DRAFT

April 28, 1993

Approval: 5/5/93

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 92/128

10:00 a.m., October 28, 1992

M. Camdessus, Chairman

Executive Directors	Alternate Executive Directors
M. Al-Jasser	A. A. Al-Tuwaijri
	L. E. N. Fernando
Che P.	Wei B.
	G. C. Noonan
	J. Jamnik, Temporary
T. C. Dawson	
	J. Prader
	R. L. Knight
R. Filosa	J. Papadakis
M. Finaish	S. K. Fayyad, Temporary
I. Fridriksson	
H. Fukui	N. Tabata
B. Goos	
J. E. Ismael	
	G. Bindley-Taylor, Temporary
J.-P. Landau	I. Martel
	O. Kabbaj
	L. J. Mwananshiku
D. Peretz	J. Dorrington
G. A. Posthumus	
C. V. Santos	Y.-M. T. Koissy
A. Torres	R. Marino
A. Végh	

L. Van Houtven, Secretary and Counsellor
L. Collier, Assistant

Also Present
African Department: E. L. Bornemann, Deputy Director; C. Brachet, J. A. Clément. External Relations Department: R. R. Brauning. Legal Department: W. E. Holder, Deputy General Counsel; R. Munzberg, Deputy General Counsel; H. Elizalde. Policy Development and Review Department: J. T. Boorman, Director; J. Ferrán, Deputy Director; T. Leddy, Deputy Director; D. Burton, P. K. Cornelius, J. H. Felman, G. R. Kincaid, C. Puckahtikom, J. P. Pujol, K. Thugge. Secretary's Department: A. Jbili, A. Leipold. Southeast Asia and Pacific Department: K. Saito, Director. Treasurer's Department: D. Williams, Treasurer; G. Wittich, Deputy Treasurer; J. E. Blalock, E. De Carli, L. U. Ecevit, S. J. Fennell, D. Gupta, S. M. Thakur, M. A. Wattleworth. Western Hemisphere Department: S. T. Beza, Counsellor and Director; M. E. Bonangelino. Personal Assistant to the Managing Director: R. Saunders. Advisors to Executive Directors: J. M. Abbott, M. B. Chatah, B. R. Fuleihan, Y.-H. Lee, M. J. Mojarrad, M. Nakagawa, Y. Patel, A. Raza, B. A. Sarr, B. Szombati, N. Toé. Assistants to Executive Directors: S. E. Al-Huseini, T. Berrihun, G. M. Blome, J. A. Costa, S. B. Creane, N. A. Espenilla, Jr., A. Giustiniani, J. Jonas, P. K. Kafle, T. Kanada, S. McDougall, L. F. Ochoa, E. H. Pedersen, E. Quattrociocche, R. Thorne, J. W. van der Kaaij, S. Vori.

1. ACCESS POLICY AND LIMITS IN CONNECTION WITH QUOTA INCREASES - FURTHER CONSIDERATION

The Executive Directors took up a staff paper on the further consideration of access policy and limits in connection with quota increases under the Ninth General Review of Quotas (EBS/92/159, 10/6/92; Cor. 1, 10/23/92; and Sup. 1, 10/21/92, following the Executive Board's preliminary discussion on November 15, 1991 (EBM/91/155 and EBM/91/156).

Mr. Posthumus made the following statement:

It is a matter of great satisfaction that the quota increases under the Ninth General Review of Quotas will now finally become effective. This is also a moment to realize, once again, that the Ninth Review has taken more than two years to become effective after the Board of Governors adopted the Resolution, and almost nine years after the increase under the Eighth General Review of Quotas became effective. The Board of Executive Directors cannot take it for granted that the Board of Governors will be willing to approve another general increase of quotas in the near future. In my view, this should be taken into account when this Board decides on access policy and access limits in connection with the quota increases.

Until 1990, the Fund had not provided access to its general resources of more than 100 percent of quota under stand-by arrangements, 140 percent of quota under extended arrangements, or 165 percent cumulatively, except when it had additional borrowed resources at its disposition. The enlarged access policy was not just an access policy, but it was also a policy that provided the Fund with additional resources. It has been agreed that reliance on borrowing should end with the effectiveness of the Ninth Review of Quotas.

In 1990, the Board decided that, even in the absence of additional borrowed resources, the enlarged access policy should be maintained until the Ninth General Review of Quotas would become effective, at the latest. It was, of course, assumed that effectiveness of the Ninth Review would not be delayed very much. In the event, it took more than two years. Thus, the enlarged access policy was not discontinued when it became clear that the Ninth Review would be delayed; nor was it discontinued when the resources that were borrowed specifically to finance the enlarged access policy were depleted.

The staff indicates (page 3, EBS/92/159) that "in their discussions on the Ninth General Review of Quotas, Executive Directors had reached a general understanding that limits under the increased quotas should be set so as to maintain, at least for a time, 'maximum potential access'." And the staff notes (page 8) that "as was implicit in the general understandings reached in the course of the discussions on the quota increase, the range of alternatives under discussion are all compatible with 'maintenance of access' in a broad sense." In my view, those discussions were not conclusive and cannot, therefore, be the starting point of a decision on access policy. This is a decision of major significance for the financial position of the institution. In addition, with 15 new potential debtor members and only 1 new creditor member, our position has changed since the discussions on the Ninth Review.

The Board's procrastination has not made it easier to take the necessary decisions on access policy. In my view, a decision setting limits on access to Fund resources should be taken now, and it should be sustainable for a long time.

According to staff projections, the liquidity ratio would fall to some 33-49 percent by end-1995--compared with the range of 68-79 percent estimated in November 1991. A low liquidity ratio can be acceptable in times of financial and economic crisis, and in a period immediately before an increase of resources becomes effective. Such a crisis, however, is not foreseen in the staff's estimates; and a further increase of Fund resources is not very likely in the next few years. The estimate of a liquidity ratio drop to 33-49 percent, three years from now, cannot be disregarded; it may materialize. The staff does not disregard its own estimate and adjusts its 1991 advice of annual and cumulative access limits from 68 percent and 303 percent to 65 percent and 290 percent. This is a marginal adjustment indeed, as the staff seems to recognize. The concluding sentence of its considerations on pages 10-11 makes this clear: "These access limits would--on present projections--be expected to be compatible with maintenance of a relatively sound Fund liquidity position through 1994 or perhaps into early 1995." Obviously, a sustainable policy requires lower access limits than proposed.

The self-financing ratio, indicating the Fund's ability to finance purchases without recourse to borrowing, helps in judging whether access limits are sustainable in the long term. I see few arguments in the staff report that support the conclusion that the traditional long-term average of 250 percent would be too low. The staff nevertheless concludes that a cumulative limit of 290 percent is acceptable. A sustainable access policy should in my view not go further than setting a 250 percent cumulative limit.

It is clear that the access policy suggested by the staff would require the Board to lower access limits by the end of 1994 at the latest, if staff estimates for the liquidity ratio materialize. This would, of course, be a much more painful

> decision, because access policy would then have to aim at a restoration of an acceptable liquidity ratio. Such a restoration would not be necessary if the Fund's resources would be increased, following a general review of quotas. As I indicated at the outset of my statement, this cannot be safely assumed. In addition, such an increase of resources might again lead to proposals not to reduce access itself in order to avoid conveying to the world a sense that the Fund is withdrawing from its central role in supporting members' adjustment efforts. Access limits of 60 percent and 250 percent decided upon now will certainly reduce potential maximum access, but is that not the reason for having a limit? Anyway, compared to actual access at this time, the vast majority of members, if not all members, will have sufficient room for Fund-supported adjustment under these limits.

Extending his remarks, Mr. Posthumus said that, in discussing the relationship between the liquidity ratio and access limits, it was obviously important to take into account the number of programs. The more programs there were, the closer became the relationship between the limits set and actual access under programs. In that connection, it would be useful if the staff could indicate, based on its estimate of the liquidity ratio for 1995 of between 33 percent and 49 percent, the effect of his proposal of an annual limit of 60 percent and a cumulative limit of 250 percent. If his proposal would not greatly affect the liquidity ratio, what limits would make a difference? He recognized that the answer to his question would not be mathematically precise, but it could be made with the same precision that had been applied to the data in the staff paper under discussion.

The Treasurer replied that the liquidity ratio would improve, on average, by 4 percentage points if the access limit was reduced to 60 percent. Access to the Fund's resources by the countries of the former Soviet Union (FSU), for which access of up to 65 percent of quota had been assumed in the estimates, would decline on the order of SDR 0.5-1 billion. For all other countries, the decline would be of the order of SDR 0.3-0.5 billion. The access assumed for non-FSU countries of 42-45 percent of quota was well below the upper limit of average access; only five countries were expected to draw at the upper limits. With an overall reduction in access of approximately SDR 0.5-1.5 billion, the approximate in- crease in the liquidity ratio would be marginal, rising from 33-38 percent to approximately 49-51.5 percent.

It would be useful for the Executive Board to consider the outcome if the access limit were set at 50 percent of quota, the Treasurer continued. The liquidity ratio would be approximately 55 percent at the upper end of the limits, and about 48 percent at the lower end. Again, virtually the entire reduction would result from the decline in projected use by the FSU countries of approximately SDR 1-4 billion.

In response to a question by Mr. Posthumus, the Treasurer explained that the calculations for the potential use of Fund resources by the FSU countries had been made for access limits ranging from 50 percent to 65 percent. That was the basis for the calculated decline in the potential use of Fund resources by those countries.

Replying to a question by Mr. Landau, the Treasurer said that the effect on the liquidity ratio of raising the annual access limit to 70 percent would depend on whether additional resources would in fact be made available to the FSU countries. An increase in the use of the Fund's resources would depend on the balance of payments need and the strength of the adjustment program. Access by non-FSU countries, which was already well below the average, was not likely to increase. There would also be little change in the liquidity ratio, based on the financing ratio in terms of need of the FSU countries that had been assumed in the staff paper; while that ratio was high, it was only slightly higher than the actual ratio of financing for Central and Eastern European countries. However, he reiterated that if the access of FSU countries was increased above 65 percent of quota, the liquidity ratio could be affected if that in fact led to increased use of the Fund's resources.

Mr. Posthumus remarked that limits were not targets. The problem to be faced was that if a decision on access limits was postponed, the number of countries having programs under the existing limits, or about to have them, would necessitate an even greater reduction in access for countries that had not yet entered into programs. Difficult decisions could not be postponed in the expectation of a more favorable situation in the years ahead. Avoiding the problem for the time being would not--unless there was a Tenth Review of Quotas and subsequent quota increases, and he had few illusions on that score--prevent its recurrence, should difficult times lie ahead.

The Chairman said that he agreed that the problem was not one of deciding whether to broaden or to reduce access. The true problem was, given the political uncertainties, how to predict the reaction of the new members in terms of their policies and thus use of Fund resources. In his view, it was necessary to be pragmatic and to review the actual financing needs of the membership, particularly the new members, on a yearly basis.

