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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 82/162

3:00 p.m., December 17, 1982

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

Executive Directors

J. Anson

B. de Maulde
A. Donoso
R. D. Erb
M. Finaish
A. H. Habib
T. Hirao
R. K. Joyce

G. Lovato
R. N. Malhotra
Y. A. Nimatallah
J. J. Polak

G. Salehkhoul

M. A. Senior
J. Sigurdsson
Zhang Z.

Alternate Executive Directors

A. B. Diao, Temporary

L. E. J. Coene, Temporary
A. Le Lorier
M. Teixeira
C. Dallara

Jaafar A.
T. Yamashita

J. R. N. Almeida, Temporary
G. Grosche
C. P. Caranicas
A. S. Jayawardena
J. E. Suraisry
T. de Vries
K. G. Morrell
O. Kabbaj
J. A. K. Munthali, Temporary

Wang E.

L. Van Houtven, Secretary
J. A. Kay, Assistant

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Also Present

African Department: F. d'A. Collings. European Department: A. Leipold.
External Relations Department: C. S. Gardner, Deputy Director. Legal
Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy
General Counsel; G. F. Rea, Deputy General Counsel; R. C. Effros,
Ph. Lachman, A. O. Liuksila, S. A. Silard. Middle Eastern Department:
G. Tomasson. Research Department: W. C. Hood, Economic Counsellor and
Director; R. R. Rhomberg, Deputy Director. Secretary's Department:
A. P. Bhagwat. Treasurer's Department: W. O. Habermeyer, Counsellor
and Treasurer; D. Williams, Deputy Treasurer; D. S. Cutler, T. M. Tran,
G. Wittich, P. K. Woolley. Personal Assistant to the Managing Director:
N. Carter. Advisors to Executive Directors: S. R. Abiad, C. J. Batliwalla,
S. El-Khoury, H.-S. Lee, I. R. Panday, P. D. Pérez. Assistants to
Executive Directors: E. M. Ainley, H. Alaoui-Abdallaoui, H. Arias,
L. Barbone, R. Bernardo, T. A. Connors, R. J. J. Costa, G. Gomel,
J. M. Jones, M. J. Kooymans, P. Leeahtam, V. K. S. Nair, Y. Okubo,
J. G. Pedersen, G. W. K. Pickering, E. Portas, M. Z. M. Qureshi, J. Reddy,
J. Schuijjer, H. Suzuki, Zhang X.

1. GENERAL ARRANGEMENTS TO BORROW (GAB) - POSSIBLE REVISION AND ENLARGEMENT

The Executive Directors resumed from the previous meeting (EBM/82/161, 12/17/82) their consideration of a paper containing a communication from the Chairman of the Deputies of the Group of Ten on the principal conclusions reached by the G-10 Deputies at their meeting of December 10, 1982 (EBS/82/232, 12/13/82). They also had before them a paper entitled "General Arrangements to Borrow - Structure and Basic Features" (SM/82/217, 11/17/82).

Mr. Lovato remarked that the discussion at EBM/82/161 had shown how appropriate it was to hold a Board meeting on possible changes in the General Arrangements to Borrow, when the matter had still not yet been decided by the participants. Many of the observations that had been made would be of great value to the Deputies of the Group of Ten in their next meeting. The summing up by the Chairman of the Group of Ten Deputies (EBS/82/232) showed that there was a substantial convergence of views on the main principles underlying any revision of the General Arrangements to Borrow.

Despite all the questions that remained, Mr. Lovato continued, it seemed clear that the enlargement of the General Arrangements, together with their extension to nonparticipants, would provide the Fund with an additional volume of resources that would help it to cope with exceptional situations. Taken in tandem with the expansion of the Fund's ordinary resources as a result of the Eighth General Review of Quotas, which his authorities continued to consider the single most important task at the present time, an enlarged General Arrangements to Borrow in the neighborhood of SDR 20 billion would provide the Fund with the resources to enable it to function effectively in particular circumstances in the future.

A number of speakers had inquired how the Group of Ten intended to define a situation "likely to impair the international monetary system," Mr. Lovato noted. Others had inquired whether the Managing Director should have a list of countries falling into the definition already at hand when proposing the activation of the General Arrangements to Borrow, or whether an emergency might be declared without specifying particular countries, in the light of the Fund's liquidity and the general economic environment. The Group of Ten would have to consider that point in the future. His own authorities would favor a rather broad criterion that would enable the Fund to operate as effectively as possible.

Finally, speaking personally, Mr. Lovato stated that, having heard the Director of the Legal Department on the role of Switzerland, he would like to hear other Executive Directors state their position on whether the review of the General Arrangements to Borrow could be used better to define the position of other countries wishing to lend to the Fund on a similar basis. A parallel arrangement giving other countries the same possibilities of access as the current participants would certainly be of benefit to the whole membership. Without commenting on the more technical issues, it seemed to him that an enlarged General Arrangements

to Borrow would increase the resources available to the Fund and would thus be a guarantee that any serious adjustment program would be supported by sufficient financial assistance. Nevertheless, his authorities still believed that a substantial increase in quotas would be the most useful outcome of the present discussion, as well as an important step in restoring confidence to the international financial community. Meanwhile, in view of the difficulty of reaching agreement on a substantial increase in quotas, an enlargement of the General Arrangements to Borrow could be a satisfactory stopgap.

Mr. de Maulde remarked that the thinking of the French authorities was very much in line with that of the Managing Director, as expressed in his summing up of the Executive Board meeting on November 19, 1982 (EBM/82/151). First, the Managing Director had emphasized that any revision of the General Arrangements to Borrow should not delay or impair the quota review exercise. His authorities were in complete agreement, especially as there would be a difference in kind between the resources that would become available to the Fund as a result of the Eighth General Review of Quotas and those that might be provided to it under a revision of the General Arrangements to Borrow. Work on the Eighth General Review should therefore continue to have the highest priority. Naturally, his position did not imply that efforts should not be made in parallel to revise the General Arrangements to Borrow. In the circumstances, paragraph 9 of the conclusions of the G-10 Deputies was rather ambiguous in stating that "it was understood that the revision of the GAB along the lines indicated above was contingent upon reaching satisfactory agreement on the other issues relating to the Eighth Quota Review." His authorities did not feel that the Fund should wait for a resolution of those "other issues" before tackling the various points relating to a revision of the General Arrangements to Borrow. On the contrary, their view was that the Executive Board should make every effort to overcome all the technical and legal aspects of the revision as a way of helping the participants in the General Arrangements to reach an early decision.

Second, Mr. de Maulde went on, the Managing Director had commented that any revision of the General Arrangements to Borrow should avoid involving discrimination of the treatment of member countries, in conditionality, access, or use of Fund resources. His authorities understood paragraph 4 of the conclusion of the G-10 Deputies as being consistent with that objective. Some improvement in the wording of paragraph 4(i) and 4(ii) might be required, and his authorities stood ready to review the paragraph, if necessary, to avoid any ambiguity. Furthermore, the last sentence of paragraph 4 should not be interpreted as setting aside a certain volume of resources for the exclusive benefit of participants. In the view of his authorities, the sentence was simply a recognition that the balance between available resources and potential calls for their use under the General Arrangements would have to be kept under permanent review. The Treasurer's replies to Mr. Prowse on that point seemed perfectly adequate. Similarly, his authorities felt it only logical that any parallel lenders should have the same access to GAB resources as participants. They understood that active discussions were

under way between the authorities of the countries concerned on that point. Finally, the Managing Director had observed that decisions on the use of resources from the new General Arrangements should be channeled through the Fund. His authorities entirely supported that view, which appeared to be correctly reflected in the second part of paragraph 4 of the conclusions of the G-10 Deputies.

Taking up some more specific points in EBS/82/232, Mr. de Maulde remarked that his authorities had an open mind regarding the size of the enlarged General Arrangements, provided that the outcome was within the range mentioned in paragraph 2. They would have no difficulty in agreeing that the credit commitment should be denominated in SDRs. Second, his authorities agreed that the credit commitments of individual participants should be based on simple and objective criteria, such as GNP, reserves, and calculated quotas, in order to facilitate early agreement. Third, regarding the maturity of credit extended under the enlarged General Arrangements, the Deputies remained silent on the precise meaning of the expression "conditional financing" in paragraph 4(i). His authorities took it to cover both stand-by arrangements and extended arrangements. They felt strongly that the maturity of purchases from the Fund should not be constrained by the maturity of the loans to the Fund by the participants in the General Arrangements.

