternative further. Regarding negative pledge and prepayment clauses, several Directors were interested in further explanation of the World Bank's experience with negative pledge clauses. This would be helpful in determining whether further technical work in this area would likely be productive. Most Directors believed that the practical difficulties involved in advancing the schedule of repurchases *ex ante*, and requesting collateral, were likely to make these options less attractive or practicable; while there was not much interest in pursuing them at this stage as a general matter, they remained a possibility for consideration in individual cases if that seemed warranted. Some Directors also emphasized that any additional measures should aim at confirming and strengthening the Fund's preferred creditor status rather than casting doubt on its effectiveness. Only some expressed this view, but I believe that it is truly a view shared by all.

Finally, most Directors agreed that there was a persuasive case, for members with very high access, for post-program monitoring along the lines described in the staff paper, although some worried about the effectiveness of such monitoring. Some Directors were of the view that special monitoring should be applied when the Fund's holdings of a member's currency reached a lower threshold, say, 300 percent of quota (rather than 375 percent). Other

Directors, however, expressed concern that extending special monitoring to a broader set of cases might unduly divert resources from other pressing issues. Most Directors felt that the requirement for post-program monitoring should be introduced into arrangements in cases of very high access as a condition for the granting of a waiver under Article V, Section 4, so that remedies could apply if a member did not cooperate. However, Directors noted that monitoring could also be called for under the standard consultation clause in Stand-By and Extended Arrangements, although no sanction for a breach of obligation would apply if the member did not cooperate. Most Directors wished to see this approach tested in existing cases of very high access.

Following this discussion, I suggest that the staff prepare a short paper on the modalities of post-program monitoring for cases of very high access, excluding arrears cases. In addition, the staff will give further consideration to the other options in which general interest was expressed, including reviewing the guidelines for early repurchase.