Mr. Dawson stated that the uncertainties surrounding the issue would indeed require annual review of the subject. He had had doubts about the way in which the staff had, in a sense, set a target for the use of Fund resources by the FSU countries. It was necessary to make sure that such projections were not misunderstood as an entitlement, and that the international community did not expect the Fund to be guaranteeing that it would be the first to provide financing. Projections had to be made, of course, but those in the staff paper were for a worst-case scenario; the outcome should be better. To the extent that the projections materialized, recent experience with the Ninth Review of Quotas suggested that another such exercise was unlikely to be sufficiently timely to avoid the need to keep the access limits under close and continuing review.

As to future use of the Fund's resources by countries being adversely affected if a prompt decision on access limits was not taken, Mr. Dawson added, experience with the structural adjustment facility (SAF) and the enhanced structural adjustment facility (ESAF) suggested that the demand for Fund resources had not been treated as a target, but as being justified, in response to requests, by the strength of programs. Therefore, the Fund should be careful to avoid misinterpretation, inside as well as outside the institution, of the projections of the use of resources by the FSU countries.

Mr. Landau made the following statement:

It is no coincidence that our discussion takes place at the time of the implementation of the Ninth Quota Review. There are, of course, legal reasons: technically, the enlarged access policy must be renewed with the entry into force of the quota increase. But, more broadly, the understanding on access was an integral and essential part of the package agreed by this Board when it decided on the principles and modalities of the Review. This understanding is aptly summarized by the staff when it says that access limits under the increased quotas should be set so as to maintain, at least for a time, maximum potential access.

Of course, those formulations are open to many possible interpretations. Let me enumerate the reasons why, in the view of this chair, too restrictive an interpretation would be a disservice to the membership and the whole institution and why, from this perspective, we would like to see some changes in the staff's proposals.

My first reason is of a general nature. We find it difficult to explain why an increase in quotas should translate, for 35 members of this institution, into a reduction in nominal maximum access. In real terms, maximum access is going to be reduced in a period when the need for official reserves and financing does not seem to be decreasing. But an increase in Fund resources should, at least, enable the maintenance of potential nominal access for existing members--even with the substitution of ordinary for borrowed resources.

I would also point to the fact that, under the staff's proposal, those members that would lose potential access--admittedly, by generally small amounts--would be among the smallest and poorest countries. This is, of course, a mathematical consequence of the selectivity applied to the quota increase. But, by aiming at too small an average access limit, we would thus certainly undermine support for selectivity in further quota increases in our institution.

The second reason concerns the relationship between maximum and actual access. I would point to two facts. Access limits have already been lowered three times since 1981; each time, actual average access has fallen by an even wider margin. Such an outcome could have been defended in the mid-1980s when the uncertainties in the world economy were perceived as decreasing. I am not sure it would be the case today. Already, over the 1989-92 period, more than one fourth of all concluded arrangements have come within 20 percentage points of the 90 percent annual limit. And, as far as limits under the special facilities are concerned, the staff recognizes that they have already been binding. Thus, in summary, potential losers of maximum access would very likely be real losers in actual access.

My third comment concerns liquidity. The staff makes a strong case for a cautious attitude on access, based on the projected tensions in the liquidity position of the Fund in coming years. This, in my view, deserves two remarks. First, because of their very tentative and volatile nature, liquidity considerations should--as in the past--have greater influence over the level of actual access than over the level of potential access. In 1991 (EBS/91/152, 9/9/91), the staff pointed to the fact that the guidelines give the framework for determining the appropriate amount of financing "under almost any system of access limit." Indeed, either the limits are binding, and the case for a "no-loser solution" is very strong, or the limits are not binding, and the reference to liquidity for determining them seems irrelevant. In both cases, liquidity considerations should not lead to a limitation of potential access. Second, liquidity projections have been significantly lowered since our November 1991 discussions, owing almost exclusively to the consideration given to the impact of new members. By using this argument for limiting potential access, we would give the impression that all the new resources stemming from the quota increase will be devoted to new members, and that, in addition, the existing members would have to consent to a reduction of their potential access. I would be cautious in moving in that direction.

Finally in this connection, and perhaps more important, the decision on access limits should be placed in its proper context, which includes the adoption of the Third Amendment, the agreement on ending Fund borrowing, and the proposed suppression of the upper access limit. In this latter regard, I would recall that, by suppressing this upper limit, we will lose a degree of flexibility that we were quite happy to use when, with events unfolding in the Middle East, we wanted to convey a proper signal to the membership. Furthermore, it is striking that, by returning to a single limit, we will take a step that is exactly the opposite of the one taken in 1984, under very similar circumstances. At that time, a previous increase in Fund quotas led to the need to take into account different rates of increase in various members' quotas and to the adoption of the dual system. The advantages of a simplification in access rules may justify the return to a single limit, but this should not be done at the expense of member countries.

For all these reasons, I would feel more comfortable with a slightly higher figure than the one proposed by the staff. Access of 70 percent, for the annual limit, and of 300 percent, for the cumulative limit, would go a long way toward eliminating the negative signal included in the present proposal, without sig-nignificantly altering the financial position of the Fund, as confirmed by the Treasurer at the beginning of this meeting.

Most of the arguments I have mentioned in favor of an improvement in the staff's proposal on general access are also valid as far as the ESAF is concerned. First, the imperative of fairness is even more important since, inter alia, we are dealing with the most disadvantaged category in our membership--one that we should be eager to reassure in the current circumstances.

Second, the rationale for any change in potential access of ESAF-eligible members is nonexistent. The resources of the ESAF have not changed, nor has the balance between those resources and the needs of the membership. This is certainly the reason why the staff points, correctly, to the fact that changing limits "is not a strict technical necessity" in the case of ESAF. I see no rationale for reducing the potential access in SDR terms of half of the originally eligible countries if there "is not a strict technical necessity" to do so. I would thus suggest that we keep, for ESAF-eligible members, the existing limits in absolute terms. This solution would avoid any reduction of potential access for all members. It would only increase by a marginal amount, namely, approximately SDR 90 million, the overall potential access under the ESAF. If that is not legally possible, I propose, for the sake of respecting the rule of uniformity of treatment, to set the new normal limit under the ESAF at 200 percent. This would leave, as usual, actual access to be determined by the strength of the program, the financing need, and the use of resources, which, in the case of ESAF, has proved particularly difficult to predict and has been regularly overestimated.

On the floating nature of facilities vis-à-vis the first credit tranche, I must say that, in 1992 as in 1991, I am not yet convinced by the arguments in favor of its elimination. In its recent paper, the staff points to the "mixed" views of the Board on this question but nevertheless takes sides in proposing outright elimination. The first implementation of floating dates back to 1965, and the staff recognizes that one cannot attribute to this device the prolonged use of Fund resources by some members. Moreover, it has not been demonstrated how, in the absence of the floating provision, we would cope with the need for quick and substantial contingency financing or with the situation of countries experiencing, after a successful extended arrangement, exogenous and temporary balance of payments shocks. I thus tend to think that we should revisit the issue on the basis of more elaborate answers to these important questions.

In conclusion, I would like to stress that the decisions we have to take today have a major symbolic dimension. An important aim should be, for this Board, to try to gather, through an appropriate compromise, the consensus that will help the Fund meet the challenges of the 1990s. It might happen that, sometime during this period, the Fund would face the dilemma of whether it should envisage a new review of quotas or a renewal of its previous borrowing policy. It is certainly not the intention of this chair to escape this dilemma by reducing the access of the poorest members of the international community. Such a course of action would be both counterproductive and illusory. We strongly believe that the compromises we have presented would, on the contrary, go a long way toward reconciling the views expressed on these issues.

Mr. Fukui made the following statement:

I welcome this opportunity to discuss issues related to financial policies in connection with the quota increases under the Ninth Review.

Let me start with access limits in the credit tranche, the extended Fund facility, and other facilities. Our basic standpoint on this issue is that there should be no losers under the quota increase. From this viewpoint, I find the staff's proposals disappointing. It is a matter of great concern that there would be some members whose absolute access under their new quota will decrease if the new access limit is set at 65 percent of quota as suggested by the staff. This may send the wrong signal to member countries vis-à-vis the Fund's firm intention to play a positive role throughout the coming difficult years. Accordingly, I believe the new access should be somewhat on the high side, namely, 68 percent.

I understand the staff's concern about the sharp deterioration of the liquidity ratio in the coming years; however, this is not a convincing enough reason to set the new access limit at 65 percent of quota. First, there will be little difference between 68 percent and the proposed 65 percent as far as the projection of the liquidity position in the immediate future is concerned. The liquidity position at the end of 1995 will be very tight either way. Second, I think that the answer to the question of the deteriorating liquidity position should be sought in the context of an early consideration of the Tenth Review of Quotas, not by decreasing the potential access of members to Fund resources. As an alternative to increasing the limit beyond 68 percent, which some of my colleagues would support, I would tend to think that more flexible use of the exceptional clause could meet the same objective, even with a new access limit of 68 percent.

With respect to the SAF, ESAF, and other facilities, access limits should be set in the same way. The normal limit of the ESAF should be higher than the proposed 180 percent so that there would be no losers under the quota increases.

I agree to the proposed review period of 12 months.

In the light of past experience, I would prefer that the floating nature of facilities be retained. In the case of Eastern and Central European countries that needed substantial additional liquidity at the early stages of their economic reforms, the floating nature of Fund facilities was quite useful in providing sufficient resources to these countries. I think that flexibility of this kind should be maintained.

Mr. Dawson recalled that one year previously, the Board had had a very thorough, although preliminary, discussion of access policy. The views of his chair remained much as they had been then. The enlarged access policy, supported by borrowed resources, had always been understood to be a temporary policy that was expected to be phased down. The long-standing intention of the Board had been to return to the traditional access limits and avoid reliance on borrowed resources. With the imminent completion of the Ninth Quota Review, the Board was in a position to move toward that objective.

The view of his chair, as stated in November 1991, was that annual access limits of 60 percent of quota and cumulative limits of 267 percent of quota would best meet the objective of maintaining potential access while still adhering to precedents established in 1983, Mr. Dawson recalled. Such limits would also be consistent with the financial realities the Fund was facing. The staff's recommendations of annual limits of 65 percent of quota and cumulative limits of 290 percent of quota went beyond the objective of broadly maintaining potential access. For the bulk of the Fund membership, access would be increased; Table 2 of the staff paper showed that all major groupings of countries would receive a substantial increase in absolute access. Expanding access for the bulk of the Fund membership, at a time when reliance on borrowed resources was to be eliminated, was hard to reconcile with the objective of returning to traditional limits. Certainly, Mr. Fukui was correct in saying that it would be possible, with a 68 percent limit and use of the exceptional circumstances clause, to respond to special needs. The same could be said of access limits of 60 percent or 65 percent. In talking about the symbolism of reductions in access, it should not be forgotten that the Fund was a quota-based institution.

The mathematics of averaging made it unavoidable, in the view of his chair, that not all members would be treated identically by whatever access policy was adopted, Mr. Dawson observed. Some members' quotas would rise by more than 50 percent, some by less; access limits keyed to quotas would likewise affect members differentially. The arithmetic created some awkward cases that would need to be examined in greater detail. But the means for dealing with cases of a truly strong program with exceptional financing needs existed, as he had mentioned. His chair did not view the increase of quotas as an opportunity to consolidate enlarged access; on the contrary, it was an opportunity to make access policy consistent with the longer-term orientation of the institution. To focus on a policy under which no country would be a loser would have the effect of creating some major winners; again, that was not the nature of the institution.

