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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 82/139

3:00 p.m., October 29, 1982

J. de Larosière, Chairman  
W. B. Dale, Deputy Managing Director

Executive Directors

J. Anson

J. de Groote

B. de Maulde

R. D. Erb

M. Finaish

T. Hirao

R. K. Joyce

A. Kafka

G. Laske

G. Lovato

Y. A. Nimatallah

A. R. G. Prowse

Alternate Executive Directors

O. Kabbaj

M. A. Senior

A. Le Lorier

T. Alhaimus

T. Yamashita

R. J. J. Costa, Temporary

V. Supinit

F. Sangare

G. Grosche

C. P. Caranicas

A. B. Diao, Temporary

A. S. Jayawardena

J. E. Suraisry

T. de Vries

L. Vidvei

Tai Q.

L. Van Houtven, Secretary

R. S. Franklin, Assistant

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Also Present

African Department: F. d'A. Collings. Asian Department: R. J. Niebuhr.  
European Department: D. N. Lachman. Exchange and Trade Relations  
Department: C. D. Finch, Director; S. Mookerjee, Deputy Director.  
External Relations Department: H. O. Hartmann. Legal Department:  
G. P. Nicoletopoulos, Director; G. F. Rea, Deputy General Counsel.  
Middle Eastern Department: A. D. Crockett, J. E. Jakubiak. Research  
Department: C. F. Schwartz, Associate Director and Director of Adjustment  
Studies; R. R. Rhomberg, Deputy Director. Secretary's Department:  
A. P. Bhagwat. Treasurer's Department: R. J. Familton, Deputy Treasurer;  
D. Williams, Deputy Treasurer; D. S. Cutler, C. M. de Rosa, H. Flinch,  
D. Gupta, Q. M. Hafiz, G. Wittich, P. K. Woolley. Personal Assistant to  
the Managing Director: N. Carter. Advisors to Executive Directors:  
S. El-Khoury, L. Ionescu, P. Kohnert, H.-S. Lee, P. D. Pérez. Assistants  
to Executive Directors: H. Arias, L. Barbone, L. E. J. Coene,  
T. A. Connors, A. Halevi, J. M. Jones, J. A. K. Munthali, V. K. S. Nair,  
J. R. Novaes de Almeida, Y. Okubo, J. G. Pedersen, C. N. Pinfield,  
E. Portas, D. V. Pritchett, J. Reddy, D. I. S. Shaw, H. Suzuki,  
A. Yasserli, A. A. Yousef.

1. FUND LIQUIDITY POSITION AND FINANCING NEEDS

The Executive Directors continued from the previous meeting (EBM/82/138, 10/29/82) their consideration of a staff report on the Fund's current and prospective liquidity position and financing needs (EBS/82/180, 10/8/82).

Mr. Prowse, welcomed the country-by-country approach taken by the staff, and noted that the estimates had been prepared in conditions that were more uncertain than usual because of the potential development of an "emergency fund" and the negotiations currently taking place on the possible use of Fund resources by two large members. Depending on the outcome, a commitment gap could arise as early as April 1983 or not until the end of the following fiscal year. It might be useful in the circumstances if the staff could provide amended forecasts once the negotiations with the two large Fund members had been completed and recommendations had been made one way or the other.

Regarding specific forecasts, Mr. Prowse observed that the estimate for net commitments under enlarged access--excluding larger developing countries--had been revised downward from SDR 5 billion to SDR 3.5 billion for 1982/83 and from SDR 10 billion to SDR 5 billion for 1983/84. The revised figures themselves seemed plausible. However, gross commitments for the first five months of the current fiscal year amounted to SDR 1.1 billion and cancellations amounted to SDR 2.2 billion; moreover, a further SDR 1 billion might be released through the cancellation of other arrangements. Against that background, the forecast for net commitments of SDR 3.5 billion for 1982/83 seemed to imply new commitments for the seven months through April 1983 of SDR 5.6 billion, a figure that was not consistent with the current pace of requests. He would appreciate some clarification from the staff on that matter.