Fourth, Mr. de Maulde explained, for the sake of reaching agreement, his authorities could accept the provisions of paragraph 5 of EBS/82/232 regarding the rate of interest. The choice of a market-related interest rate for the use of resources from an enlarged General Arrangements was entirely separate from the Fund's policy regarding the rate of charge for the use of its ordinary resources. The latter should continue to reflect the cooperative nature of the Fund, while the interest rate under the revised General Arrangements would only follow the example of other borrowing arrangements. Technically, it might be useful to mention explicitly the rate equal to 100 per cent of the combined market rate used to determine the SDR interest rate. Finally, the provision for the next review of the expanded General Arrangements in paragraph 7 seemed reasonable. It would not have been sensible to have kept to the present review schedule, which would have implied a review in October 1984, shortly after the revised arrangements had come into effect.

In brief, Mr. de Maulde concluded, his authorities were prepared to participate in an enlarged General Arrangements to Borrow, even though they regarded it as less satisfactory than a more substantial increase in quotas. They considered the observance of the principles that he had announced to be essential. For practical reasons, they were prepared to keep the amendments to the present General Arrangements to a minimum. Finally, for the sake of expediency, they would favor an early meeting of the Executive Board to consider the draft text of an enlarged General Arrangements, to be prepared by the Legal Department of the Fund.

Mr. Sigurdsson commented that, like Mr. de Maulde, he considered the Managing Director's summing up of the discussion on November 19, 1982 (EBM/82/151) to be an excellent statement of the approach to an expansion of the General Arrangements to Borrow.

Taking up the conclusions reached by the G-10 Deputies as set out in EBS/82/232, Mr. Sigurdsson said that his authorities believed that the General Arrangements to Borrow should be reviewed as a supplement to Fund resources, only to be used in exceptional circumstances. The proposal to extend the General Arrangements did not alter the position of his authorities regarding quotas, meaning that they still believed that the overall size of the Fund's quotas should be increased to between SDR 100 billion and SDR 125 billion. The increase in quotas should be the primary source of additional resources for the Fund. Second, it had previously proved difficult to enlarge the General Arrangements to Borrow, which, with one exception, had remained unchanged since 1962. It therefore seemed reasonable to take the opportunity to aim at a rather large increase to, say, SDR 20 billion. However, in choosing methods of strengthening the Fund, his authorities would prefer a larger increase in quotas and a relatively small increase in the General Arrangements, rather than the reverse. While on the topic of the size of the General Arrangements, it would be helpful to hear the staff comment on how an enlarged General Arrangements would fit into the Guidelines on Borrowing by the Fund (EBS/81/227, Sup. 2, 1/14/82).

Third, his authorities wished to emphasize that the Group of Ten should not itself undertake the examination of individual adjustment programs involving the use of the General Arrangements by nonparticipants, Mr. Sigurdsson stressed. That was the business of the Fund and of the Executive Board, as the Managing Director had mentioned on November 19, 1982. Fourth, his authorities could support the principle that consideration should be given to the possible needs of participants to use the General Arrangements when they were activated for the benefit of nonparticipants. The procedure for ensuring the availability of resources should be applied flexibly, without setting quantitative limits on the use of the General Arrangements by different countries or groups of countries. Fifth, his authorities supported an increase in the interest rate on the use of the General Arrangements up to the level of interest earned by SDRs.

Sixth, Mr. Sigurdsson remarked that, to strengthen still further the Fund's resources, it seemed desirable to set up parallel arrangements with Fund members outside the Group of Ten, particularly with countries in a strong balance of payments position. Countries entering into such arrangements should of course have access to the General Arrangements to Borrow on the same terms as participants. It would be interesting to hear comments on the decision-making process to be employed in cases when the General Arrangements to Borrow and parallel arrangements were to be activated jointly or simultaneously. Some clarification seemed to be called for regarding the role that countries with parallel arrangements would play compared with the role of GAB participants in the activation of parallel arrangements and vice versa. For instance, it would be valuable to know whether it was envisaged that parallel lenders would have a direct part in the decision-making process, regardless of the general rules. It might well be that the size of a parallel contribution and the willingness to take part would depend on the role foreseen for parallel lenders in the decision-making process in connection with activation.

The review clause in paragraph 7 seemed quite straightforward, Mr. Sigurdsson commented. The question of the duration of the Fund's access to the expanded General Arrangements to Borrow as a means of financing the balance of payments needs of nonparticipants should however also be covered more specifically in paragraph 7. It was important to make it clear that, at the time of the Ninth General Review of Quotas, the General Arrangements to Borrow would be reviewed, but that they would not lapse. Some assurance that the General Arrangements would continue in existence beyond the Ninth General Review of Quotas would tend to give confidence to the members, as required by the Articles of Agreement.

Mr. Habib stated that he welcomed the intention to enlarge the Fund's resources by expanding the General Arrangements to Borrow. His understanding of the conclusions attached to EBS/82/232 was that the document was only explanatory and that it did not represent a final accord by the Deputies of the Group of Ten, although Mr. Dini's note implied that some kind of agreement had been reached. He had been rather confused by the report in the Financial Times of London dated December 13, 1982 quoting Mr. Donald Regan, Secretary of the Treasury of the United States, as saying that agreement had yet to be reached on the question of additional resources for the General Arrangements to Borrow. Mr. Regan appeared to have said that his G-5 Ministerial colleagues had listened to him cautiously but with interest, adding that there was no agreement among the Group of Five either on expanding IMF resources or on adding resources to the General Arrangements to Borrow. If that was true, the conclusions attached to EBS/82/232 might have little value as a basis for discussion.

Regarding the proposals themselves, Mr. Habib noted, the proposals to enlarge the General Arrangements to Borrow were contingent upon reaching satisfactory agreement on the other issues relating to the Eighth Quota Review. If the proposal to enlarge the General Arrangements was being put forward as a compromise involving a smaller increase in quotas, his chair would have considerable difficulty in accepting it. It was the view of his authorities that the General Arrangements were only a supplement to the Fund's ordinary resources, and that the proposed increase in the size was no substitute for a substantial increase in Fund quotas, strongly recommended by the Interim Committee. He was glad to note that paragraph 1 of the conclusions seemed to reflect the same position.

With reference to paragraphs 4(i) and 4(ii) of the conclusions, Mr. Habib stated, it was not clear whether it was the Group of Ten or the International Monetary Fund that would have the ultimate authority to decide whether or not the two conditions were met. His chair would prefer to see the Fund invested with the right to determine whether or not the conditions for the activation of the General Arrangements to Borrow in connection with drawings on the Fund by nonparticipants were met.

The conclusions of the Group of Ten Deputies discriminated against groups of less developed countries and went against the Fund's principle of uniform treatment of members, Mr. Habib considered. For instance, a nonparticipant in the General Arrangements to Borrow might, through no

fault of its own, find itself in a position where it would have to accept from the Fund resources that the Fund had obtained from the General Arrangements to Borrow at market-related rates, when other members could draw on the Fund at more favorable rates. Another possible form of discrimination might be that it was not yet quite clear whether requests by a group of countries, rather than by an individual member, for drawings on the Fund could activate the General Arrangements on the grounds that requests by a group of countries could pose a threat to the stability of the international monetary system. He would like to have some clarification on that point.

Moreover, as the charges for the use of funds provided through the General Arrangements to Borrow were market related, Mr. Habib continued, there would be no incentive for less developed countries to use the resources provided by the General Arrangements, which would usually mean adopting a Fund adjustment program as well. The less developed countries might be better off borrowing in the market.