The law of averages should not undermine the thrust of a policy of establishing access levels consistent with eliminating reliance on borrowed resources and consistent with continuing self-financing within the generous resources the Fund would have available after the Ninth Quota Review was implemented, Mr. Dawson went on. Those resources would be more than adequate to meet the demand for the foreseeable future, and the policy objective sought would not be achieved if the Fund deluded itself that expanded quotas were just an opportunity to consolidate the enlarged access introduced on the basis of borrowed funds, plus a general topping up of access for the bulk of the Fund membership.

Even the 65 percent and 290 percent limits proposed by the staff were objectionable to Mr. Landau and Mr. Fukui because they would reduce the access of several members, Mr. Dawson said. That was more a notional than an operational concern. Most of the members experiencing reduced access limits would be ESAF-eligible countries. Given the availability of the ESAF's resources and the financial attractions it offered, eligible countries would be expected to seek to draw on those resources rather than on the Fund's ordinary resources. Thus, even though the staff proposal implied a notional reduction in access to ordinary resources, that constraint should not be an effective limitation for ESAF-eligible countries' access to the Fund resources that those countries would most likely want to use.

The forceful case made by Mr. Landau that access to the ESAF should be completely unaffected by any steps taken to eliminate the enlarged access policy had persuaded him, Mr. Dawson stated. His chair could support any redrafting of the rules for access to ESAF resources that left such access unchanged at current nominal levels. That could be achieved either by preserving the linkage of ESAF access limits to the Eighth Quota Review or by simply restating ESAF access in nominal SDR terms rather than as a share of quota. The ingenuity of the Legal Department could be relied upon to undertake the creative drafting that might be involved.

If most of the members that were most affected by elimination of the enlarged access policy, namely, the ESAF-eligible countries, could be buffered by a redrafting of the ESAF access limits, there was little remaining rationale for not moving quickly to re-establish traditional access limits, Mr. Dawson considered. In November 1991, his chair had argued that some transition rules might be adopted that would allow a gradual rather than an abrupt phasedown of access for those members that would lose access if limits of 60 percent and 267 percent were introduced. Cogent legal and policy objections had been raised to that procedure. In a way, his authorities had not anticipated that freezing ESAF access in nominal terms would achieve a similar purpose. The most affected countries would be given exceptional consideration, and that consideration would be temporary since the ESAF itself was a facility with a limited life.

Concern had been expressed by Mr. Landau and Mr. Fukui that the reduction of any country's access risked sending the wrong political signal, Mr. Dawson noted. His chair's concern was that failing to grasp the nettle of bringing access policy back to traditional standards risked sending a different erroneous signal. The risk was that of confusing the membership and the markets about both the catalytic role the Fund was expected to play, and the scale of quota resources that the Fund could reasonably be expected to provide.

In the view of his chair, the staff paper emphasized a quite legitimate point when it stressed that access limits needed to be judged in the context of the resources available and the potential demands on those resources, Mr. Dawson said. Given the scale of quotas under the Ninth Quota Review, the 60 percent/267 percent access limits that his chair had proposed in November 1991 would be quite adequate for the Fund to provide the support it needed to, with a proper balance between financing and adjustment. Those limits would also fit comfortably with reasonable projections of Fund liquidity and Fund self-financing.

In his statement, Mr. Posthumus had expressed the view that cumulative access should be limited to 250 percent of quota to preserve a prudent self-financing ratio, Mr. Dawson observed. That view was based on staff liquidity projections indicating that as early as the end of 1994, access would have to be restricted in order to stay within an acceptable self-financing ratio. Alternatively, new quota resources would be required. That was an appropriate framework for thinking about access, but he was highly skeptical of the staff's long-run liquidity projections. The higher access that resulted from the staff's recommendations suggested that the demand for resources would exceed SDR 10 billion for three consecutive years, an amount well above any historical precedent, including at the time of the debt crisis. Even with the new demands from the countries of the FSU, he found those numbers well above any upper bound that he would consider probable.

It was worth recalling that it was nine years since the previous quota increase had come into effect, Mr. Dawson continued. Even so, the Fund liquidity ratio remained well above its long-term average. The ratio would be even higher if it did not include multiyear commitments under the extended Fund facility (EFF) that skewed the numbers. Some programs, after all, were not likely to be sustainable, with a greater impact on the liquidity ratio than if a probability adjustment was made for anticipated programs that did not materialize. For many years, liquidity estimates had been consistently wide of the mark. In the view of his chair, the staff liquidity projections could have been looked at in two ways, in the sense that on the one hand, the staff seemed to be recommending an access policy that was too generous, given the liquidity projections; whereas on the other hand, its liquidity projections might indicate the need to have an early quota increase. Those were valid arguments, but the memory of the Ninth Review was so fresh that the Board faced the very difficult question concerning what Mr. Landau had referred to as the dilemma of access, but which, unfortunately, was a dilemma of scarce resources and the need to take decisions in that context. Those decisions could include, for instance, a return to borrowing or a new quota increase, but the analysis had to be made in a very frank, probability-adjusted fashion as well. Certainly, it was necessary to take up the matter on an annual basis and, presumably, to revisit those decisions. But the most prudent course of action for the time being would be to adopt the position that he had sketched out, which would avoid a difficult situation in a year or so's time, when circumstances might be much worse than anticipated, although one hoped that they would be better.

Finally, Mr. Dawson stated, his authorities fully supported the staff's recommendation to abolish floating.

Mr. Fukui said that he had taken note of the point raised by Mr. Dawson, whose arguments, however, could be used just as easily to refute his position. The access limit was not an operational limit, nor was it a target; it was more of a symbol, expressed in percentage terms, and in that sense, it carried some political implications. His first point was that the wrong political signal should not be sent to the countries concerned.

Second, the institution was access based, Mr. Fukui added, making a strong case for sending a signal in terms of the percentage of access. In other words, if the percentage of access was reduced, the wrong signal might be sent. To clarify his point, according to his calculations, the limit on access to the ESAF would have to be 190 percent of quota in order to maintain eligible members' access under the facility. His chair's position was that access to the ESAF should not be reduced.

The Chairman remarked that, as suggested by Mr. Dawson, language could be found to ensure that outcome.

Mr. Landau said that he agreed with Mr. Fukui's remarks. He also would recall what seemed to be taken for granted, namely, that thought was being given to suppressing the upper limit. That upper limit was a very important feature of the previous system of access, and its suppression would eliminate the essential element of flexibility that had existed previously.

He also agreed with Mr. Fukui's view on the possibility of using the exceptional circumstances clause in a limited number of cases, Mr. Landau added. But to go further, as Mr. Dawson had suggested, to extend the application of that clause to limits of 60 percent or 65 percent would totally dilute the concept of exceptional circumstances. The risk then would be that there was no framework for judging access policy.

Although he had mentioned access to the ESAF of 200 percent of quota in his earlier remarks, he concurred with Mr. Fukui that 190 percent access was sufficient to maintain potential access for all members, Mr. Landau stated.

Mr. Posthumus remarked that his approach to the problem of access was to stress that one of the main responsibilities of the Board was to protect the liquidity situation of the institution. In addition, the Fund repeatedly advised all its members to guard their financial position, and to follow cautious fiscal, monetary, and financial policies. He would be concerned if the Fund were to send a signal that that was not a relevant concern for the institution.

Mr. Dawson said that he did not believe, as Mr. Landau and Mr. Fukui did, that the exceptional circumstances clause would be involved at higher access limits. He believed that it would be easier to justify invoking the clause with a policy of lower access. Truly exceptional cases could be justified, although he did not expect them to occur often, particularly as the vast majority of countries for which the clause would be involved were likely to be using ESAF resources rather than ordinary resources.

As for political signals, a very strong one would be sent if the nature of access to the institution's resources were to be changed--access that had been based on quotas, Mr. Dawson considered. Under some of the proposals that had been made, quotas were changing while access was being maintained. That, in his mind, sent a political signal that the Fund was no longer the relatively short-term financing institution that it had been. The most valuable signal that the Fund sent to member countries was in granting access based on strong programs. Instead of taking a decision that would placate a few countries, the Fund should encourage adjustment and growth so that certain countries would not lose as much in the quota calculations under future quota reviews.

The Deputy Director of the Policy Development and Review Department confirmed that a maximum access limit of 190 percent of quota would not have much practical effect on potential access to ESAF resources for any country. To attempt to maintain access expressed as a percentage of quotas under the Eighth Review or in absolute terms would create substantial legal difficulties.

An attempt to achieve the same outcome under the SAF would run up against potential resource constraints, because the maximum potential access under the SAF was actual access, the Deputy Director pointed out. There would thus be a risk of the Board having to decide at a later stage to reduce access, and at that point, reduced access would have to be applied to some countries that had already been given a commitment to draw.

Mr. Peretz commented that the decision before the Board seemed to him to entail a political signal only if that was how it was presented, both to the world outside and to the membership. The decision to be taken was, in fact, a technical decision, and it should be presented as such. As the Chairman had stated at the outset, it needed to be made clear to members, particularly the new ones, that it was not a question of entitlement but of maximum access, whatever decision was taken. To treat the decision as a symbol would run the risk of making it look like an entitlement; great care should be taken to avoid such a misunderstanding.

Mr. Filosa stated that he fully endorsed Mr. Posthumus's views on the advice given to countries, and the need for the Fund to set the same example; for that reason, it was necessary that the Fund not be seen as having no budget constraints, or, even worse, as having a soft budget constraint.

As for the relationship between maximum access and the relevance for the operational determination of access, Mr. Fukui had tried to loosen even further the link that existed, Mr. Filosa continued. There were asymmetries, but it was going too far to state that there was no relationship whatsoever between actual access and maximum access. Therefore, for operational purposes as well as for the signal to be sent, limits should be set that were consistent with the Interim Committee's views on borrowing, thus indicating that the Fund had budget constraints and that it had tried to balance two different needs. Finally, it was important to note that, as the Treasurer had said, changing the maximum limit could have an impact both on operations as well as on how the Fund was perceived outside the institution.

Mr. Landau said that the Fund was, of course, a quota-based institution, although the question of access had been explicitly raised in the discussions on the increase in quotas. A compromise had been reached about maintaining access independently of the quota increase. The issue had been discussed many times, and the views expressed had been reflected, one way or another, in the Managing Director's concluding remarks (11/15/91) and the references to them in the staff paper under consideration. To renege on that compromise would make further compromises more difficult; the Board had to interpret the compromise it had reached. However, he could not agree with Mr. Dawson, who seemed to suggest that at the earlier discussion there had not been consideration of the increase in quotas and the impact on access--the latter in a positive light.

Mr. Dawson commented that it had never been the view of his chair that access should be maintained for every single member. He wished to support Mr. Peretz's comment on the worrying political signals that the Board might send. Adopting a "no-losers" policy would send a political signal that many would regret in the future.