The staff paper quite properly concentrated on the financing needs of the Fund and on its liquidity, Mr. Prowse remarked, but it did not deal with the use of Fund credit as such. The figures for the use of Fund credit showed the important contribution made by the Fund to balance of payments financing, particularly for the non-oil developing countries. In a recent paper containing a forecast for the financing of the current account deficits of non-oil developing countries, the item "other financing flows, net" had been reproduced, which had included "short-term capital flows," "net use of Fund credit," and "errors and omissions." It might be more helpful if the subitem "net use of Fund credit" could be shown separately in future liquidity papers.

With respect to the conclusions in the paper, Mr. Prowse said that he could accept the view that Fund liquidity would come under considerable pressure in 1984 and thereafter, although he assumed that "thereafter" meant only until the Eighth General Review of Quotas had been adopted by members. In order to respond to the pressure, it would be important to complete the Eighth Quota Review as soon as feasible with a sizable increase in the Fund's resources. It was also clear that consideration

of the U.S. proposal for an "emergency fund" should get under way soon, since the role of that instrument, its size, and the manner in which it was to be financed had implications for any decisions on borrowing by the Fund. For example, if it was to be financed from member contributions, that might have implications for the willingness of members to contribute to the Fund's other resources or even to lend to the Fund.

Despite the uncertainties surrounding the forecast commitments gap, Mr. Prowse said, it would be desirable in the coming months for management to work toward the development of new lines of credit. The liquidity situation was not yet critical and certainly did not serve to establish the case for market borrowing at present, but it underlined the need to look at possibilities for further lines of credit, including credit from the Saudi Arabian Monetary Agency (SAMA). He would welcome any information that the staff or management might provide on the prospects for lines of credit with SAMA or arrangements with other Fund members. Finally, referring to the paragraph on page 11 of EBS/82/180 dealing with inoperative arrangements, he would be interested in any response by the staff or management to Mr. de Groote's question about whether the Fund had perhaps gone too far in the direction of emphasizing one-year stand-by arrangements.

Mr. Erb stated that he had no major difficulty with the analyses in the staff paper. The position of the Fund with respect to ordinary resources for the remainder of the current fiscal year seemed adequate, although additional borrowed resources would be necessary if the present mix between borrowed and owned resources were to be continued. He joined others in encouraging management to continue efforts to obtain additional medium-term borrowed resources from official sources and would welcome any information that might be provided on negotiations with SAMA.

While not in principle opposed to borrowing in the private markets, Mr. Erb continued, he believed that it would be premature at present to actively develop the private market borrowing option. Such an approach could complicate the process that legislative bodies would have to go through in approving additional resources through official channels. On the other hand, the staff should keep up to date in its thinking and analysis on ways in which the Fund might approach the private markets if that need should arise at some point in future.

Looking beyond the current fiscal year, Mr. Erb agreed that the liquidity position of the Fund was likely to be tighter by end-1983 and into 1984; hence, he joined others in emphasizing the importance of completing negotiations on the Eighth General Review of Quotas as soon as possible.

Mr. de Maulde said that he wished to join others in welcoming the move toward country-by-country estimates in the staff paper. He had no difficulty with the results of the forecasting exercise, although further improvements and refinements in methodology should perhaps be sought. For example, the way in which potential users of Fund resources with quotas above SDR 800 million were treated might usefully be reviewed, especially

since borrowing by one or two of those countries could have a severe impact on the results of the forecasts. Also, it might be useful for presentational purposes to divide possible arrangements into those of up to one year and those for longer. He understood why it might not be desirable to produce a list of the arrangements the staff expected to be concluded, but some aggregate statistical data might be helpful. In addition, consideration should be given to ways of reducing rigidities in the methods used to estimate the amounts of usable currencies and working balances.

The most obvious conclusion to be drawn from the staff paper was that the Fund would be in need of additional resources some time in 1983, Mr. de Maulde continued. In the short term, the main preoccupation of the staff and management should be actively to explore a further expansion of borrowed resources under the enlarged access policy, and he would welcome any information that could be provided on prospects for such borrowing. Another possibility--and one to which the paper did not refer--was to modify the present mix between ordinary and borrowed resources. As could be seen from the tables in the staff paper, the pressure on borrowed resources was far more intense than that on ordinary resources, and there might be some scope for bringing about a better balance between the two. For the longer term--beyond 1983--the only proper response to the pressure on Fund resources would seem to be a prompt and sizable increase in Fund quotas, a move that would give impetus to the recommendation of the Interim Committee that an agreement on the Eighth General Review of Quotas be reached at least by the spring of 1983. Perhaps consideration could be given to moving the exercise forward even further.