In conclusion, Mr. Habib stated, his chair would welcome a decision to enlarge the General Arrangements to Borrow. However, the conclusions of the Group of Ten Deputies were imprecise in many respects, and the conditions were rather severe. He would therefore like to reserve his position pending further clarification. In any event, the proposals by the Group of Ten Deputies should not be seen as a trade-off against a substantial increase in quotas. On a slightly different point, on the previous occasion when the staff had produced a paper on the size of the Fund, it had recommended that the Fund's total quotas should be doubled as a minimum, if the Fund's liquidity needs were to be covered up to mid-1984. Recent developments indicated that the world economic situation had deteriorated and that less developed countries were facing a critical situation, in that many of them were having great difficulties in meeting their debt obligations. In the circumstances, even a doubling of quotas might prove inadequate. He urged members of the Group of Ten to reach an early decision on that matter.

Mr. Hirao stated that he welcomed the opportunity to discuss the revision and enlargement of the General Arrangements to Borrow, and that he was grateful to Mr. Dini for drafting the conclusions of the G-10 Deputies' meeting on December 10, 1982.

As had been stressed by the Interim Committee, and by members of the Executive Board, quotas should continue to be the primary source of resources for the Fund, Mr. Hirao stated. It was essential that the Eighth General Review should lead to a substantial increase in quotas, to enable the Fund to play an effective role with its own resources. Nevertheless, it would be useful to consider a borrowing arrangement that could help the Fund to deal with extraordinary situations that might pose a threat to the stability of the international monetary system.

Taking up a number of specific points regarding the conclusions set out in EBS/82/232, Mr. Hirao commented that the size of the General

Arrangements to Borrow was related to the outcome of the Eighth General Review of Quotas. The suggested total size of SDR 15-20 billion for the General Arrangements should be considered a maximum, because quotas should continue to be the primary source of the Fund's resources. In paragraph 3, it would be appropriate to determine the credit commitments of individual participants on the basis of the new quota shares resulting from the Eighth General Review, which should serve as a basis for members' contributions to the Fund's resources. As for paragraph 5, he endorsed the idea that the credit extended to the Fund under the General Arrangements to Borrow should yield interest at a rate determined broadly on the basis of the SDR interest rate or the combined market rate of five-year government securities of the five currencies, depending upon maturity and other considerations. Such an arrangement would greatly facilitate the extension of credit by the participants.

Mr. Almeida stated that the position of his chair had not changed. It had always opposed any discriminatory arrangement.

Mr. Polak remarked that Mr. Dini and the members of the Group of Ten Deputies had performed an outstanding task in preparing the conclusions set out in EBS/82/232. At EBM/82/151, he had feared that drawings by non-participants could lead to discrimination among them. He was very pleased to find in paragraph 4 the sentence that stated that consultation among the participants would not extend to the examination of specific programs for the use of Fund resources; in that respect the new arrangement differed from the treatment that the General Arrangements to Borrow provided for participants.

With respect to paragraph 4 of the conclusions, Mr. Polak commented that he supposed that the second sentence of paragraph 1 "The broad purpose of the GAB would remain to supplement the IMF's resources, if needed to forestall or cope with an impairment of the international monetary system" would govern the language of paragraph 4(ii), which provided that the revised GAB could be activated to finance purchases by nonparticipants if the Fund were faced with an inadequacy of resources, and if that inadequacy arose from exceptional situations associated with requests from countries with balance of payments problems of a character or of an aggregate size that could pose a threat to the stability of the international monetary system. Experience showed that the words quoted had been interpreted rather broadly in the case of drawings on the Fund by GAB participants. Perhaps the same broad flexibility would be available when it came to drawings by nonparticipants.

With respect to the language governing the interest rate contained in paragraph 5 of the conclusions, Mr. Polak inquired whether the intended meaning was that "credit extended to the Fund under the General Arrangements to Borrow would earn interest at the SDR interest rate." If not, he wondered what the difference between the language he had just suggested and the language contained in paragraph 5 might actually be. Finally, he would welcome the earliest possible draft by the staff of the amendment to the General Arrangements to Borrow that would be needed to bring the conclusions of the Group of Ten Deputies into effect.

The Treasurer remarked that the language of paragraph 5 of the G-10 Deputies' conclusion meant exactly what was written. A rate equal to 100 per cent of the combined market rate used to determine the SDR interest rate would not necessarily be identical on every occasion to the SDR interest rate. The SDR interest rate might differ from 100 per cent. The GAB participants had wished to be certain that they would receive 100 per cent of the combined market rate at all times, irrespective of decisions that the Executive Board might take regarding the SDR interest rate.

Mr. Zhang noted that the express purpose of revising and enlarging the General Arrangements to Borrow would be to supplement the Fund's resources. From the standpoint of the Fund, however, the operations would tend to be limited in four ways. First, the enlarged General Arrangements to Borrow would in essence be an emergency fund, intended to forestall or cope with an impairment of the international monetary system. It would be used primarily to assist larger countries facing serious liquidity crises. It was not clear to what extent or in what circumstances the enlarged General Arrangements could be relied upon by the Fund to meet requests for conditional financing by smaller countries with all types of balance of payments difficulties. Second, since the participants in the General Arrangements were not legally obliged to make loans, the Fund could not be certain of the availability of credit from that source in all circumstances. Nor was it clear whether some implicit lending conditions might not be imposed in individual cases, although the participants did not intend to examine programs submitted for the use of Fund resources. Third, credit extended by the participants to the Fund would be charged the market rate, a fundamental change from existing practices. Fourth, the most serious limitation was the fact that the decision-making process for approval and use of credit under the General Arrangements to Borrow would lie outside the Executive Board. The Executive Directors would not be in full control of a GAB credit, as they were of the use of other borrowed resources.

Taking all those considerations into account, Mr. Zhang went on, the enlarged General Arrangements to Borrow would not be the most desirable way of supplementing the Fund's resources. He still maintained that the more logical way of increasing the Fund's resources would be to bring about a larger increase in the size of overall quotas. The major countries could agree to doubling the present Fund quotas, but there might be no need for any action on the General Arrangements to Borrow. As an alternative, the Fund could continue to borrow directly from central banks even after the new quotas came into effect. It was most important that the Fund should have direct and full control of the use of its borrowed resources, and that the decision-making process should rest entirely within the Executive Board. Finally, to enlarge the General Arrangements as a trade-off against larger quotas might reflect an attempt by some countries to tighten their control of the Fund's financing operations.

Mr. Joyce welcomed the present discussion, particularly on behalf of his Irish and Caribbean members, which, like many others, had not had

the opportunity to participate in earlier discussions among the Group of Ten. He also welcomed it on behalf of his Canadian authorities, who had been present at the G-10 meeting. His remarks would reflect the Canadian viewpoint.

The Canadian authorities had not been convinced of the advisability of expanding the General Arrangements to Borrow, Mr. Joyce explained. Nevertheless, they had eventually come to the view that the proposed expansion of the General Arrangements could be carried out in such a way as to meet most of the objections that had been raised in the course of the discussions. The present meeting was most opportune because, although there was a measure of agreement and understanding among the participants of the Group of Ten, not every issue had in fact been decided. Moreover, on other issues, Executive Directors who had not been present would be able to raise questions and to express views that could be taken into account before the conclusions were finally spelled out.

Like others, the Canadian authorities agreed that quotas should remain the principal source of IMF resources, Mr. Joyce explained. Also like others, they would still opt for a quota increase bringing total Fund resources to at least SDR 100 billion. He had great sympathy with the view expressed by Mr. Zhang that it might indeed have been better to have had an even larger quota increase. But, if such an outcome was really beyond reach, an enlargement of the General Arrangements to Borrow together with an increase in quotas to raise the Fund's owned resources SDR 100 billion would be a reasonable solution. Naturally, the purpose of the General Arrangements should remain that of supplementing the Fund's resources, and he would particularly support Mr. Polak's remarks in that respect. His authorities wished to incorporate the legislative history of the General Arrangements to Borrow into its future functioning, particularly with respect to the interpretation of the words "impairment of the international monetary system."

As SM/82/232 explained, there was as yet no agreement on the future size of the General Arrangements to Borrow, Mr. Joyce noted. It was tempting to say that it would be preferable if the General Arrangements could be increased to SDR 20 billion; but he would not opt for SDR 20 billion if so doing implied that the accompanying quota increase might be smaller than it could otherwise be. The proper procedure would be to decide on the size of the quota increase and then take a decision on the size of the General Arrangements to Borrow. With those provisos, he had no difficulty with expanding the General Arrangements to Borrow to SDR 15-20 billion. Nor did he have any difficulty with the participants' shares in the arrangement being appropriately adjusted in accordance with some sort of objective criterion.