Mr. Goos noted that he could generally support the proposals in the staff paper, with one exception: the proposed annual and cumulative access limits of 65 percent and 290 percent of quota, respectively. In that respect, he shared the concerns expressed by Mr. Posthumus and Mr. Dawson. Like them, he felt that the proposal would result in an unsustainable development of the Fund's liquidity position which, according to the staff's own assessment, would remain sound only until the end of 1994, or perhaps early 1995; after that point, it would presumably become precarious.

Therefore, the proposal placed undue emphasis on the desire to preserve maximum potential access at the expense of the Fund's liquidity position, Mr. Goos considered. His concern was all the greater, given the unlikeliness that the Fund's resources would be increased further by 1995. In that context, he was not sure whether he had fully grasped the staff's reasoning in the paper that the proposed access limits would be consistent with the Fund's longer-term self-financing ratio. He had understood that the 300 percent level that had prevailed in recent years reflected the apparently exceptionally high level of the Fund's usable currency holdings, whereas the long-run average had amounted to only 250 percent. If that interpretation was correct, would the presumption not have to be made that the high credit demand projected for the new members in the coming years would significantly reduce the self-financing ratio below 250 percent? Perhaps the staff could elaborate further on that issue.

According to the remarks by the Treasurer, while actual access for the FSU countries was assumed to be up to 65 percent of quota in the projections, such access for the non-FSU countries would amount to only about 42-45 percent of quota, a rather low figure, Mr. Goos noted, as the Treasurer himself had said. That, of course, raised the question of the sustainability or the realism of the projection. And if one assumed that actual access would be higher than the figures mentioned by the Treasurer, there would again be a negative effect on the liquidity position of the Fund; the figures would be even worse than the current projection for 1995.

Against that background, it appeared to him that the access limits proposed by Mr. Posthumus would be more appropriate, but even those limits might be too high, according to earlier discussions the Board had had, Mr. Goos remarked. Obviously, the cumulative access limit of 250 percent proposed by Mr. Posthumus would only become effective in a little more than four years' time, namely, in 1996, after the liquidity position would have already deteriorated to an alarming point. The annual limit of 60 percent compared with that of 65 percent proposed by the staff would, therefore, achieve very little in stemming the deterioration of the Fund's liquidity position projected under the staff proposal. It therefore appeared that a more sustainable access policy would need to be based on annual access limits that were significantly lower than 60 percent.

The figures provided by the Treasurer showed the sensitivity of the liquidity ratios to the annual access limits, Mr. Goos noted. Some seemed to draw comfort from the fact that the staff's liquidity projections had traditionally been very conservative. The projection before the Board might indeed represent again a worst-case scenario. He could not help but stress that it was indeed appropriate, and in the interest of the financial integrity of the Fund, that access and lending assumptions be based on such worst-case scenarios.

Having said that, he also wished to express his reservations about the argument that nobody should lose in terms of access in the ongoing exercise of redefining access limits, and also about the concern that the Fund might give the wrong signal, Mr. Goos stated. Those issues had already been addressed by previous speakers, and he would simply re-emphasize that the existing enlarged access policy had been introduced as a temporary measure, with the clear understanding that it would be phased out over time and replaced by the traditional access limits of 100 percent and 140 percent for the credit tranches and the EFF, respectively. It therefore appeared that all members were bound to become losers, if one chose to use that terminology, in the process of normalizing the Fund's access policy, if that was to be achieved in a reasonable time period; he believed that the process should be started sooner rather than later, in the interests of the institution and its membership.

To reiterate, in that context, a well-known concern about projected lending activities over the coming years, Mr. Goos observed, even excluding the legitimate demands of the countries of the FSU, lending commitments were actually expected to increase by something like 50-70 percent by 1995, an estimate that he found difficult to reconcile with the Fund's mandate to provide temporary support for balance of payments problems. It was quite striking that, over the coming years, to quote from the staff paper, "some present debtor countries will reduce their indebtedness to the Fund." As to balance of payments support, he was not aware of any significant increase in balance of payments problems among the existing, traditional membership of the Fund that would justify an expansion of the Fund's lending commitments to the extent envisaged in the staff paper. Rather, he would have assumed that lending commitments would decline.

He hoped that those issues would be analyzed and discussed in detail in the context of the forthcoming study of the appropriate orientation of the Fund's activities; Mr. Goos said. For the time being, and in respect of the issues before the Board, he attached the utmost importance to the understanding that whatever access limits were agreed eventually, those limits would only be of a temporary nature and would have to be reviewed at regular intervals as proposed by the staff. The principle of the temporary nature of the new access limits could, to his mind, be adequately expressed in the proposed decision, by referring explicitly in the heading of the first proposed decision to the "temporary policy on access," rather than to the "policy on access." He recalled that Mr. Evans had made that proposal during the November 1991 Board discussion. In addition, an appropriate reference could be inserted in the text of the first proposed decision to the temporariness of the policy.

Finally, having indicated his chair's general endorsement of the proposals made by the staff, he wished to stress in particular his full support for the proposed elimination of the floating of facilities in relation to the credit tranches, Mr. Goos stated. Several considerations supported that proposal, including previous reviews by the staff that revealed a rather disappointing experience with unconditional drawings in the first credit tranche. It would, therefore, appear that the elimination of floating could significantly improve the prospects for successful adjustment, and thereby help reduce instances of prolonged use and overdue obligations to the Fund.

Mr. Dawson said that without the measures Mr. Goos, Mr. Posthumus, and he himself had mentioned, the temporary access policy ran the risk of being as misnamed as the medium-term strategy.

Mr. Goos responded that he was concerned that acceptance of the staff's proposals, or the even more generous proposals that had been supported by other Directors, would confront the Fund with many problems in the future. It was necessary to ensure, immediately, that the Fund was on a sustainable policy path; otherwise, he failed to see how it would ever be able to reduce access to the traditional limits.

Mr. Végh made the following statement:

> Although I share the thrust of the staff's analysis and conclusions concerning the new access limits, like Mr. Landau, I find firm ground for an upward rounding--to an annual limit of 70 percent of quota and a cumulative limit of 300 percent--of option IV. This would be consistent with the general understanding in the discussions on the Ninth General Review of Quotas that the new limits should be set so as to maintain "maximum potential access." At the same time, this would avoid the situation of having to reduce the access of a number of countries whose gross financing needs are unequivocally projected to rise during the period 1992-95. The modest absolute increase in average access for the membership as a whole should be seen in the light of a still considerable decrease in relative terms.
>
> Defining an access policy for the period ahead brings to the fore important aspects of the expected role of the Fund in the future, and also of its sources of financing. To the extent that we agree on a strengthened presence and influence of the Fund in world economic developments, something that is almost imperative

since the Fund achieved universality, we can also agree that a relatively important access level should be available to its members. This brings me to the financing aspects of the Fund. The decision to meet the Fund's credit demands with ordinary resources imposes on Fund operations, at least in the short run, a rigid limit represented by the self-financing ratio. We should not forget, however, the significance of the access policy as a signal to the international community of the Fund's readiness to support and catalyze support from others for members' adjustment efforts. The Fund cannot convey the impression of a hasty withdrawal from its central role. In this regard, early consideration of the Tenth General Review of Quotas is called for. The staff's projected liquidity ratios for end-1995 point to the same need, particularly if we take into account the Interim Committee's conclusion that the Fund should reduce its reliance on borrowing.

Allow me to make a further consideration on the borrowing policies of the Fund. While it has become a sort of conventional wisdom to affirm that the Fund should not resort to borrowing, I wonder why, with international capital markets undergoing continued deregulation and innovation, a financial institution such as the Fund should refrain from borrowing. Moreover, present circumstances are characterized by a high degree of uncertainty. The Fund should be in a position to adequately meet the likely demands of one or more of our creditor members, especially after the events of last September in the foreign exchange markets. It seems to me, therefore, that a less binding position in relation to borrowing is called for.

In relation to the floating nature of various facilities and credit tranche conditionality, there are valid arguments for both its elimination or its maintenance. On balance, however, I consider that eliminating the floating nature of special facilities may cause some countries to postpone coming to the Fund to begin a serious dialogue leading to an agreed program of adjustment. The shorter negotiation period of special facilities as they stand today allows for flexible and timely Fund support, which, in turn, permits the Fund to initiate discussions on a more comprehensive program of adjustment when the situation warrants it. Furthermore, I am not yet convinced that the high level of access that has occurred in several cases in the past is solely attributable to the existence of floating facilities. The fact that average actual access is well below potential access reflects the need for flexibility on the part of the staff in accommodating individual circumstances.

I would like to close on this point by making a general call for the simplification of the Fund's special facilities. Both their number and characteristics deserve further study so as to bring about the needed transparency and to reduce uncertainty relating to members' financing possibilities. The complex structure of the compensatory and contingency financing facility (CCFF) access sublimits vividly exemplifies this need; in this respect, we agree with the proposal to simplify the new access policy by eliminating the dual and triennial access limits. On the SAF and ESAF, I agree with the need to adjust the access limits, taking into account the resource constraints for these facilities and the general principle that no eligible country should suffer from a reduction in absolute access. In line with the simplification of the new access policy, I consider that this should be possible; I do not see much benefit in frequently reviewing the access policy that is agreed upon at this time. I would favor an initial review within 18 months and periodically thereafter.

Finally, I would appreciate some clarification from the staff as to how countries with a rights accumulation program would fit within the new annual access limits, particularly at the time of encashment of the accumulated rights as the first disbursement under a successor program.

Mr. Peretz said that he would address four subjects: annual access to general resources, cumulative access, limits under the ESAF, and the floating nature of facilities. All recommendations to which he did not explicitly refer, he approved. He could, he believed, claim a certain degree of objectivity, speaking as he did for a Fund member whose potential access would be reduced under any of the options that were being discussed.

Clearly, no decision on access limits could be allowed to endanger Fund liquidity, Mr. Peretz noted, and he agreed with what others had said on that aspect. He also agreed on the need to review the limits annually in the future.

On annual access, Mr. Peretz stated that he supported the staff's compromise proposal of 65 percent, which his chair had suggested when the Board had discussed the matter in November 1991. The proposal avoided the disadvantage of the 68 percent solution, namely, that a large number of countries would enjoy substantial "windfall" gains as a result of trying to accommodate an extreme case, such as that of Equatorial Guinea. Using the 65 percent figure, countries likely to borrow would receive average increases of 5 percent in their limits.

The staff noted that under the 65 percent option, about one fourth of individual countries would experience a reduction of between 0.3 percent and 27.8 percent, Mr. Peretz continued. On the face of it, that seemed severe; but, looking behind those aggregate figures, there was, in fact, little or no actual loss in access involved. First, if the two most extreme cases--the United Kingdom and Cambodia--were ignored, no country's access limit fell by more than 4.6 percent. Second, as Mr. Dawson had pointed out, of the 35 other countries, excluding the United Kingdom and Cambodia, that experienced a reduction in their limit, no less than 30 were ESAF-eligible. For those 30 countries, access to concessional financing was more important than access to nonconcessional general resources. Of the 5 other countries of the 35 whose annual access limit would be reduced, none would lose more than 1.2 percent of its current limit, which was equivalent to 0.8 percent of quota. For 2 of the 5 countries, in fact, the cumulative limit would actually go up under the proposal for an upper limit of 290 percent as a result of rounding. From the Treasurer's remarks, he understood the staff's liquidity calculations assumed that in no case would those practically invisible reductions in access limits in practice reduce actual access. Against that background, he saw no case for raising the annual access level above 65 percent. Others had set out strong arguments for a figure below 65 percent, but he could support a maximum limit of 65 percent. The exceptional circumstances clause would, of course, still be available to allow higher access in a particularly pressing case, should one emerge.