It was important to be aware of the limitations of the latest review of the Fund's liquidity, Mr. de Maulde remarked. The review could not be easily used to determine an appropriate size of the Fund because it was based on members' intentions to use Fund resources rather than on their needs. The implications of the difference could be illustrated by a simple example. Assuming that the great majority of Fund members intending to use the Fund's resources over a given financial year had reached the limits to which they were entitled under present Fund policies, the conclusion should not be drawn that the Fund's liquidity was fully satisfactory and that the financing needs of the institution were equal to zero. On the contrary, the need for a substantial increase in the size of the Fund would be even greater. For that reason, the conclusions reached in the framework of the forecasting exercise should not be carried over without qualification to other types of exercises.

Finally, he had some questions about the relevance of certain of the selected ratios described in Table 2 of the Appendix to the staff paper, Mr. de Maulde said. The indications deriving from the liquidity ratio and the ratio of uncommitted ordinary resources appeared far less clear and meaningful than those derived from the projections on the use of Fund resources. Moreover, the ratios seemed to be extremely volatile and spread over a wide range. He would welcome from the staff at some future date a paper providing an assessment of the matter, together with some suggestions for remedying the existing situation with respect to those ratios.

Mr. Tai stated that his chair had long maintained that, in view of the serious world economic situation--especially the situation in many developing countries--and the unique responsibilities of the Fund, a substantial quota increase under the Eighth General Review of Quotas was urgently needed. The estimates provided in the paper on the Fund's liquidity position and financing needs only reinforced that belief. It was to be hoped that, on the basis of the present discussion, the pace of work on the Eighth Quota Review would be increased in the coming months.

With respect to the shift in the pattern of Fund arrangements with members, Mr. Tai observed from page 3 of the staff paper that arrangements in future would more likely be for shorter periods and for smaller amounts. He wondered whether the change was mainly due to developments in the world economic situation and the nature of the financial needs of the borrowing countries or whether it represented a policy shift by the Fund.

Mr. Nimatallah said that it was clear from the staff paper--as well as from earlier papers on the World Economic Outlook and on the size of the Fund--that large imbalances would continue throughout the 1980s. Those who had in the past argued that global imbalances had been caused by oil price increases should be able to see clearly that the causes of the imbalances were numerous and complex and that the imbalances could not be made to disappear through wishful thinking. The Fund had a fundamental role to play in alleviating the situation by extending financial assistance that would allow members to adjust to the imbalances and would increase the scope for additional private market financing. It had become increasingly clear that commercial banks had made mistakes in recent years and that the banking system was in need of both the cooperation and the expertise of the Fund. It seemed only reasonable to suggest in the circumstances that the international banking system was far too important to be left to the commercial bankers alone and that the Fund should take greater responsibility within the system.

Regarding projections in the staff paper on the demand for Fund resources, Mr. Nimatallah welcomed the decision to provide new estimates of commitments for the year ending April 1984 on a country-by-country basis rather than on a global basis. The earlier projection for commitments of SDR 10 billion for the year ending April 1984 for countries with quotas below SDR 800 million had been revised downward to SDR 5 billion, in spite of the assertion by the staff that the projected aggregate current account deficit of those countries was as high as it had ever been. Moreover, the likelihood was that those countries would continue to face difficulties in access to private market financing. The reason provided by the staff for the new lower estimates--a switch from longer-term arrangements to shorter-term ones--was neither clear nor convincing. Like other Directors, he would appreciate some comment from the staff on the issue of whether resources were to be tailored according to members' needs or vice versa.

While a reduction had been made in the estimates for countries with quotas below SDR 800 million, the staff seemed to be holding to its earlier estimate of commitments of SDR 15 billion for countries whose

quotas exceeded SDR 800 million, at least for the period through end-April 1984, Mr. Nimatallah observed. However, the two pending cases might give rise to commitments of only SDR 5.1 billion; he wondered from what source the remaining SDR 10 billion in commitments was expected to arise.