Regarding the conditions or procedures for activation, Mr. Joyce remarked that it had always been the view of the Canadian authorities that activation of the revised General Arrangements would not depend solely upon a request from a single country being large enough to pose a threat to the international monetary system. The system could be threatened as

a result of a combination of circumstances in which, for instance, several countries might be involved, no one of which individually could pose a threat to the stability of the system.

Regarding the provision in paragraph 4(i) that the requests from Fund members for resources should be for conditional financing, Mr. Joyce remarked that Mr. Erb, speaking at EBM/82/161, had represented the thinking of the participants. If the purpose of the enlarged General Arrangements was to assist the Fund in facing an inadequacy of resources to deal with a given emergency, the General Arrangements should be activated, at least for nonparticipants, only when conditional financing was involved. It was unlikely that they would be triggered in any other circumstances.

While the participants were bound to consult among themselves, Mr. Joyce said, the Executive Board of the Fund would be the forum in which decisions were taken regarding the need for financing from the Fund, the amount of financing required, or the basis upon which that financing would be provided. If, when a decision was made that a member did need financial assistance from the Fund, the Fund did not have the resources available, and the participants in the General Arrangements were not prepared to put their resources at the disposal of the Fund, then the Fund would have to seek resources elsewhere. However, that was a bridge that could be crossed if the Fund ever came to it.

Regarding the rate of interest that would be carried by the resources made available to the Fund by the participants in the General Arrangements, while there were a number of problems to be ironed out, Mr. Joyce remarked that he would have no difficulty with the principle that the interest rate should be equal to 100 per cent of the combined market rate used to determine the SDR interest rate.

While the discussion at EBM/82/161 had clarified the position of parallel lenders, Mr. Joyce remarked, it would be helpful to Executive Directors to hear rather more from potential parallel lenders regarding their association with an enlarged General Arrangements to Borrow. The example of Switzerland might not be entirely appropriate in all circumstances. Some flexibility was certainly needed, but discussion with potential parallel lenders should take place as rapidly as possible.

The language in paragraph 7 regarding a review at the time of the Ninth General Review of Quotas, Mr. Joyce observed, seemed to him quite straightforward. While some of Mr. Anson's words at EBM/82/161 had been rather alarming, he understood that Mr. Anson had not been saying that at the time of the review there would necessarily be a decision to end the expanded arrangements. Clearly, any decision of the sort would have to be taken at the time of the review; the leaning of the Canadian authorities would probably be toward a continuation of the arrangement, assuming that it had been working successfully, even though at the moment of the review no immediate calls might appear to be placed upon it. After all, the General Arrangements were an emergency facility, and the Canadian authorities would probably feel that it should be kept in existence if there was any prospect that it might be required at some time in the future.

On the topic of procedure, Mr. Joyce remarked that the Director of the Legal Department had been very helpful. All participants wished to bring the enlarged General Arrangements into existence as quickly as possible; the important thing was to find the most appropriate way of doing so. He agreed with the sentence in paragraph 9 of the conclusions, to the effect that the revision of the General Arrangements to Borrow would be contingent upon reaching satisfactory agreement on the other issues relating to the Eighth Quota Review. Naturally, the Eighth Review should not be delayed, even if satisfactory agreement could not be reached on enlarging the General Arrangements to Borrow. Priority remained with the Eighth Quota Review.

Mr. Nimatallah inquired how Mr. Joyce saw the relationship between the language of paragraph 1 of the conclusions, namely, "to supplement the IMF's resources, if needed to forestall or cope with an impairment of the international monetary system," and the language in paragraph 4(ii) to the effect that the revised GAB could be activated to finance purchases if the Fund were faced with an inadequacy of resources and if the inadequacy arose from an exceptional situation that could pose a threat to the stability of the international monetary system.

Mr. Joyce explained that he was not in fact trying to relate the two paragraphs. The purpose of enlarging the General Arrangements to Borrow was to cope with circumstances that could arise if there were a threat to the international system as a whole. Both he and Mr. Polak had been trying to say that that language should not be interpreted too rigidly. His idea was that the enlarged General Arrangements should be activated if a situation arose that was clearly going to be damaging to the system for whatever reason. The legislative history would bear him out in his attitude; it could not be said that, every time that the General Arrangements had been activated, the world had been on the edge of an international economic crisis. It had been sufficient to say that, if the needs of a given country had not been taken care of, the international financial situation would have been somewhat damaged, but not necessarily beyond repair.

Mr. Erb remarked that, while he understood Mr. Joyce's argument, it would be dangerous to interpret the language in paragraph 4(i) and 4(ii) too loosely; the purpose was to ensure that the resources of the General Arrangements to Borrow were kept available for use in periods of serious systemic stress. He could certainly not go so far as Mr. Polak in his attitude to the language of paragraph 4.

The Director of the Legal Department recalled that, in activating the General Arrangements to Borrow, the concept of impairment had been interpreted in a relatively flexible manner. The purpose of paragraph 4(ii) was to apply to purchases by nonparticipants, a concept similar in formulation to the one already extant for participants. His understanding of the two paragraphs together was that the Fund would exercise judgment, as it had in the past, in its attempt to forestall an impairment of the international monetary system. That judgment would be exercised in the

first instance by the Managing Director and in the final analysis by the Executive Board and the participants. When the General Arrangements to Borrow were activated in connection with purchases by nonparticipants, the Managing Director and the participants would try to apply the concept of a threat to the stability of the international monetary system, within the general purpose of forestalling or coping with an impairment of that system. While the Fund already had considerable experience in exercising judgment with respect to impairment of the international monetary system, it did not yet have practice in exercising judgment regarding a threat to the stability of the system as required in paragraph 4(ii).

Mr. Donoso remarked that his constituency had considerable doubts regarding certain fundamental aspects of the proposal to enlarge the General Arrangements to Borrow. It was important to make clear the difference between a 50 per cent increase in quotas together with an extension of the General Arrangements to Borrow, as opposed to a 100 per cent increase in quotas, which would also yield approximately SDR 30 billion of additional usable resources. In the first place, a 100 per cent increase in quotas would imply a larger volume of access by members to the Fund's resources in absolute terms, and it would provide a better basic balance between likely demand by members and the availability of resources when defining access limits. If some members objected to larger access in absolute terms--a view not shared by his chair--it would be easier to reduce access directly by acting on access limits instead of cutting back on the increase in quotas. He saw no advantage for countries in borrowing from the General Arrangements to Borrow through the Fund, if the implication was that countries would have to pay commercial rates of interest. A smaller increase in quotas together with an enlargement of the General Arrangements to Borrow, as opposed to a larger increase in quotas, reflected a tendency to reduce access for all countries to resources that would help them to deal with balance of payments difficulties, while establishing a reserve for contingency purposes.

The implications of the present proposal seemed rather complicated, Mr. Donoso went on. One implication might be that such a system would provide an implicit insurance for the operations of commercial banks in large countries that could potentially affect the normal functions of the international financial system. On the other hand, the insurance would be relatively weaker for operations with smaller countries. The outcome would be that commercial banks could concentrate their operations on larger countries, although they would not necessarily therefore act more cautiously. It did not seem likely that such an arrangement would provide more stability in the international financial system. Nor was it clear what effect the enlarged arrangements would have on small developing countries. If the access to Fund resources of developing countries were reduced, at least in relative terms, they were likely to turn toward increasing protectionism and to raising barriers to trade as a means of meeting their balance of payments difficulties. One of the basic reasons for the existence of the Fund was precisely to avoid the proliferation of such restrictions.

It should not be forgotten that in 1981 half of the total exports of industrial countries to non-oil less developed countries went to countries that individually imported less than \$6 billion from industrial countries, Mr. Donoso considered. It was therefore easy to see that the smaller less developed countries, when taken together, were important in their volume of trade. All the points that he had put forward tended to make him doubt whether the arrangements under discussion would improve the international financial system in the long run. In the short run, the GAB resources were to be welcomed because it did not seem likely to make much difference whether the resources came from borrowing from the General Arrangements or from quotas. For long-run considerations, however, he would have preferred to see a larger increase in quotas to meet the overall needs of the Fund, which in his view were no longer under discussion.