As for cumulative access, a subject to which little attention had been paid the previous year, Mr. Peretz remarked that he had some sympathy for Mr. Posthumus's concerns. Logically, it was cumulative rather than annual access levels that would have the most effect on medium-term Fund liquidity. But it was difficult to have a benchmark from which to judge the correct cumulative limit. In the first place, although the staff liquidity forecast projected a very weak position by end-1995, he agreed with others that there had been a history of consistently overpessimistic forecasts.

Second, one had to ask whether the annual or the cumulative limit was currently the most constraining factor in practice and, hence, the most important influence on actual access, Mr. Peretz continued. His impression was that, in practice, it was normally the annual figure that was the constraint. The existing annual limits and repurchase terms set their own implicit constraints on cumulative access, without the formal cumulative limit coming much into play. The staff paper noted that, even if all members purchased 65 percent of quota from 1992 through 1995, only 6 would actually be constrained by a cumulative limit of 290 percent. His understanding was that only a few more would be constrained if the limit were set at four times annual access, namely, 260 percent. Experience with past programs, too, suggested a tendency to approach the annual limit more often than the cumulative one.

The argument could be made both ways, of course, Mr. Peretz added. It could be said, on the one hand, that as long as the annual limit was appropriate, the cumulative limit would be taken care of. On the other hand, it could be said that the cumulative limit was redundantly high and that it should be cut back to a point where it became an effective constraint. He was sure of only one thing, that whether or not the cumulative figure was considered important, the annual one was in practice just as important, if not more so. In the circumstances, and if agreement could be reached on annual access of 65 percent, he saw no strong reason to change the current relationship of annual to cumulative access. Therefore, he would support a cumulative limit of 290 percent, although he could join a consensus on a figure below that. If, however, there was a majority for an annual access limit of more than 65 percent--and he hoped that there was not--then the cumulative limit would have to be looked at much more seriously. He would want a figure below 290 percent, and he would join those seeking a cumulative limit of, say, 270 percent.

As to ESAF limits, given the limited resources available, it would be false generosity to do more than preserve the current average access in nominal terms, Mr. Peretz considered. As long as the average was maintained, and assuming that the staff took appropriate account of the funds available when granting individual access, he would see no great difference between the staff's proposed new maxima or slightly higher ones, as suggested by the Deputy Director of the Policy Development and Review Department. In fact, he could support 190 percent, which would preserve existing nominal access for all ESAF-eligible countries, a position that he would favor.

Finally, his chair agreed in principle with the staff arguments for ending the floating nature of resources, Mr. Peretz stated. He saw arguments both ways, but it seemed appropriate to relate the degree of conditionality to the amount of Fund exposure. Indeed, if a member were unwilling or unable to adopt the conditionality that would be implied if floating did not exist, then that should give the Fund pause over the continued strength of its adjustment effort. That seemed to him to be particularly true for the EFF, which, he understood, had been made floating in the first place largely to allow access levels to be higher. The subsequent introduction of overall access limits under the enlarged access policy had made the need for floating redundant. Thus, he would support the elimination of floating, except to say that as far as the CCFF was concerned, a final decision on its floating nature could perhaps be delayed until the overall review, which was to be carried out shortly.

Mr. Che said that he would begin with a few remarks on the guiding principles that should underlie the decisions on the specific issues in relation to access policy and limits in connection with the quota increases. First, more and more developing countries had been adopting reform policies in recent years, and they were seeking both policy advice and financial assistance from the Fund. A number of developing countries could neither afford, nor were they able, to borrow from international financial markets. Therefore, they relied substantially on financial assistance from the Fund. Moreover, the FSU countries, as new members of the Fund, were also in urgent need of help from the Fund. Those two factors were of vital importance in the deliberations on access. In the view of his chair, the Fund was obligated to provide member countries with as much financial support as possible; otherwise, the wrong signal might be sent to the international community, namely, that the Fund was weakening the role it should play in assisting economic adjustment.

Second, no member country, particularly the developing countries, should lose if there was any change in access policies, Mr. Che observed.

Third, the Fund's liquidity position was a matter of great concern, Mr. Che said. His authorities were worried about the staff projection that the Fund's liquidity ratio would fall to some 33-49 percent by the end of 1995. Such a liquidity ratio would be considerably below the traditional liquidity position of 70 percent. In that connection, he urged a timely start of the Tenth General Review of quotas.

That being said, he wished to emphasize two points, Mr. Che commented. First, with respect to the limits on annual and cumulative access, his preference was for option II, annual and cumulative limits of 83 percent and 333 percent of quota, respectively, which would maintain potential access for the member with the smallest percentage quota increase. However, he could go along with Mr. Landau's compromise proposal for annual and cumulative limits of 70 percent and 300 percent, respectively. He could also support the limit for access to the ESAF, proposed by Mr. Landau and Mr. Fukui, of 190 percent of quota. According to the staff's proposal, although all grouped countries would avoid a reduction, the access of developing countries as a whole would increase by only 6.9 percent, below the average increase of 8.3 percent for all members and much lower than the increase of 9.2 percent for industrial countries as a group. His authorities were particularly uneasy because the African countries, which as a group needed the Fund's financial support most, instead were to receive an increase of only 3.4 percent, the lowest in comparison with all other groups. Some way should be found to offset that outcome.

His second point concerned the proposed elimination of the provisions for the floating of facilities in relation to the credit tranches, Mr. Che said. His chair maintained the position it had taken at the previous discussion on November 15, 1991. The flexibility inherent in floating should be retained.

With those comments, Mr. Che concluded, he could endorse the other proposed decisions.

Mr. Knight stated that having recently wrestled with the complexities of the existing array of Fund facilities and access guidelines, he could personally welcome the fact that the recommendations before the Board represented a move in the direction of simplification. There remained considerable scope to simplify both the facilities and the guidelines on access, and his chair would urge the staff to continue efforts in that direction.

The staff proposals offered a necessary compromise between those who, like Mr Posthumus, were properly concerned about Fund liquidity, and those who sought to ensure that no member's access to Fund resources was adversely affected, Mr. Knight noted. Without attempting to debate those points in detail, he could state that his chair was willing to support the staff's suggested percentages of 65 and 290. A little flexibility either way would be acceptable for the cumulative limit, but his authorities would not like to see the annual limit fall below 65 percent. Liquidity pressures might, in time, force a downward review of access percentages, but that action need not be taken precipitately, although he agreed with others that the liquidity outlook would need regular reconsideration. Equally, as Mr. Peretz had pointed out, there did not seem to be much substance to the argument that the limits proposed by the staff would bring about serious difficulties for individual low-income members, bearing in mind the continuing availability of ESAF funds and the essentially catalytic nature of Fund financing.

His chair could also accept the staff's recommendations on issues other than floating but would have no problem in joining a consensus to set the level of access to the ESAF at 190 percent, as proposed by Mr. Fukui and others, Mr. Knight said.

On the issue of floating, it had to be acknowledged that the problem--if there was one--arose because the procedures and facilities designed in the past had provided for access with very little conditionality, Mr. Knight noted. For the most part, those decisions had been made for valid reasons and, to the extent that they remained valid, it need not be of undue concern if some countries thereby gained relatively high access in a limited set of circumstances.

That comment applied particularly to the CCFF, Mr. Knight considered. The fact that a country could gain 90 percent access in the first credit tranche combined with the unconditional part of a compensatory financing purchase need not be of concern, provided the country was cooperating--for which there were objective tests--and had balance of payments justification under the CCFF guidelines. His chair would, therefore, tend to support retention of the floating provisions at the present time.

Mr. Al-Jasser made the following statement:

> I welcome this discussion, especially as the coming into effect of the quota increases is imminent. I shall organize my remarks along the lines suggested in the summary of the staff paper.
>
> At the outset, I would like to support the elimination of the enlarged access policy and its replacement by a policy that relies primarily on the Fund's ordinary resources for purchases under the credit tranches or under the EFF. However, access policy must satisfy the need to preserve an adequate liquidity position and to maintain, in the near future, existing maximum potential access. Regarding the evolution of the Fund's liquidity position, I agree with the staff that uncertainties surround the liquidity position owing to the dramatic expansion in the Fund's membership. However, these uncertainties are offset by the persistent downward bias in the staff's liquidity projections. Consequently, while I

agree that caution is imperative, I believe that the projected liquidity ratios for end-December 1995 are somewhat pessimistic.

This being said, it is important to set access limits in line with the Fund's longer-term, self-financing ratio. Moreover, it must be emphasized that access limits are only limits and not targets. That, of course, applies to all members. During the previous discussion on access policy, I supported option IV, namely, annual and cumulative limits of 68 percent and 303 percent of quota based on the present lower limits adjusted to maintain potential access for the member with the smallest percentage quota increase. In light of the need to avoid sending an inappropriate signal that the Fund is reducing access in SDR terms, I continue to favor this proposal. However, in an attempt to simplify access limits, the staff has proposed to round off the figures and is suggesting single annual and cumulative access limits of 65 percent and 290 percent of quota, respectively. If there is a strong majority in the Board for these limits, I can support them. However, in my view, a simple and appropriate compromise could be reached by rounding those limits to 70 percent and 300 percent of quota. With respect to guidelines on individual access, the exceptional circumstance clause, and the financial terms of purchases, I agree with the staff's proposals.

On access under special facilities and in support of debt operations, I endorse an adjustment in proportion to the adjustment in the annual limit on access under the credit tranches and the EFF, taking the present lower annual limit as a base. Naturally, if limits of 70 percent and 300 percent of quota are accepted for the EFF, the proposed figures for the special facilities would need to be adjusted accordingly.

On access to the ESAF, the limited availability of ESAF resources and the need to avoid a first-come, first-served approach necessitate maintaining absolute average access for ESAF-eligible members. Hence, average access for originally eligible members will need to be reduced from 150 percent to 110 percent of new quota. However, maximum limits could be adjusted to ensure the maintenance of absolute access, which would lead to a somewhat higher figure than that suggested by the staff. Here, I can go along with the staff's proposal or the slightly higher access proposed by Mr. Fukui.

The staff has put forward several important reasons for eliminating the provisions for the floating of facilities in relation to the credit tranches. Nonetheless, on balance, I remain opposed to the proposal. On previous occasions, I have elaborated extensively on the reasons behind my position. However, suffice it to say that the elimination of floating would indirectly tighten conditionality, a position which I do not support.

The Chairman remarked that on the occasion of the review of access policy, tribute was due to Saudi Arabia for its outstanding contribution to the funding of that policy during what had been a lengthy and indeed difficult period for the Fund.