With respect to the supply of Fund resources, the staff paper had pointed to the need for management to explore or conclude arrangements for new lines of credit within the next few months in order to cover a commitment gap that could arise as early as April 1983, Mr. Nimatallah noted. He agreed that new lines of credit should be explored and that the present guidelines on borrowing by the Fund seemed to be sufficient to allow the institution to borrow to cover any expected commitments. For the medium to longer term, however, it was clear that a substantial increase in quotas was needed if the Fund was to perform its role adequately. The Fund should not allow itself to be placed in the position of having to limit its role or assistance simply because it had insufficient resources. To avoid such a possibility, more avenues for borrowing should be explored, through either official or private market channels; management should be authorized to prepare the Fund for any sort of emergency. In that regard, he looked forward to exploring with his colleagues the U.S. proposal for dealing with major strains in the international financial system.

Mr. Finaish said that, like others, he welcomed the changes and improvements made in the latest staff paper, particularly the shift to country-by-country estimates, the extension of projections through 1985, and the different ratios provided in the Appendix. The conclusions to be drawn from the paper were twofold: first, that a quota review should be expedited, and second, that new lines of credit should be concluded in the coming months. The latter conclusion, and the interventions of a number of speakers, seemed to highlight the Fund's relationship with SAMA. The contribution that SAMA had made to the Fund and to the international adjustment process in general was of course deserving of appreciation; however, like Mr. Jayawardena, he wondered whether the oft-made references to SAMA did not put considerable pressure on a single country to meet the financing needs of the Fund. Other official sources of financing should be explored, and he would appreciate hearing about prospects for such borrowing in the context of the staff's statement on page 5 that other forms of official borrowing by the Fund would be explored. Finally, he would appreciate hearing the staff's response to questions that had been raised on the change in the length of Fund programs and on the possible implications of that change.

Mr. Sangare joined others in welcoming the shift from global estimates to projections on a country-by-country basis. He was also happy to see the extension of projections through April 1985, although the preference of his chair was for somewhat greater involvement by the area departments in deriving the estimates, since those departments were in constant contact with member countries.

Total net commitments between May 1, 1982 and April 30, 1983 were estimated to be SDR 8.6 billion, including SDR 5.1 billion for two members with quotas in excess of SDR 800 million, Mr. Sangare noted. The estimates seemed to imply a reduction in total commitments to members with low quotas from SDR 5 billion to SDR 3.5 billion. As pointed out by the staff on page 3 of the report, the reduction in total commitments was not the result of any improvement in the balance of payments position of those countries; indeed, their external accounts had deteriorated since the previous review, thus increasing their financing needs. With that in mind, and given that recent developments in private capital markets could have a serious impact on the markets' role in financing payments deficits, he wondered how the staff had come to the conclusion that Fund members with quotas below SDR 800 million no longer required as much Fund assistance as in the past. He understood that the estimates incorporated program cancellations, but he had observed that smaller amounts were envisaged for the new programs that would replace those no longer operative, even though the financing needs of the countries concerned might have increased. In fact, for the period May 1983 through April 1984, the staff had projected that commitments to the lower quota countries would be of the order of SDR 5 billion, which implied a 50 per cent reduction from the estimates made during the previous review. He wondered whether that reduction had been made in order to accommodate a possible use of Fund resources by members with large quotas.

With respect to the financing of commitments through April 1983, the staff had projected a total of SDR 4.2 billion in ordinary resources and SDR 4.4 billion in borrowed resources, Mr. Sangare observed. The paper indicated that a commitment gap could arise as early as April 1983 if members with quotas in excess of SDR 800 million were to make use of Fund resources. Even if those members were not to come to the Fund to finance their deficits, a commitment gap would still emerge by 1984. Table 2 in the Appendix demonstrated clearly the extent to which the Fund might experience pressure on its overall liquidity position; the liquidity ratio was currently estimated to fall to 37.3 per cent by April 1983 and, if account were taken of possible use of Fund resources by those members with large quotas, the ratio could fall even further. Such a possibility lent support to the view that the Eighth General Review of Quotas should be expedited and should lead to sizable increases in order to enable the Fund effectively to perform its functions. Pending the coming into force of the quota increase, management should begin with some urgency to conclude borrowing arrangements. Hence, he encouraged the Managing Director to finalize the borrowing agreement with SAMA and to explore new avenues for official borrowing as well.