The Chairman commented that Mr. Donoso's observations could not be faulted on the grounds of logic. However, in practice, it might be easier to obtain a substantial increase in quotas, together with an enlargement of the General Arrangements to Borrow, than to obtain a larger increase in quotas without an enlargement of the General Arrangements. The choice was not between a larger increase in quotas and no enlargement of the General Arrangements to Borrow, or an enlargement of the General Arrangements and a somewhat smaller quota increase. Some countries felt rather strongly that it would be easier for them to obtain the necessary domestic decisions regarding the increase in quota if there was some strengthening of the General Arrangements. What might be called the facts of life ought to be borne in mind in considering the conclusions reached by the Group of Ten Deputies.

Mr. Donoso said that he understood that there might be some difficulties in obtaining a larger quota increase than was currently being considered. He wondered whether it would be equally difficult to borrow from the market, if the borrowing was to be at market-related rates.

The Chairman commented that borrowing by the Fund was not as easy as it might appear. The Deputies of the Group of Ten were offering a way of extending the Fund's borrowing capacity from some SDR 6.4 billion to SDR 15-20 billion; meanwhile, his own experience in raising money from other sources had not always been outstandingly encouraging. It was true that the Fund had concluded a large agreement with the Saudi Arabian Monetary Agency, thanks to the cooperation and statesmanship of the Saudi Arabian authorities. Encouraged by those authorities, he had tried to obtain contributions elsewhere. Eventually, he had obtained guarantees for the equivalent of SDR 1.5 billion from the members of the Bank for International Settlements in Basle. Now, the members of the Group of Ten were offering to enlarge the borrowing pool from SDR 6.4 billion to SDR 15-20 billion; Executive Directors should think twice before saying that they would prefer to go to the private market.

The Treasurer commented on the observations by certain Executive Directors that, if resources from the General Arrangements to Borrow were to bear interest at the market rate, it would be simpler to approach the

private market. In his view, the Fund would not be able to borrow in the market at the rate described in paragraph 5 of the conclusions of the Group of Ten Deputies. There would be considerable additional costs either because of maturity or because of other charges. In practice, members borrowing from the Fund through the General Arrangements to Borrow would be receiving credit for a maturity of a maximum of five years at the short-term interest rate, which was in practice lower than the medium-term interest rate, which the Fund would presumably have to pay in the market. Moreover, the participants in the General Arrangements to Borrow had agreed to eliminate the transfer charge of 0.5 per cent. It seemed unlikely that the Fund would be able to borrow an additional SDR 15 billion at a rate equal to 100 per cent of the combined market rate in the private market at the present time.

Mr. Senior commented that he would like to give the matter of the enlarged General Arrangements to Borrow more consideration on the basis of a paper by the staff reflecting the questions raised by a number of Executive Directors. For the time being, he would keep an open mind; but he would form a definite opinion on the basis of the further work by the staff.

Mr. Munthali commented that paragraph 9 of the G-10 Deputies' conclusions established a strong link between an increase in the General Arrangements to Borrow and the outcome of the Eighth General Review of Quotas. He hoped that the intention was not to establish a possible trade-off regarding the size of the increase in the two facilities.

The G-10 Deputies had reaffirmed the position that quotas should remain the principal source of IMF resources in meeting "ordinary balance of payments financing requirements," Mr. Munthali noted. As he understood it, the enlargement of the General Arrangements to Borrow was intended to deal with extraordinary balance of payments situations. Nevertheless, access through the Fund to the General Arrangements by small countries appeared to be limited. While payments difficulties in those countries individually might not be considered a threat to the smooth functioning of the international monetary system, it ought to be recognized that they were serious in their own right, and that they were neither normal or ordinary. As such, they deserved special attention.

The proposal to enlarge the General Arrangements to Borrow, Mr. Munthali went on, would be more helpful if the terms of paragraph 4 did not preclude access to the resources of the General Arrangements to Borrow on behalf of groups of countries. Small countries could benefit if there were assurances that the recommendations by the Managing Director regarding the activation of the General Arrangements to Borrow on behalf of potential users would be approved by the participants, as such an arrangement would release the Fund's own resources for use by small countries. In that connection, the idea advanced by Mr. Salehkhrou at EBM/82/161 that the Fund should be reimbursed for the resources used by countries that would be eligible for access to the General Arrangements deserved some attention, even if it required an amendment to the decision.

Mr. Salehkhoul's point was a valid one, and it would represent an improvement in an enlarged General Arrangements to Borrow.

His chair, Mr. Munthali continued, had consistently argued for a substantial increase in Fund quotas, even to the extent of wishing to raise Fund resources to the equivalent of SDR 160 billion. Such a relatively large increase in quotas might have lessened the urgency of enlarging the General Arrangements to Borrow, as well as making the issue of providing special treatment for small economies irrelevant. There was at last a general recognition of the seriousness of the current payments situation, and he was unable to understand the reluctance of some members of the Fund to provide it with adequate resources.

Finally, Mr. Munthali noted, paragraph 6 of the conclusions referred to parallel arrangements for countries that would be in a position to provide resources to the Fund on conditions broadly similar to those of the General Arrangements to Borrow. Would it not be possible to admit those countries to the General Arrangements as equal partners as a way of ensuring their effective participation?

Mr. Malhotra commented that the proposal for enlarging the General Arrangements to Borrow raised a number of serious issues. First, there was the apprehension raised by many Executive Directors that some countries saw a trade-off between a larger Fund and an enlargement of the General Arrangements to Borrow. Some speakers had already mentioned that if the quota increase were of a given size, enlarging the General Arrangements to Borrow to SDR 20 billion would be appropriate, but, if the quota increase were larger, the revised Arrangements could be smaller. Mr. Donoso had commented on other possible trade-offs. Mr. Malhotra said that while several colleagues had spoken of the advantages of the proposal such as enlargement of the General Arrangements, the disadvantage was that the rates of charge on GAB credits would increase to market levels. Mr. Zhang and several other speakers had wondered whether, if the charges on GAB credits were to be market related, the existing arrangement under which the Fund's management was free to approach central banks and could perhaps in the future borrow from the financial markets, would not be preferable. Under the agreement concluded with the Saudi Arabian Monetary Agency, the Fund did not have to prove that the international financial system was under threat of collapse before drawing on its resources; nor did the Monetary Agency sit in judgment as to the Fund's need for resources.

Referring to the staff's statement that it would be difficult to raise sums of the order of SDR 16-20 billion in the market, Mr. Malhotra remarked that it was most unlikely that the Fund would need to borrow such a large amount in a single year, and felt that an approach to the financial markets would be by no means impracticable. In any event, neither in the financial markets nor in arrangements with individual monetary authorities would the Fund have to submit to another body's judgment regarding the use of or need for resources.

The revision of the General Arrangements to Borrow so as to make its resources available to the Fund for use by nonparticipants would be a substantial improvement, Mr. Malhotra conceded. Nevertheless, the suggested criteria for activating the facility for nonparticipants and the related decision-making process proposed in EBS/82/232 gave rise to concern. According to the Articles of Agreement, the Fund was charged with looking after the health of the international monetary system. The Executive Board was responsible for determining the volume of resources needed by the Fund and the circumstances in which it should have recourse to borrowing. In the past, as the use of the resources of the General Arrangements to Borrow had been limited to the larger industrial countries, it had no doubt been assumed that if their large borrowing needs were not met through the GAB, there would be some impairment of the international financial system. Consequently, participants in the General Arrangements had probably been relaxed about activating them.

It was not clear what the attitude of the participants would be if the resources of the General Arrangements to Borrow were intended to be used for nonparticipants, Mr. Malhotra said. The availability of GAB resources for nonparticipants might be quite uncertain. It should, therefore, be for the Executive Board to decide whether the criteria for activation of the General Arrangements to Borrow were met. The effect might be the same--since the Group of Ten had a predominant voice in the Executive Board--but it was in principle wrong that the final decision should be taken outside the Fund, especially when the General Arrangements would be open to both participants and nonparticipants. The proposed enlargement and operation of the General Arrangements also raised serious issues regarding the cooperative and nondiscriminatory nature of the Fund.