Mr. Fernando made the following statement:

In determining access limits on Fund credit, it is incumbent to address the present and prospective liquidity positions at the very outset. The staff projections--confirmed again by the Treasurer as being justifiably conservative such as to rule out any downside risks--give no cause for concern over the next two years. The recent extension of ESAF eligibility to 11 new members should reduce the demands on the Fund's general resources. Also, we should not downplay the potential contribution of returning flight capital and portfolio inflows to narrow the financing gaps in the case of those implementing strong adjustment programs. This category includes the former centrally planned economies now in transformation where actual access is well above the average in terms of the Fund's share of the financing gap.

In moving toward a fully quota-based institution, I was struck by the absence of any reference in the staff paper to the Tenth Quota Review, which, if we play by the rules, should be well into its concluding stages. The cutoff point of 1985 for the Ninth Quota Review seems much more remote than the number of intervening years if one factors into global developments the economic impact of the political revolutions in former centrally planned economies.

The implication of the argument that this should be a fully quota-based institution is that access levels should be returned to what is prescribed in the Articles. We could have examined this proposition seriously, if the several other things that should also have been done according to the Articles had indeed been done. Without attempting a comprehensive listing, I would limit myself to citing the protracted delay in the quota exercises, the growing disparity between global trade and Fund size, and the growing remoteness of Fund influence on the level and composition of international liquidity as important areas where we lag behind. Meanwhile, in our view, we would be serving the cause of the Articles well by following prudent policies on actual access--whatever label we attach to them, be it the new access policy or whatever--and by keeping liquidity under constant review. We fully echo the staff view (EBS/91/152) that "the guidelines [on access] embody principles that are relevant in determining the appropriate levels of financing that could be provided under almost any system of access limits." It may be noted that this safeguard has maintained the integrity of the Fund's finances in ample measure.

It has been generally agreed that maximum potential access shall be maintained for a period after the new quotas become effective. But interpretations differ. Opinions have not crystallized as to whether this proposition should be based on the lower or upper tier of dual limits. Similarly, it is unclear whether maximum access should be preserved on the average for all members or in absolute terms for all members.

We do not agree that the current 90 percent limit for annual access should serve as the base for determining new access limits. The system of dual limits was adopted in 1984 precisely to preserve maximum potential access in absolute terms in a situation where the quota increase was non-uniform. If, in addition, we calculate new access limits at any ratio higher than that applicable to the member with the smallest quota increase--namely, a coefficient of 1.32--then we would have inflicted a double discount on the current maximum potential amounts in absolute terms. On this basis, I should argue for retaining access at the absolute amount relating to the annual limit of 110 percent, as my Indian, Bangladesh, and Sri Lanka authorities wish me to do. This translates to an annual limit of 83 percent of new quotas.

This said, such a limit is too much out of line with the majority view, and in a spirit of compromise, we could accept the 73 percent/293 percent limits. Again, these are based on the current annual limit of 110 percent, but provide for preserving access on average only for the membership as a whole.

In suggesting these positions, we recognize that the Fund's quota resources alone may not be able to sustain the associated cumulative access levels, which are above the historical average for the self-financing ratio. But this risk should not persist under the next quota review. If an undue delay is foreseen here, then we should consider a certain amount of fresh borrowing at the margin. We do not see any inconsistency here vis-à-vis the Interim Committee conclusion that the Fund should reduce its reliance on borrowing. It has been argued that ESAF-eligible countries should look to the ESAF for Fund support, and, therefore, that the traditional approach of relating access to the Fund's general resources under stand-by arrangements and similar facilities is less relevant. We do not share this view. We are considering a major aspect of Fund policy that has a much more permanent character than the SAF and ESAF. We would not wish to dilute this focus.

On the SAF, I have no difficulty with the proposals for the revision of access limits. For the ESAF, we favor access limits that broadly maintain present potential access. For purposes of uniformity of treatment, we can go along with a reasonable limit--190 percent.

On the question of floating in relation to credit tranches, as at the previous discussion, we remain strongly opposed to the elimination of these provisions. As set out in the Chairman's concluding remarks at the previous meeting, that point of view was shared by many Directors, although we wonder how the staff arrived at its tally (page 15, EBS/92/159) of an even split between the Directors who favored retention and those who favored the elimination of floating. For both the CCFF and the EFF, the circumstances in which they operate are clearly defined. The policies relating to these facilities have appropriate conditionality to safeguard the resources of the Fund; for instance, for the compensatory element in the CCFF, the shortfall should be of a temporary nature, be outside the member's control, and be reversible. Limits are also placed on the calculation of the shortfall in terms of a cap on projections for the post-shortfall year. Conditionality is tailored to a member's track record on economic management. In this policy environment, I find it very difficult to accept the view that the release of the first credit tranche on low conditionality, along with or while there are outstanding purchases under other policies, involves an excessive risk.

In this context, I would note that the termination of the enlarged access policy, on the basis that borrowed resources are no longer available, would induce a rebalancing between adjustment and financing in favor of adjustment. It should be recalled that the enlarged access policy made resources available not merely in larger amounts, but also for a longer period, namely, for seven years. With the elimination of that policy, we would be looking for strengthened adjustment policies that would bring about earlier and more pronounced progress toward balance of payments viability. That is another argument to support the view that this is not the appropriate time to consider the elimination of floating, but we are prepared to review the matter on the basis of more definitive work on whether, and to what extent, this policy has contributed to a weakening of adjustment policies.

Mr. Ismael said that he would go straight to the heart of the issues at hand. First, on access under the credit tranches and the EFF, his chair felt that the staff proposal of limits of 65 percent and 290 percent of new quotas seemed to be on the conservative side and to be prone to the risk of sending conflicting signals to the international community at large regarding Fund support for member countries' adjustment efforts. While recognizing the importance of budgetary constraints, his chair could support

Mr. Landau's proposal for limits of 70 percent and 300 percent of quota, which would reflect a downward adjustment of about 23 percent compared with 28 percent based on the staff proposal. Since those limits were not targets, they would still give the Fund considerable flexibility in the implementation of the access policy.

Second, regarding other issues related to access, Mr. Ismael stated that his chair could support the staff's proposals for terminating the triennial limits and the dual limit structure, maintaining the guidelines on access in individual cases, and retaining the exceptional circumstances clause. He agreed with the proposal to finance drawings under the new access policy with ordinary resources at the initial stage under the usual terms. However, in view of the uncertainties concerning the Fund's liquidity position and member countries' needs for Fund resources, especially in light of the new membership of the countries of the FSU, the option of using borrowed resources, in the opinion of his authorities, should not be entirely ruled out for the longer term. He also agreed that the new guidelines should be reviewed in no later than 12 months.

Third, Mr. Ismael said that his chair was of the view that access under the special facilities and in support of debt-reduction operations should be adjusted accordingly, using the same downward adjustment factor of 23 percent instead of 28 percent, taking the present lower annual limit or access limit as the base. With regard to SAF and ESAF access, he could support the limits of 110 percent and 190 percent proposed by Mr. Landau and Mr. Fukui.

Finally, as discussed during the November 1991 Board meeting, it would be preferable to maintain the floating nature of the special Fund facilities, which would enable the Fund to respond appropriately to member countries' circumstances, Mr. Ismael concluded. He wished to stress that further study would be needed before any changes were made to the floating policy.

Mr. Torres made the following statement:

> The delay in the entry into effect of the increase in quotas under the Ninth General Review has provided several opportunities to discuss access policy. These discussions have been fruitful since they have led to an agreement on some basic principles, which are worth remembering.
>
> First, there has been overall agreement on the desirability of maintaining access limits, in absolute terms, broadly the same. However, we have not been able to reach a consensus on the precise operational meaning of maintaining the same access level. This lack of consensus generated a range for the annual access limits of 60 percent to 83 percent. We were among the many Directors who, in November 1991, stressed the continuing payments difficulties and uncertainties facing many members, and we supported

annual access limits of at least 83 percent and cumulative limits of at least 333 percent.

Second, it has been widely acknowledged that the rationale that led to the creation of the enlarged access policy, namely, "to provide balance of payments assistance to members facing external imbalances that are large relative to their quotas," is still present, and that this will disappear only when Fund quotas have been realigned with the actual size of payments imbalances.

Third, Fund liquidity has remained adequate, in spite of the delay in completing the Ninth Quota Review. The staff, with its traditional cautious stance, stated in EBS/91/152, that "after the quota increase enters into effect...the liquidity ratio is projected to remain at broadly satisfactory levels through end-1995 under any of the alternative access limits discussed, declining to within a range of 68-79 percent at the end of the period." Therefore, given the usual downward bias in the staff's liquidity ratio estimations, it was clear that liquidity considerations would not represent a binding constraint in the foreseeable future.

Against this background, we are now presented with a proposal that sets annual access limits at 65 percent and cumulative access at 290 percent, to be reviewed within 12 months and periodically thereafter. Additionally, we now find that the staff, for some reason that is not clear, considers that the lower access limit is the most relevant in an operational sense.

Moreover, the medium-term projections of Fund liquidity are much more pessimistic now--a decline in the liquidity ratio of 30 points, from 79 to 49--based on the additional countries that have become members of the Fund, in spite of a liquidity ratio of 83 percent at end July-1992 and in spite of many years of experience with average actual access of about one half of potential access. In any case, the important point is that potential access and the liquidity situation of the Fund are not related. A potential access level of 83 percent would not change the estimates for individual access made by the staff; therefore, the liquidity ratio would not deteriorate.

Undoubtedly, it is always wise to be cautious and to dissipate any doubt about the strength of the Fund's liquidity. However, being overly cautious--overestimating the demand for Fund resources, underestimating the amount of usable currencies, granting actual access way below the potential, imposing rigid conditionality--has its costs. These are felt in particular by those member countries that need every bit of financing that is available from international financial institutions.

The costs and consequences of reducing access limits must be weighed very carefully before a final decision is reached. The first consequence is that the quota increase will be perceived in many developing countries to be operating in a perverse direction. Higher quotas will mean lower potential access, and it will be difficult to persuade member countries that the operational limit is the lower limit.

The second consequence is the impact of the perception in the international community of the role of the Fund. In this world where symbols play a central role, the Fund will be sending a message of contraction and of retrenchment.

The third consequence is that the liquidity situation of the institution will not deteriorate as projected. In a sense, the prospects of a new quota increase will be hindered, since major shareholders will not perceive the need to augment quotas, given the favorable liquidity situation.

Switching from the world of perceptions to the specific factors that should be considered when establishing the adequate level of access to Fund resources, one finds that all of them point toward its maintenance or to an increase in access levels.

First, the outlook for the world economy is substantially grimmer than at the time of the last review of access policy. Just a week ago, the Economic Counsellor pointed out that the revised World Economic Outlook would include a downward revision of the prospects for the growth of world economic activity and trade.

Second, the Fund has become a truly universal institution with many of the new member countries facing large financing needs and severe payments imbalances.

Third, external financing from commercial sources remains unavailable for many countries, and the prospects for the near future are not better than during our last review of access policy.