Mr. Kabbaj remarked that, while the welcome country-by-country analysis in the staff paper certainly provided a clearer and more coherent picture of future needs than the global approach used in the past, it seemed to introduce a greater degree of subjectivity with respect to the potential needs of members for Fund resources. If the estimates were based on prevailing economic blueprints of member countries, there could be even greater uncertainty with the country-by-country approach than with



global projections, which relied on estimated deficits as determined by economic realities. On balance, however, he believed that the shift in approach was a step in the right direction.

Another difference between the paper under discussion and those produced for previous reviews was the somewhat conservative approach taken by the staff with respect to the future demand for Fund resources, Mr. Kabbaj considered. Table 1, for example, did not include in the estimates for potential demand the approximately SDR 10 billion of need by members with larger quotas, which gave the impression that such a need would not materialize. On the other hand, the paper mentioned that, parallel to the downward revision in the number and amounts of Fund programs, the demands of some members would be carried forward to later years, so that it was clear that the present estimates for commitments for 1983 and 1984 fell short of the genuine demand by members for Fund resources by the amount of any spillover into later years.

The Fund's liquidity ratio was likely to decline from the present 62 per cent to 13-17 per cent by April 1984 if potential use by larger quota members was taken into account, Mr. Kabbaj observed. Moreover, a commitment gap could arise as early as April 1983; in the circumstances, the staff had mentioned the need to conclude arrangements for new lines of credit within the next few months. In fact, according to Table 5, the existing supply of borrowed resources would have been committed by March 1983 in the absence of any further borrowing in the period. The two main conclusions to be drawn from the paper were that the pace of work on the quota review should be increased and that new borrowing arrangements should be concluded; he hoped that both requirements would be faced with some urgency so that the replenishment of Fund resources could be expedited.

The Deputy Treasurer, remarking on the shift to country-by-country forecasting for demands on the Fund's resources, said that, when the forecasting exercise had been initiated in late 1980, the staff had employed a global estimate of expected balance of payments deficits and had assumed that members with small quotas would be using the Fund's resources up to the equivalent of approximately 15 per cent of their deficits. That approach had yielded a constant forecast in recent reviews of SDR 10 billion for demands on the Fund's resources, because the deficits had been surprisingly firm throughout the period. Now that 1984 was closer at hand, the staff felt that a country-by-country estimate could be made for the period following April 1983. The change meant that the estimates would probably fluctuate in succeeding reports on the Fund's liquidity position because the information available to area departments on members' intentions to use the Fund's resources--on which the country-by-country estimates were based--would no doubt vary over time.

As Executive Directors had noted, the SDR 10 billion estimate for demands on the Fund's resources in the years to April 1984 had been revised downward to SDR 5 billion, which should be taken as a minimum

estimate because area departments were not fully apprised of the intentions of countries with respect to likely requests for Fund credit toward the end of the period to April 1983 and afterward, the Deputy Treasurer observed. The staff had given an indication of members' intentions to come to the Fund for resources, although it was not certain what sort of arrangements would be requested. At a minimum, the requests would be for one-year stand-by arrangements and necessarily limited to 100 per cent of quota, albeit under the enlarged access policy; the amounts were, however, likely to be larger than indicated. In that respect, the staff had put forward its estimates based on one-year programs, but with the indication that members might approach the Fund with requests for other than one-year stand-by arrangements. The staff had also gone on to project the likely need for financing in 1985, and the two years--1984 and 1985--should perhaps be taken together.

It had rightly been noted by Mr. Prowse that the new net credit under net new arrangements for the first five months of the current financial year was minus SDR 1.1 billion, the Deputy Treasurer recalled. Mr. Prowse had added to that figure another minus SDR 1 billion in cancellations and had set the result against the staff's projection of a net increase in new arrangements of SDR 3.5 billion, which seemed to suggest some SDR 5.6 billion in new commitments through April 30, 1983. It should be noted that the SDR 1 billion in additional cancellations was in gross terms and that the amount would be replaced by new arrangements in one form or another. In the circumstances, the expected new arrangements in net terms totaled approximately SDR 4.5 billion, estimated on a country-by-country basis. The staff saw no necessarily large pickup in demand; indeed, demand would likely continue at the same pace in gross terms as over the previous few months, and the new estimates were consistent with immediate past commitments.