The Managing Director had referred to the proposed arrangement as a marriage between the Fund and the participants, Mr. Malhotra recalled. He could well understand that individual participants--or their central banks--could say, at a given moment, that they were not in a position to provide the resources requested by the Fund; after all, the Saudi Arabian Monetary Agency was also entitled to withhold its resources. The Group of Ten or its members would thus have an important role. However, the decision whether the international monetary system was likely to be impaired, or whether the Fund's resources were adequate or inadequate, ought to rest with the Fund.

Like Mr. Donoso, Mr. Malhotra went on, he was worried by the possible impact of an enlargement of the General Arrangements to Borrow on access to Fund resources by member countries. He feared that the size of the Fund might be kept below what it would otherwise have been. It was also possible that participants in the General Arrangements to Borrow might not agree with the Fund management and take the view that the criteria for activating the Arrangements were not met. In such circumstances it might be difficult for the Fund to go elsewhere, if only because most of the financial markets were located in the countries of participants in the General Arrangements. The views of economically larger countries could acquire a much greater influence on the Fund's policies, especially on access to its resources; and conditionality could become considerably

stricter for nonparticipants than under the present arrangements. Further, arrangements for providing financial assistance to countries that were feared to be in danger of defaulting on debt obligations might be decided before the revised General Arrangements to Borrow came into effect. In those circumstances, while the enlarged Arrangements might appear to be a valuable contribution to world stability, they might in fact not be used effectively.

He was somewhat disturbed to learn that there might be a link between reaching satisfactory agreement on issues relating to the Eighth Quota Review, and adoption of the revised General Arrangements to Borrow, Mr. Malhotra observed.

The Chairman remarked that the United States had made it clear that a 50 per cent increase in Fund quotas would raise difficulties in the Congress. The U.S. authorities had therefore informed the Fund that an increase in the General Arrangements to Borrow would make it easier for them to approach the Congress. It had to be borne in mind that the quota of the United States amounted to some 20 per cent of the total. From the standpoint of the U.S. authorities, it would be easier if part of the replenishment of the Fund's resources took the form of an arrangement to cope with any impairment of the system. While the two-pronged approach might not be the ideal solution for many, it reflected practical considerations that could not be ignored.

Mr. Malhotra said that he understood the difficulties of the U.S. Administration, and was grateful to the Chairman for having explained them so clearly. However, the new understanding did not lessen the concerns that he and other Executive Directors, who thought like him, had.

As Executive Directors were examining all aspects of the Fund's finances together, Mr. Malhotra suggested, they should also take a look at the question of a new allocation of special drawing rights. Some quarters had talked of a facility from which countries in difficulties could draw quickly as a means of avoiding default on debt service obligations. A new allocation of special drawing rights could surely provide such easily accessible resources.

Mr. Finaish remarked that the enlargement of the General Arrangements to Borrow was an important matter requiring consultation with the authorities. As EBS/82/232 had been circulated only recently, his remarks would be both preliminary and personal.

First, Mr. Finaish went on, he would join other speakers in emphasizing the role of quotas as the primary source of the Fund's resources. While there might be a need for special arrangements to cope with possible threats to the stability of the international monetary system, the institution of those arrangements should in no way prejudice a substantial increase in the Fund's ordinary resources under the Eighth General Review of Quotas. Even if there were to be an agreement on an expansion of the General Arrangements, he would still prefer to come down heavily on the side of an increase in quotas.

Discussing the decision-making process connected with the General Arrangements to Borrow, Mr. Finaish noted that the existing procedure for activation involved two separate stages. Once the Fund had decided that a member should appropriately make use of its resources, the participants in the General Arrangements to Borrow had to take a subsequent positive decision. It was not clear whether the second step was really necessary. In the first place, whatever criteria might be designed for the activation of the General Arrangements to Borrow could be applied through the Fund's normal decision-making process, meaning through the Executive Board, in which the Group of Ten was well represented. There did therefore not appear to be a strong case for a two-tier decision-making process, which would, on practical grounds, reduce the ability of the Fund to respond to a financial emergency at all quickly. Second, the two-tier approach to the activation of the General Arrangements gave rise to doubts whether it could be operated in a nondiscriminatory manner for potential nonparticipants. Third, the existence of an arrangement under which lenders gained special control of the use of resources raised the question of uniformity of Fund policy toward official lenders. In the case of the Saudi Arabian Monetary Agency, the Fund had an agreement with the SAMA for lending to the Fund. However, in the proposed enlargement of the General Arrangements, there was no more than an agreement to consider lending to the Fund. Furthermore, unlike the GAB, the SAMA agreement did not provide for special control by the lender over the use of the resources lent. He would like to hear the views not only of the participants but also of the staff on the questions asked.

Regarding the requirements of paragraph 8 of the G-10 Deputies' conclusions, Mr. Finaish noted that it had been left open whether the criteria for activation of the General Arrangements to Borrow for the benefit of nonparticipants should be included in the decision, or whether they should be expressed in some form of understanding among participants. While an understanding might provide for a quicker decision, recent developments in the international monetary system suggested that understandings, in the absence of firm commitments, might be strained in a crisis-like situation.

Regarding the position of the parallel lenders, Mr. Finaish said that he understood that their position had not yet been defined. Whatever decisions were taken, the Fund's quota must remain the fundamental source of resources. Second, in accepting the enlargement of the General Arrangements to Borrow, or any similar arrangement, the Fund should ensure maximum flexibility for the Managing Director and the staff. On the question of timing, it would be interesting to know whether the enlargement of the General Arrangements to Borrow was to come into force before the Eighth General Review of Quotas. Finally, he wondered whether the enlargement of the General Arrangements would close off the Fund's other options such as borrowing from the private market or official lenders.

Regardless of the size of the increase in the General Arrangements to Borrow, Mr. Finaish said that he would support a sizable quota increase,

especially in view of Mr. Anson's remark that a General Arrangements to Borrow of SDR 20 billion would be hardly sufficient to meet the needs of ten participants.

Mr. Nimatallah remarked that he had heard nothing from his authorities about whether they intended to become a parallel lender. In principle they would support a large increase in quotas. They had hoped that the Fund would grow to a size of at least SDR 100 billion in the near future. They also welcomed any addition to the resources of the Fund. As a result of the present discussion, he would be able to provide his authorities with a great deal more information, which would help them in making a decision on the matter.

Mr. Finaish inquired how the Chairman intended to proceed. He hoped that the staff would play the fullest possible role in the work of enlarging the General Arrangements to Borrow, and that the Executive Directors would have the benefit of its views on all the questions that had been raised.

The Treasurer started by replying to the question, raised by Mr. Finaish and Mr. Sigurdsson, regarding the impact of an enlarged General Arrangements to Borrow on other Fund borrowing arrangements, and in particular on the Fund's Guidelines on Borrowing (EBS/81/227, Sup. 2, 1/11/82). On the matter of principle, there was nothing that implied that if the Fund accepted the enlargement of the General Arrangements to Borrow in the form being discussed, it would in any way be limited in its ability to take decisions to borrow from other sources. The Executive Board could itself decide on the total amount of borrowing that it might be prudent for the Fund to undertake. In that connection, the Guidelines on Borrowing stated that not all the credit lines under the General Arrangements to Borrow could be used at the same time, if only because one of the participants would be the debtor. Naturally, if the General Arrangements to Borrow were opened up to nonparticipants, the point might become of more significance because it was conceivable that the whole amount would be at the disposal of the Fund for a group of nonparticipant debtors. Nevertheless, it was doubtful whether the whole amount would be available at one time. Experience showed that not all participants in the General Arrangements to Borrow were in a sufficiently good balance of payments position to enable them to agree to a request by the Executive Board at the same time, assuming that the other criteria for activation had been met.