Fourth, the design and implementation of growth-oriented adjustment programs continue to require an adequate amount of financial support. This applies not only to the developing countries with severe external imbalances, but also to the countries whose economies are in transition toward market economies. For instance, the experience with Eastern and Central European members in 1990-91 shows the importance of large financial involvement by the Fund, at least in the early stages of the reform process. Moreover, countries that need Fund resources for debt-reduction operations under the Brady initiative require significant amounts of financial support in order to elicit an effective response from external and domestic markets.

The Fund's liquidity ratio will improve considerably with the quota increase--to over 100 percent--and it remains to be seen if it will fall to the 33-49 percent projected for end-1995, since there is a tendency to overestimate the effective demand for Fund resources.

Given all the forces at work, therefore, one wonders if it is the right time to reduce access limits, and if this is the right policy to pursue. We would be prepared to support a compromise that sets the limit at least at 73 percent. This would mainly be a symbolic gesture, but it would have the virtue that on average no member country would have its potential access curtailed in absolute terms. Under the current proposal, 36 countries would suffer a reduction in access--and access with respect to the lower limit. For the quota increase to be of any significance to developing countries, at least it should not operate in a perverse direction with respect to potential access to Fund resources.

On the floating of facilities in relation to the credit tranches, we continue to consider that the so-called benefits--namely, to re-establish the first credit tranche as the earliest recourse to Fund credit, to avoid front-loading, and to simplify the rules--do not weigh heavily against the cost associated with such a decision, for instance, changing long-established rules, and unduly constraining the access to Fund resources of countries that face minor balance of payments problems and need quick-disbursing assistance.

To conclude, we cannot support the staff proposal on access. However, we are in general agreement with the proposals put forth regarding the financial terms, access under special facilities and in support of debt operations, and the proposal of Mr. Landau on access under SAF and ESAF arrangements.

Mr. Filosa made the following statement:

The setting of access limits in connection with the coming into effect of the increase in quotas under the Ninth General Review needs to be assessed considering two crucial aspects of the Fund's lending activity.

First, we need to affirm the continuing readiness of the Fund to support members' adjustment programs by setting access limits that permit actual and prospective program countries to make purchases from the Fund that are commensurate with their financial needs and with the quality of their programs. I will refer to this as the demand aspect of the problem.

Second, we need to assess the access limits in such a fashion as to preserve a satisfactory liquidity position of the Fund in the years to come and to permit the Fund to work on a self-financing basis in the medium term, namely, to finance purchases without recourse to borrowing. I will refer to such aspects of the access policy as the budget constraints to our lending activity. There are clear trade-offs among these aspects of access policy. High access can be granted by accepting low liquidity and/or by taking recourse to borrowing. The opposite, preserving liquidity and refraining from borrowing--as we should refrain--would require adopting a prudent access policy. Since our previous discussion on November 15, 1991, the evolution of the world economy has changed significantly and the trade-offs have become more constraining.

Concerning the demand side, the staff now estimates that the potential demand on Fund resources is almost two times that projected only one year ago because almost all new members of the Fund are expected to request financial resources from the institution in support of their reforms.

As this chair pointed out one year ago, in setting the new access policy, we should signal to the countries concerned, and to the financial community in general, the Fund's intention to maintain its central role in sustaining adjustment programs. In doing so, however, the Fund should continue to play a role that is essentially catalytic. More specifically, in setting the access limits, we should accept the fact that at the outset of adjustment programs, Fund resources should be mobilized in amounts substantial enough to start the adjustment program, but with the longer-term view of gradually decreasing the use of Fund resources. Contributions from private sources should gradually increase, so that, eventually, the provision of the bulk of financial resources would shift from the official sector, including the Fund, to these creditors. Such a progression would be consistent with the policy of reducing access in individual multiyear programs--in particular under the EFF--as adjustment materializes, and should be reflected in the structure of the access limits we are about to set.

The readiness to satisfy increased demand for financial assistance has its limits in the need to maintain at all times a satisfactory liquidity ratio and to eliminate, to the extent possible, borrowing, as recommended by the Interim Committee.

Over the past couple of years, the changes in the world economy have increased the Fund's membership without producing, however, a significant inflow of usable resources. These developments have made our budget constraints more stringent. Although estimates concerning new commitments are highly tentative, and although we have been witnessing substantial and repeated underestimations of liquidity ratio projections, it seems to me that it would not be prudent to take the chance of allowing a fall in the liquidity ratio of the order estimated by the staff. Also, compared with previous estimates, the self-financing ratio is significantly lower than the 300 percent that was calculated a few years ago. While the elimination of borrowing need not be taken literally, it does not seem appropriate to set access limits in such a fashion as to make it highly probable or almost certain that new borrowing would be required to finance purchases from the Fund. We should not be seen by the international community as having a soft budget constraint ourselves.

Translating these considerations--which are general in nature and which depend on estimations that are highly uncertain--into specific numbers for access limits is undoubtedly difficult. However, I am of the view that while the 65 percent annual access limit is acceptable, we should reduce the cumulative limit to between 250 percent and 270 percent of quota, precisely to make compatible, ex ante, maximum access with a more comfortable liquidity position and no reliance on borrowing.

On the occasion of the last discussion, this chair suggested a compromise for an annual access limit between the alternatives prepared by the staff of 60 percent and 68 percent. We ventured to suggest a 65 percent limit, which could have been acceptable to everybody on the Executive Board. A 65 percent limit not only implies an increase of maximum access, which goes beyond the understanding of temporarily maintaining access, but would in fact limit to negligible proportions the possible reduction of maximum potential access for some members.

Simple calculations confirm this view. In fact, should the annual access limit be set at 65 percent of quota, only six countries--plus the United Kingdom and Cambodia--would experience a reduction of maximum potential access larger than 3 percent. Let me also note that--again, excluding the United Kingdom and Cambodia--those countries have an actual quota that in relation to calculated quota is between three and eight times larger than the average for the membership. In other words, they already benefit from a sort of extra "enlarged access" to Fund resources relative to what is justified by their economic size.

I fully endorse the comments made by Mr. Dawson that the Fund is a quota-based institution, not an access-based institution. It would, therefore, be contrary to the very essence of the working of this institution to set access limits that explicitly prevent the changes in individual quotas from being reflected in access to Fund resources.

The staff also estimates that under its proposal, only two countries by 1994 and an additional four in 1995 would experience constrained access, assuming, however, that in each year, beginning in 1992, these countries would purchase at the limit of 65 percent of quota. In my view, this possibility not only is unlikely, but we should refrain, as we actually did in the past, from considering that in each year of programs, the maximum potential access should be granted. We should, instead, consider a policy in which, after initially high access to be granted contingent on the adoption of a strong program and high financial needs, access would be gradually reduced. In this perspective, the cumulative limit should be set at a level that is consistent with the Fund's own estimate of the self-financing ratio. I have suggested the range of 250-270 percent for the cumulative limit, which is precisely the range of the self-financing ratio estimated by the staff.

I believe that the maintenance of our guidelines on access policy as well as the exceptional circumstances clause would continue to serve well the purpose of assisting all countries as we did in the past. I believe that the 65 percent access limit and a cumulative limit in the range I indicated earlier would not prevent us from providing the necessary financial support to members undertaking strong adjustment programs.

I concur with the staff on the setting of access limits under the special facilities and in support of debt-reduction operations as well as access to SAF resources. Concerning ESAF arrangements, I would support the suggestion to leave absolute access to ESAF resources at the level that prevailed under the Eighth Review.

Finally, I am of the view that a decision on whether we should put an end to floating in relation to credit tranches should be taken in the broader context of the decision on access policy. In considering that the number of floating facilities has grown over time, that their amount is about 500 percent of quota, and that for some of them there is no phasing, I am of the view that it is appropriate to eliminate the floating provisions. Indeed, by allowing members with upper credit tranche drawings outstanding equivalent to a multiple of their quota to have access to the first credit tranche will continue to profoundly distort the normal sequence of conditionality of Fund-supported programs. Besides, the possibility of significant front-loading and the impossibility of phasing access under various facilities would increase the rigidity and riskiness of the Fund's action; and, as the staff points out, in the final analysis, the maintenance of floating would unambiguously contradict the very concept of maximum potential access that we are trying to define and adopt with our decision on access. If we fail to eliminate the floating provisions, we will appear to the international financial community as an institution that, after having fully considered and weighed all factors having a bearing on maximum access, will immediately contradict itself by accepting that such a maximum can be overshot--by a wide margin--in a large number of cases and circumstances.

Mr. Santos made the following statement:

Since our preliminary discussions last year on access limits, some important developments have occurred in the world to the point that the Fund has become a fairly universal institution. The staff projections show the likely impact of these developments on liquidity over the medium term, and they have been taken into account by the staff when proposing new limits.

Like other speakers, we are also concerned by the decline of the liquidity ratio as projected by the staff for the period October 1992 through December 1995, resulting in part from the large new commitments to the FSU over the period through 1995.

However, we also note that traditionally these projections have been somewhat pessimistic. In any event, two considerations should help to allay our fears in this regard. First, the fact that the enlarged access policy should lapse would not preclude the Fund from borrowing in the future if circumstances warrant. Second, as mentioned by many speakers this morning, the Fund is a quota-based institution and, therefore, we should endeavor to keep the agreed timetable for the completion of the Tenth General Review.

The proposed new access limits--65 percent and 290 percent--derived by the staff are, in our view, inadequate. They are extremely conservative and contain a high degree of judgment on the factors that could affect the Fund's liquidity ratio in the medium term. Moreover, Table 2 in EBS/92/159 indicates clearly that with these proposed access limits, the outcome of the ninth quota increase would mean, for sub-Saharan African countries, potential increase in access limits in nominal terms of less than 4 percent, resulting certainly in a decline of absolute access limits in real terms. In addition, on a country-by-country basis, the calculations show that 50 percent of these countries will register a decline in their potential access. This unfavorable outcome only reinforces the views expressed by African countries on many occasions that the large financial needs of the new members should not be met at the expense of other members.

Under these circumstances, we strongly believe that it would be more advisable to maintain maximum absolute access in nominal terms for the member with the smallest quota increase, using the upper limits of 110 percent and 140 percent. This would lead to new access limits of 83 percent and 333 percent of quota. We consider that these limits will allow the Fund to provide adequate financial resources to members undertaking adjustment; furthermore, they will send the right signal to the international community that the Fund will continue to play a central role in the global financial system, especially during this particularly difficult period.

However, we can understand the concerns expressed by other members of the Board. That is the reason why we can accept a compromise along the lines proposed by Mr. Landau and Mr. Fukui this morning, namely, annual access and cumulative access limits of 70 percent and 300 percent, respectively.

On SAF/ESAF, we agree that the setting of limits should be guided by two basic principles, i.e., the clear resource constraint in these facilities and the need to avoid losses in terms of nominal access by any eligible member. Again, Mr. Fukui and Mr. Landau have been helpful in reminding us that a level of the order of 190 percent in the case of ESAF would be sufficient to maintain maximum potential access. We support this proposal.