With respect to Mr. Anson's question of whether the staff had noted any systematic departure from its estimates over time, the Deputy Treasurer commented that an effort had been under way for some months to determine a function of the demand for credit from the Fund, both in terms of members' likely financing patterns and those of the institution itself. No systematic departure from staff estimates had been found, although it had been noted that cancellations had come from many different sources. The matter would of course remain under examination.

It had also been asked how staff estimates had been divided between stand-by and extended arrangements, the Deputy Treasurer recalled. In his view, a breakdown would not be particularly meaningful, given the uncertainties of the period after April 1983. However, up to April 1983, a substantial proportion of the estimated SDR 3.5 billion was expected to be requested under one-year stand-by arrangements.

It had been noted by Mr. Anson that the estimates for use of resources under the compensatory financing facility had remained unchanged through several reviews at approximately SDR 2.5 billion for the year, despite the fact that only SDR 0.7 billion had been disbursed so far in 1982, the

Deputy Treasurer observed. With the help of the Research Department, the staff had produced for the first time a country-by-country analysis for the compensatory financing facility, which seemed to support earlier estimates. On present indications, the expected drain on compensatory financing facility resources through the end of the current financial year would apparently turn out to be quite near the SDR 2.5 billion projected.

Also touched upon by Mr. Anson was the question of whether the staff was being unduly conservative regarding which currencies could be used in the currency budget, the Deputy Treasurer remarked. Sterling was the only currency mentioned in the latest review, and the staff had taken note of the change in the payments situation. There were only a few countries not already included in the designation plan and operational budget that might in the foreseeable future be considered sufficiently strong for inclusion. Indeed, the trend seemed to be for a reduction in the list of countries to be included; however, the matter was reviewed each quarter, and December would provide an opportunity to look at the payments situation and see whether it was well reflected in the list of countries whose currencies could be used in Fund transactions. The staff was of course careful not to put weak currencies into the operational budget and designation plan, since such an approach could result in the member drawing its reserve tranche back again or using its SDRs in a revolving fashion.

With respect to the request for a status report on the staff paper concerning the General Arrangements to Borrow, the Deputy Treasurer noted that the staff was in the process of preparing a draft. It had been felt that it might be useful to incorporate in that paper the views of the Executive Board that would be expressed at the November 19 discussion of existing arrangements to deal with major strains in the international financial system. It would not be difficult to issue the paper earlier if that was required, although it would certainly be ready before the Group of Ten Deputies meeting in December.

Regarding the suggestion that the staff should present a single estimate, rather than two estimates, for Fund members with quotas above and below SDR 800 million, the Deputy Treasurer remarked that thought had been given to such a change. However, it had been considered rather important not to break the series of estimates that the staff had been providing for more than two years, particularly since there was far less information available on the intentions of those countries with quotas above SDR 800 million than for those with quotas below that amount. Until August 1982, the staff had given no indication of the intentions of countries with quotas above SDR 800 million and would not have done so even in the current paper, except that discussions with Mexico and Argentina were currently under way. Generally speaking, it was difficult to estimate use of Fund resources by larger countries, and the staff felt that it would be preferable to separate those countries and to indicate only that there was a notional amount of SDR 10 billion that might be drawn upon and that would have to be financed. Still, if the Executive Board determined that it would be more useful to have a combined estimate of arrangements covering both large and small countries, the approach would be given further

consideration in consultation with management. It should be noted that no distinction between large and small countries was made with respect to the estimates for drawings under the compensatory financing facility.

On Mr. Laske's suggestion for a ten-year liquidity forecast, the Deputy Treasurer commented that an attempt to produce such an estimate could be made on the supply side, as had been done in the paper on the size of the fund. However, to forecast demand for Fund credit over a ten-year period would be quite difficult because of the extrapolations required, and, more important, the estimates could be misleading.

In response to a question by Mr. Joyce, the Deputy Treasurer observed that the SDR 10 billion estimate was a global forecast based on overall Fund assumptions about what financing might be needed, taking account of the size of members' current account deficits; it was not in any way a reflection of the intentions of larger countries to use Fund resources.