At present, the Guidelines on Borrowing, in dealing with the amount of borrowing that might be undertaken, stated that the maximum should be the outstanding borrowing by the Fund under the General Arrangements to Borrow, or one half of the total credit line under the General Arrangements to Borrow, whichever was larger, the Treasurer explained. Once the enlarged General Arrangements to Borrow was established, it would be important for the Fund to know what the shares of the various participants were likely to be, particularly the shares of those members that were expected to be in strong positions compared with those that were expected

to be in weak positions. The outcome might be that the normal usability of the enlarged General Arrangements to Borrow might be quite different from that of the present arrangements. Consequently, once the outcome was known, it would be necessary to review the relationship with the General Arrangements to Borrow laid down in the Guidelines on Borrowing, and possibly the fraction of "one half" might need to be changed.

Guideline number 4 also stated that the Guidelines were to be reviewed when the Board of Governors had completed the Eighth General Review of Quotas; the Guidelines might be adjusted as a result of that review, the Treasurer noted. Since it was assumed that the enlarged General Arrangements to Borrow would enter into effect in parallel with the Eighth General Review of Quotas, the Guidelines on Borrowing would have to be reviewed at that time, and any change in the relations with the General Arrangements to Borrow could be taken into account. As to whether the Eighth General Review of Quotas and the enlarged General Arrangements to Borrow could go into effect at the same time was not a point that could be settled with certainty at the present time, if only because of the vagaries of parliamentary action in the various countries concerned. There was also another consideration, namely, the attainment of the minimum number of acceptances of quota increases for the quota review to enter into effect. Even if all the participants in the General Arrangements to Borrow ratified the quota increase, their ratification by itself might not be a sufficient condition for the Eighth General Review to enter into effect.

He had heard Mr. de Maulde state that the Fund was independent of the Group of Ten in setting its rates of charge, the Treasurer recalled. While Mr. de Maulde was, of course, correct in the sense that the Fund did not depend on any decision relating to the General Arrangements to Borrow in setting the rates of charge, in practice the cost that the Fund incurred in borrowing under the General Arrangements to Borrow would have a bearing because the Fund would have to decide on the interest rate that it would charge for the use of its resources, irrespective of whether the purchases were financed from ordinary resources or from borrowing. The point had perhaps not been sufficiently stressed because the resources available under the General Arrangements to Borrow might be used to replenish the ordinary resources of the Fund, and not merely take the place of borrowed resources under the decision on enlarged access or supplementary financing. In other words, the cost to the Fund would be affected not only by the rate of remuneration and by the rate of interest on the SDR, but also by the cost of any borrowing that the Fund had to undertake. It was the cost of that mixture that would influence the decision of the Fund on the charges that it should levy to cover its costs.

The Director of the Legal Department explained, on the subject of parallel lenders and their relationship with the GAB, that the intention was to make arrangements so that the parallel lenders would be involved in the decision-making process. What those arrangements would be and how they would operate would depend, first, on the agreement with the parallel lender and, second, on the arrangements that would be made by the participants to associate a parallel lender with the existing consultative

arrangements. A parallel lender would of course have a say in whether its own resources would be made available, just as participants in the General Arrangements to Borrow had a say in whether their resources could be drawn upon the Fund. On whether a parallel lender could become an equal partner with the participants, the present General Arrangements to Borrow certainly provided the possibility of accepting additional participants. Consequently, if the Fund and the other participants so agreed, it would be possible to bring in parallel lenders as equal partners.

Several speakers appeared to have had the impression that if the General Arrangements to Borrow were activated for the benefit of nonparticipants, there would be discrimination in respect of access to the Fund's resources, the Director observed. In his view, that would not be the case. During their discussions, the Deputies of the Group of Ten had made it clear that the decision whether a nonparticipant, or in fact any member of the Fund, would be entitled to use the Fund's resources, and in what amounts and conditions, would be determined in the Fund in accordance with the policies adopted by the Executive Board. As stated in paragraph 4 of the conclusions of the Deputies, "such consultation would not extend to the examination of specific programs for use of Fund resources, which remained the responsibility of the Executive Board." All that the participants would be discussing was whether they agreed with the Managing Director's determination that there was an inadequacy in the Fund's resources and that that inadequacy was due to a threat to the stability of the international monetary system.

Regarding the effectiveness of a revised General Arrangements to Borrow, the Director of the Legal Department remarked that he was not aware of any formal connection between the entry into force of the Eighth General Review of Quotas and the revision of the General Arrangements to Borrow. However, because most of the participants would require legislation to be able to bring the amendments into force--and all participants would have to accept the amendments before they could become effective--and because an increase in quotas also required legislative action by members of the Fund, it did seem likely that the two changes would go into effect at about the same time.

Mr. Nimatallah remarked that there seemed to be a difference between what the Director of the Legal Department had said at the present meeting regarding parallel lenders being associated with the decision making in the extended General Arrangements to Borrow, and what Mr. Erb had said at EBM/82/161. It would be helpful if Mr. Erb's position could be put in more precise language.

Mr. Erb replied that the topic raised by Mr. Nimatallah, among others, needed to be discussed further, particularly with countries that might be parallel lenders. The view of the United States was that a country that planned to lend to the Fund in parallel with the General Arrangements to Borrow should have specific rights as set out in paragraph 6 of the G-10 Deputies' conclusions. It was also the view of his authorities that parallel lenders should be involved in the decision-making process when it

came to activating the facility. How that involvement would be worked out--whether along the lines of the observer status accorded to Switzerland, or in some other way--was something that would still need to be discussed.

Mr. Nimatallah asked that, when the staff came to prepare a paper, all such matters should be set down as precisely as possible, if the Executive Board wished to move rapidly.

The Director of the Legal Department explained that parallel lenders would have the same access to the resources of the General Arrangements to Borrow as participants. The staff would be glad to indicate alternative ways in which parallel lenders could be associated with the decision-making process when the General Arrangements to Borrow were activated. The present decision on the General Arrangements to Borrow did not contain arrangements under which the participants met and took decisions. Those arrangements were contained in the document that was separate from the decision. The staff had therefore not contemplated including provisions for meeting and consultation in the decision itself. What the staff had contemplated saying was that, after consultation, the Managing Director would make proposals that would become effective when each participant called upon for a contribution agreed, and the Executive Board agreed as well. A similar provision would provide for an arrangement vis-à-vis a parallel lender. But the ways in which the parallel lender would participate in the deliberations of the participants of the General Arrangements to Borrow when they were called upon to decide on a proposal of the Managing Director was a separate point on which the staff would be glad to provide suggestions.

Mr. Erb remarked that, in interpreting his authorities' motives, he would not wish to put the burden of argument for an expansion of the General Arrangements to Borrow on considerations connected with the Congress of the United States. The primary reason for promoting an expansion of the General Arrangements to Borrow was the desire to be assured that there would be a pool of resources available for fairly rapid activation in periods of stress in the system, at times when large demands were being made on the International Monetary Fund. The U.S. authorities wished to establish such a pool in addition to obtaining an increase in quotas for the Fund. At the margin, there would be a very small trade-off between the increase in the General Arrangements to Borrow and the size of the quota increase. If there were no increase at all in the General Arrangements to Borrow, it was unlikely that the U.S. authorities would feel a need for any additional increase in the size of the Fund's quotas, since his authorities feared that such resources would be used in the normal course of Fund lending and not be preserved for periods of stress. In one way or another, however, provision would have to be made for a pool of resources that could be marshaled in moments of stress in the system. It was clear in the minds of his authorities that an enlargement of the General Arrangements to Borrow would enhance the Fund's resources for use only in such circumstances. Despite the marshaling of short-term resources through the Bank for International Settlements

and other agencies, there remained the need to have a pool of resources readily available to supplement Fund resources, and the enlargement of the General Arrangements was intended to fill that need.

On the issue of discriminatory treatment, Mr. Erb went on, his understanding of the discussion in the Group of Ten Deputies had been that the matter had been virtually resolved. The participants in the General Arrangements would make a loan to the Fund, so that there could be no discriminatory treatment of nonparticipants. Regarding the criteria for activation of the General Arrangements and their relation to stress in the system, his feeling had been that it would not be possible to be relatively relaxed about the definition of such terms as "an impairment of the international monetary system" or "a threat to the stability of the international monetary system," because the enlargement of the General Arrangements to Borrow had been designed to deal with the kinds of stresses for which the Fund as a whole wished to see resources reserved. If the criteria for activation were interpreted too loosely, there was a danger that the resources would not be available when actually needed.