Most of the questions on borrowing by the Fund had focused on the indication by the staff that "other forms" of official borrowing would be sought, the Deputy Treasurer noted. As Executive Directors would recall, the staff had earlier presented proposals for consideration by the Board on the possibility of the Fund selling paper to the entire membership rather than borrowing from individual members based on distinctions in the strength of their balance of payments and reserve positions. Given the need once again to undertake discussions on financing and borrowing, the staff had felt that the Board might perhaps review those proposals at the same time it was looking into discussions on official borrowing from particular member countries. In the paper on borrowing produced in April 1981, the staff had also discussed in very general terms Fund borrowing from the private market, and had put forward two types of borrowing for Board reflection. The first was a line of credit by commercial banks, and the second was the possibility of issuing SDR-denominated paper. The staff was keeping up to date on contingency plans for various types of borrowing on the chance that they might be needed.

Mr. Laske remarked that he was well aware of the speculative nature of a long-term liquidity forecast that took into account future requests for Fund assistance, and he recognized that such a forecast would probably not serve a useful purpose. However, his authorities would be very much interested in a liquidity forecast on the supply side of the sort produced in the paper on the size of the Fund. On another matter, given the Deputy Treasurer's suggestion that a global forecast had been employed for FY 1983/84 for requests from countries with quotas above SDR 800 million, he wondered what percentage of the projected current account deficits had been used to determine the amount that might be requested.

The Deputy Treasurer replied that the SDR 10 billion contingency use by members with large quotas had been determined on the basis of a proportion of the current account deficits of those members, although the percentage as such would not have much meaning. The Chairman had best described the situation in qualitative terms on a previous occasion by

suggesting that the entire amount of the then SDR 15 billion could be used if only one large Latin American country, one small European country, and one Asian country were to come to the Executive Board for borrowing.

The Chairman said that, before summing up the main elements of the discussion, he wished to comment on the impression held by some Directors that there had been a deliberate shift by management away from three-year extended arrangements toward one-year stand-by programs. The evolution of the Fund's lending practices had in fact been based on very clear guidance provided by the Executive Board.

In 1980 and early 1981, the Board had approved a number of stand-by arrangements in the upper credit tranches--the bulk of them related to three-year adjustment programs--which had led to large Fund commitments, the Chairman continued. Shortly thereafter, the Executive Board had reviewed the implementation of policy regarding the extended Fund facility and had given support to the staff's suggestion that "the distinctive features of the extended Fund facility could be maintained by emphasizing the medium-term character of programs and the provisions of the 1974 decision that call for the implementation of measures to mobilize resources and improve the utilization of them, and to reduce reliance on external restrictions." The structural content of extended arrangements had also been strongly underlined on that occasion.

Staff and management had relied on that guidance in considering subsequent requests for extended arrangements, in each case looking very carefully at the proposals in light of the review of the basic principles of the extended Fund facility decision, the Chairman remarked. For instance, in the case of India, where some questions had initially been raised, the staff had reviewed the specific features of the Indian program as they related to all the provisions of the extended Fund facility decision; and, because the program for India had complied with the basic principles of the decision, the Executive Board had approved the proposal. A similar and consistent approach had been adopted in all other cases, including those currently under active discussion. Hence, as far as policy was concerned, there had been no intention to shift away from three-year extended arrangements; when programs met all the provisions of the decision and contained the appropriate structural adjustment elements, extended arrangements were proposed.

In September 1981, the Board had reviewed a staff paper on general issues relating to conditionality, the Chairman noted. On that occasion, Executive Directors had stressed strongly that "to remain credible in its endorsement of adjustment programs, the Fund should approve waivers and modifications of performance criteria in stand-by arrangements or extended arrangements only when the basic thrust of the program remains unchanged and where the deviations from initial targets are not very substantial." That view had to be seen against the background of events in 1981, when the deflationary effects of the second oil shock and all related phenomena had been exerting pressure on members' economies. It had happened that a number of extended arrangements or multiyear stand-by arrangements--which

had been approved in 1980 and early 1981--had been getting off track because some of the basic targets for balance of payments, export unit values, and market situations for the exports of the countries in question had been overtaken by events. The views expressed by the Board at that time on waivers and modifications--and, subsequently, on some particular occasions on which requests for waivers or modifications had nonetheless been presented to the Board--had provided guidance to the staff and to the management in dealing with a very difficult and fundamental policy problem.