He had not been sure how to interpret some of the attitudes expressed during the meeting, Mr. Erb explained. If there was no more than qualified support for the proposals made by the G-10 Deputies, it might be necessary to look for other ways of dealing with what his authorities perceived as a serious issue.

The Chairman, drawing the meeting to a close, made the following concluding remarks:

This has been a useful discussion on a possible revision and enlargement of the General Arrangements to Borrow. It has been a real discussion with an animated interchange and questions, and it has led to a better understanding of the subject. The meeting gave an opportunity to the non-Group of Ten members of the Board to provide some preliminary and sometimes personal reactions and to ask for clarification of the extremely useful document prepared so skillfully by the G-10 Deputies and Mr. Dini.

I shall try to draw together some of the threads of the discussion under two headings: principles, and questions.

Principles

First, all Directors without exception stressed the fundamental principle that has always guided the Fund, namely, that quotas should remain the principal source of IMF resources. In this respect, all Directors felt that an extension of the GAB would be no substitute for an adequate increase in Fund quotas. The idea of a "trade-off" between a GAB enlargement and a quota increase was not considered appropriate. Mr. Erb's latest intervention made it clear that the United States believes that there should be an adequate increase in Fund quotas to deal with

ordinary problems and requests for assistance from the Fund. The U.S. authorities, of course, have their own view of what an adequate increase is. Quite separately, they wish to establish better arrangements for enabling the Fund to borrow resources in the event of special cases of extreme strain in the system. The purpose of the proposal by the U.S. authorities is therefore not to make possible a smaller increase in quotas, but to supplement the ordinary resources of the Fund when it becomes necessary to cope with an impairment of, or a threat to, the international monetary system. A number of Directors reaffirmed their views on the need to proceed with a substantial increase in quotas, and they gave details of the quantities that they had in mind.

Second, speakers strongly stressed the need to treat member countries in a nondiscriminatory way and to keep the integrity of the Fund's decision-making process intact. In this respect, I would like to note several points:

First, as several speakers have recalled, the proposed enlargement of the GAB is meant to provide a lending facility to the Fund, and not to member countries, in particular circumstances. It is a means for resolving the Fund's liquidity problems.

Second, in any event, the determination of the need to borrow by a particular country, the extent of its access to Fund resources, and the assessment of its program would remain the responsibility of the Executive Board alone. In this respect, the observation in paragraph 4 of the Group of Ten's conclusions to the effect that in the event of a proposed activation the GAB consultation would not extend to the examination of specific programs for use of Fund resources, which remains the responsibility of the Executive Board, was welcomed by Executive Directors.

Third, there were a number of questions on the possible difference of treatment between participants and nonparticipants, and also between participants themselves, arising from the conditions for activation set out in paragraph 4 of the Group of Ten's conclusions. Some Directors felt that paragraph 4(ii) might restrict the activation of the GAB to a small list of large countries whose mere size might pose a threat to the stability of the system, thus excluding activation on behalf of smaller countries, particularly, said some, in view of the rather broad language used in defining the circumstances in which the agreement might be activated. In this connection, the staff and Executive Directors from G-10 countries explained that paragraph 4(ii) was intended to mean that the Managing Director could be led to make a proposal for activation of the GAB if a group of countries or a group of requests, each of them individually being perhaps for a limited amount, were in his view to trigger a liquidity problem for the

Fund and to pose a threat to the international monetary system. Mr. Polak and Mr. Joyce referred to the way in which the interpretation of the concept of the impairment of the system has evolved since the General Arrangements came into existence in 1962.

Questions

Some of the main questions are:

(1) Is it appropriate to confine the assessment of the criteria for activating the GAB--the appraisal of the inadequacy of resources in the Fund and of the threat to the stability of the system--to a group of lenders? What would be the consequences if a decision could not be reached among the members of that group, or if the decision were negative? Would such a situation affect the ability of the Fund to resort to other means of financing in order to meet requests that did not trigger the activation of the enlarged GAB? Mr. Malhotra in particular raised this sort of question very strongly.

(2) What arrangements are contemplated for the parallel lenders so far as involving them in the decision-making process is concerned? What procedures could be worked out for this purpose?

(3) Would there be predetermined quantitative limits on possible uses of the expanded GAB by participants? The answer to this question is "no."

(4) Would the extension of the GAB to nonparticipants lapse automatically if the enlarged access were to be phased out, or at the end of the first review period? The answer to this question is also "no." It is really set out in paragraph 7 of the Group of Ten's conclusions.

We now need to work more on this project. Some Directors, in particular Mr. Finaish, asked what the next step will be. This is, of course, subject to the views of Directors, but I suggest that we should take stock of the discussion we have had today and that the Executive Board should proceed without waiting for a second session of the Group of Ten. I suggest that the staff should prepare a paper setting out in legal and technical language the procedures needed to translate into action the principles agreed upon by the Group of Ten. The staff will also clarify a number of points on which questions have been raised, and on which, in some cases, alternatives need to be worked out. We could discuss this paper on January 5; Directors would thus be in a position to inform their Governors in time for an early session of the Interim Committee.

I have so far mentioned the questions raised by Executive Directors. I have not stressed the positive reactions, not only by the G-10 Executive Directors, but also by Directors from a number of other constituencies, who felt that as long as the expansion of the GAB is well understood to be intended to supplement the Fund's resources, and as long as it does not circumvent the fundamental principles mentioned by Executive Directors, the proposal should be examined with the greatest care and in a spirit of cooperation. I hope that in the coming weeks we shall be in a position to report to our authorities that serious progress has been made.

2. TRADE ISSUES - STATEMENT BY MANAGING DIRECTOR

The Managing Director made the following statement:

As Executive Directors are keenly aware, trade policy developments are among the foremost issues of national and international concern. Against the background of growing protectionist pressures, the contracting parties to the GATT held a meeting at ministerial level in Geneva to assess the functioning of the multilateral trading system and to agree on its directions for the coming years. The staff report on the proceedings of the meeting, and the ministerial declaration, have been issued (SM/82/234, 12/16/82).

I have taken the opportunity of this meeting to express some of the Fund's concerns in this complex and politically sensitive area, both in my remarks at the ministerial level meeting, and in informal discussions with Ministers and senior officials. It would be difficult, and certainly premature, to make any definitive assessment of the results of these deliberations, which involved trading partners conducting the bulk of world trade who often have divergent perceptions of their national interest. Nor would it be appropriate for me to comment on the national views expressed at the meeting. However, I think it timely for me to comment on whether any of the main conclusions of our own discussion of trade issues at the Board meeting on September 20, 1982 require modification as a result of more recent developments. I will focus on two points.

First, it is evident that there is general recognition of the Fund's interest in the trade field, and there is wide support for improving the close working arrangements at staff and management levels between the Fund and the GATT. I welcome and support such interest and cooperation. The cooperation that we have traditionally received from the GATT Director-General and his secretariat has been exemplary on all issues of mutual concern. At the World Economic Outlook discussion and the September Board discussion on developments in international trade policy, Directors not only

recognized and supported the prime role of the GATT as the guardian of the international trading system, but also expressed the desire to see continued close collaboration between the Fund and the GATT. I have therefore instructed the staff to undertake further contacts with senior GATT officials in the near future, in order to examine possible modalities of intensified Fund-GATT collaboration. I shall keep Directors informed of the progress of these discussions.

The second point concerns the direction of the Fund's activities in the trade field. The thrust of my September 20 summing up was that the international monetary and trade systems share complementary objectives and are therefore interdependent. Directors have reiterated that the Fund has a vital interest in promoting the expansion of international trade of all its members. Directors also believe that, in conducting Article IV consultations, particularly with the larger trading nations whose trade policies have a particularly important bearing on world trade, it is important for the staff to include analysis of trade policy in the context of its overall appraisal. It has been stressed that in trade matters the Fund's role is complementary to that of the GATT, but the Fund can make its own contribution to the drive against protectionism. I believe that this approach remains valid today. Therefore, I intend to ask the staff to implement the suggested approach for Article IV consultations from the beginning of 1983.

I assume that, unless there is a request from Directors for a further specific discussion on this matter, we can agree to proceed along the above lines.

APPROVED: May 23, 1983

LEO VAN HOUTVEN
Secretary