In practice, the situation faced in 1981 had been one in which a number of extended arrangements--which had appeared to be consistent with the basic principles when they had been approved--had faced serious difficulties because the major assumptions behind them had collapsed, the Chairman commented. Moreover, there had been no way in which those arrangements could have been repaired through modifications or waivers unless they had been of substantial magnitude, which would have been inconsistent with the guidance on waivers and modifications. In the circumstances, the only alternative had been to cancel the three-year adjustment programs and replace them with one-year programs. That was why--given the Board's guidance on the importance of limiting extended Fund facility arrangements to countries that were able to undertake substantive structural changes, together with the admonition against waivers and modifications when there were substantial deviations from initial targets--there had been a perceived shift away from extended arrangements toward one-year stand-by arrangements.

Management had always supported and continued to support three-year programs involving as much as 150 per cent of quota in annual access in all the specific cases in which it could be shown that the authorities had undertaken a substantial effort to achieve medium-term balance of payments viability, and where it could be expected with a reasonable degree of confidence that a sufficiently comprehensive approach to the necessary adjustment would be completed within the confines of a three-year program, the Chairman stated. As mentioned in the quota paper (EB/CQuota/82/9) recently distributed, there might be some cases in which the balance of payments need--if one took into account ongoing flows from other official sources together with commercial financing--was relatively limited, and the country did not require the full 150 per cent in terms of quota. He had always been clear in his view that access to the Fund's resources up to 150 per cent of quota was not an automatic right; it was a maximum allowed when circumstances warranted. If other sources of financing were available and staff and management felt that the needs of the country did not call for access up to the full 150 per cent of quota, the full amount was not proposed. In order to see the degree of flexibility that had been exercised in those matters, Directors should perhaps look at the request from Thailand, which would be discussed in November. Thailand had made a strong adjustment effort, and the staff and management were proposing an amount equivalent to 100 per cent of quota, taking into account the financing that was likely from normal commercial sources.

There was a third group of countries for which the best course of action had often been to proceed with a series of one-year stand-by arrangements, the Chairman noted. Those countries obviously did need medium-term adjustment, but it was difficult to propose an extended arrangement for them because they did not have the type of programming structure that could justify such an arrangement. In such cases, however, it might be important to keep the relationship with the Fund alive--perhaps with yearly access of 75-100 per cent of quota--in order to retain some margin for possible future assistance after three years of one-year adjustment programs, especially when it was known that those countries would continue to have difficulties after three years.

The Chairman then made the following summing up in concluding the discussion:

All Executive Directors stressed the quality of the paper (EBS/82/180) and welcomed the shift from global estimates to country-by-country estimates, with probability coefficients through April 1985. On the whole, Directors found the projections in the paper to be reasonable, providing a plausible and comprehensive picture of the Fund's liquidity position and financial needs in the period covered by the exercise.

The conclusions to be derived from the paper and the discussion are twofold.

For the short run, Directors noted first that, according to staff estimates, the uncommitted lines of credit arranged by the Fund could be exhausted by March 1983. This indication led Directors to urge management to make all possible efforts to arrange further lines of credit with official lenders. In this context, they underlined the importance of the discussions to be held in the near future with SAMA. I also noted with interest the advice of those who urged management to seek other sources of official borrowing; management will keep their advice in mind when discussing such possibilities with monetary authorities. If official borrowing should turn out to be insufficient, Directors said, the management would have to take all necessary steps to explore the potential of private markets. We will therefore continue to review the matter of borrowing with great care, so as not to be taken by surprise if and when the need arises; but no immediate steps toward commercial borrowing are contemplated.

The second conclusion is more fundamental. All Executive Directors supported the view advanced in earlier papers that the overall liquidity position of the Fund will come under considerable pressure by the early part of 1984, and that this pressure will continue thereafter. Thus, all Directors made it clear that the quota increase under the Eighth General Review should be in effect as soon as possible. They also wished to begin

discussion as soon as feasible on the adequacy of existing arrangements and on the idea of an additional arrangement put forward by the United States.

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/82/138 (10/29/82) and EBM/82/139 (10/29/82).

2. MAURITIUS - TECHNICAL ASSISTANCE

In response to a request by Mauritius for technical assistance the Executive Board approves the proposal set forth in EBD/82/263 (10/25/82).

Approved October 29, 1982

APPROVED: April 1, 1983

LEO VAN HOUTVEN  
Secretary