Regarding the floating of facilities, we note that the staff's argument on the floating provisions relates mainly to the conditionality and the phasing concerns in some unusual and rather limited cases. We cannot endorse the view that these concerns are better addressed by the outright elimination of the floating provisions of the various facilities. We believe that the floating nature of special facilities in relation to credit tranches should continue to provide some flexibility in the Fund's support to member countries.

Finally, we support the proposed decisions on the General Arrangements to Borrow, updating the present guidelines on borrowing.

Mr. Jamnik said that his chair felt very strongly that reference should be made to the temporary nature of the enlarged access policy. He therefore fully supported the proposal by Mr. Goos to make explicit reference to the temporary nature of the new access policy.

On balance, the staff had found a reasonably good compromise, Mr. Jamnik considered. In principle, his authorities continued to prefer the third of the four options provided--for an annual access limit of 60 percent of quota with a cumulative limit of about 270 percent--although they could support a consensus for limits of about 65 percent and 290 percent. That would severely test the limits of his chair's flexibility, and he was somewhat attracted to Mr. Filosa's proposal to reel in the cumulative limit to 270 percent.

The staff's solution would avoid an excessive reduction of access for groups of members that had been identified earlier by the Board, Mr. Jamnik noted. Indeed, for many groups of "user" countries, absolute access, expressed in SDR terms, would increase significantly, which should allay the concerns of those Directors who held the view--not shared by his chair--that any material reduction in potential access for countries would add to existing uncertainties and could adversely affect the role of the Fund.

With respect to the ESAF, his chair, like Mr. Dawson's, would like to see some creative mechanism whereby current access was unaffected, but it could go along with the proposal for 190 percent access if that facilitated a solution, Mr. Jamnik said. As for the floating of facilities, his chair concurred with the staff that the elimination of floating provisions for various facilities in relation to the credit tranches was desirable. As noted on previous occasions and as recognized by the staff, floating provisions could be a source of inflexibility and, more important, they could pose a risk to the Fund.

As a final comment, staff projections with respect to likely commitments of Fund resources during the 1992-95 period seemed plausible, Mr. Jamnik noted. However, if the past was any guide to the future, it was probable that purchases would be somewhat less than projected. While the demand for Fund resources would be undeniably large, particularly from the countries of the FSU, it was probable that actual purchases would be significantly smaller as a result of country programs going off track. That would suggest that the Fund's liquidity ratio was likely to be higher than the 33-49 percent range projected for the end of 1995. However, the projections assumed that the list of usable currencies remained broadly unchanged and that none of the industrial countries used the Fund's resources. While such assumptions were plausible, they perhaps contained more risk than in the past. For example, as Mr. Végh had pointed out, the recent rundown of official reserves by some industrial countries increased the probability of an industrial country's being removed from the Fund's operational budget. Given the uncertainties with respect to the evolution of the Fund's liquidity position, a review of the new access limits in 12 months' time was a wise precaution.

Mr. Mwananshiku made the following statement:

> May I begin by welcoming the fact that, after a long wait, the quota increases under the Ninth Review of Quotas will soon become effective thanks to the recent decisions by the membership to consent to the increase in quotas and to accept the proposed Third Amendment.

In the view of this chair, there are two basic issues confronting the Board today. The first is how the Fund can adequately and effectively serve its expanded membership after the coming into effect of the quota increase. The other is how the Fund can preserve a satisfactory liquidity position after terminating reliance on borrowed resources.

In reaffirming the general principle that quotas rather than borrowing should be the primary source of Fund resources, it is important to stress that members should continue to feel confident that, when they are engaged in Fund-supported macroeconomic and structural adjustment or when they are confronted with short-term balance of payments problems, they can receive adequate financial support from the Fund. This is important because adequate support from the Fund is now accepted both as a measure of the strength of programs and as a mechanism for triggering support from other donors. Moreover, the external positions of many developing countries, especially in Africa and in the Western Hemisphere, remain fragile and need the continuing support of the Fund and other donors.

For these reasons, it is the belief of this chair that access should not be unduly reduced. In making this observation, I am not unmindful of the impact of the financial needs of Eastern Europe and the FSU countries on Fund resources and the need to preserve the liquidity of the institution. I am making the case that the proposals put forward in the staff paper for setting annual access limits would be unduly restrictive, with about 25 percent of the developing countries facing a reduction in absolute potential access. Of particular concern is the fact that 50 percent of all sub-Saharan countries would suffer a reduction in their access in absolute terms. The remaining 50 percent would only gain marginal increases.

Against this background, we would like to support Mr. Landau's proposal for limits of 70 percent and 300 percent. On the ESAF, it is our belief that an access limit of 190 percent is needed to enable reforming eligible countries to continue receiving support.

With regard to the floating provisions, this chair continues to find the arguments advanced by the staff for their elimination to be unconvincing. As we pointed out during the November 1991 meeting, it does not seem that the considerations that supported the establishment of these provisions have disappeared. The elimination of floating provisions could only lead to an implicit increase in conditionality, thus contradicting the flexible nature of the special facilities as envisaged at the time they were instituted.

In concluding, we can endorse the proposals made with respect to the financial terms to be applied under the new access policy and the adjustments made in respect of the special facilities--including the arrangements in support of debt and debt-service reduction.

Mr. Bindley-Taylor made the following statement:

We welcome this opportunity to review our policy on access limits, particularly in light of what seems to be the final stretch on the road to our long-delayed quota increase.

With respect to the setting of limits, our preferred position traditionally has been that absolute maximum access for the member with the smallest percentage increase in quota should be maintained. This was the approach which, in essence, was used in the Eighth Review and is one which has important symbolic significance for the membership. Moreover, our guidelines acknowledge that access is neither a target nor an entitlement but will be determined on a case-by-case basis, with the determining factors being the financing needs and strength of a country's adjustment effort. This has worked well in the past, and we see no reason why one should fear that the prudence exercised in the past would suddenly disappear in the light of a new quota review.

It would appear that the potential claims of the FSU countries and some Eastern European countries are now larger than we originally assumed and this, together with potential claims under existing arrangements, could lead to strong demands on Fund credit in the future. Given our agreed position to forgo the use of borrowed resources, the staff concludes that the impact of these operations could lower the Fund's liquidity ratio to between 33 percent and 50 percent by end-1995 from the July 1992 level of approximately 33 percent. In response, the staff proposes an annual limit of 65 percent and a cumulative limit of 290 percent of quota. We consider the staff's liquidity estimates extremely pessimistic, especially as they imply that all commitments will be disbursed. Given our past propensity to overestimate the use of Fund resources, we should discount this pessimistic outlook for the liquidity ratio. More important, a liquidity ratio below 70 percent does not necessarily imply a substantial threat to the financial stability of the Fund, which, if circumstances warrant, can resort to borrowing.

In light of the above, we can support the compromise suggested by Mr. Landau of an annual access limit of 70 percent and a cumulative limit of 300 percent. On the issue of transparency and simplicity, we can agree to abolish the system of dual limits. With respect to access limits under the special facilities and in support of debt-reduction operations, we can agree that they should be adjusted in proportion to the adjustment agreed upon for annual limits on access.

On the SAF, we can agree to adjust access in inverse proportion to the average of the quota increases for the eligible countries. With respect to the ESAF, however, an adjustment in relation to the average increase in quota of the group implies that the potential maximum access for some countries would be smaller, in SDR terms, than under the current limits. We would sympathize with any suggestion that would alleviate this potential problem, and here we can go along with the suggestion of Mr. Landau and Mr. Fukui of 190 percent of quota.

We remain firmly in favor of retaining all of our remaining floating facilities. The history of these facilities shows that they reflect the desire to provide the Fund with additional instruments and flexibility to deal with the immediate negative impact that certain exogenous shocks could have on members. In order not to affect a member's ability to make drawings in the credit tranches--including the first credit tranche--it was decided to allow facilities such as the CCFF to float alongside the credit tranches.

It should be borne in mind, however, that access to the resources under these floating facilities is not automatic. Access is determined by criteria that assess a country's cooperation with the Fund and by judging the adjustment efforts of the country. The few instances in which members have had simultaneous access to the first credit tranche and a CCFF drawing should not blind us to this fact. The Fund must not send contradictory signals to its members, as it does when, on the one hand, it tries to be more responsive and flexible to its membership and then, on the other hand, turns around and tries to find new ways to hedge that flexibility. If the Fund continues to seek ways to reduce the risk of exposure to its members by reducing access to facilities specifically and originally designed to give it flexibility in dealing with their problems, it will only lose influence and credibility.

Finally, we can agree to review access policy on an annual basis.

Mr. Fridriksson stated that, like other speakers, he was pleased to note that the increase in quotas under the Ninth General Review was finally coming into effect. In his statement, Mr. Posthumus implied that the ninth quota increase was likely to be the last that the Board of Governors would be willing to approve for a while. He shared his concern about the length of time that had been required to complete the quota review, but he would also like to state that the timing and magnitude of the next review would be influenced by how well the Fund performed the functions assigned to it, and specifically by how successfully it met the tremendous challenges confronting it.

In the Board's discussion in November 1991, he had supported the maintenance in SDR terms of the absolute access for the country receiving the lowest relative increase in its quota, Mr. Fridriksson recalled. The sharp increase in the Fund membership since that time had led to a worse outlook for the development of the Fund's liquidity.

His authorities strongly emphasized the importance of the Fund's providing adequate financial assistance, within an appropriate economic policy framework, to new as well as old member countries, Mr. Fridriksson observed. With that in mind, and in view of the worsened outlook for the Fund's liquidity, they wished to endorse the staff's suggestion to establish new limits of 65 percent and 290 per cent of quota under the credit tranches and the EFF. In their view, the staff proposal struck an appropriate balance between liquidity considerations and the need to provide adequate financing. It should also be emphasized that the limits are ceilings and not targets or entitlements, to borrow Mr. Peretz's language. In his view, the arguments put forth by Mr. Peretz should offer the Board the possibility to agree on the staff proposal as a reasonable compromise.

He could endorse the staff suggestion concerning access to the special facilities and for debt-reduction operations--the rounded numbers in all cases, Mr. Fridriksson noted. On ESAF specifically, he could support the emerging full consensus to set maximum potential access at 190 percent.

Given the uncertainty regarding the calls on the Fund's resources, he favored a review of the access limits within a year, Mr. Fridriksson added. In the period ahead, it would be important for the Board to closely monitor developments in the Fund's liquidity situation and take appropriate steps should it deteriorate below prudent levels.

As he had stated in November 1991, he supported the maintenance of the exceptional financing clause and the elimination of the floating provision, Mr. Fridriksson said.

Mr. Kabbaj noted that his chair had expressed comprehensively its views on access policy and limits in relation to the Ninth General Review of Quotas in November 1991. Those views remained broadly unchanged.

On the specific issues before the Board, after having listened carefully to previous speakers, his position was very close to that of Mr. Landau and Mr. Fukui, Mr. Kabbaj remarked. More specifically, on access under the credit tranches and the EFF, his chair supported limits on annual and cumulative access of 70 percent and 300 percent of quota, and under SAF and ESAF arrangements, maximum access of 190 percent of quota.

His chair continued to oppose the elimination of floating, Mr. Kabbaj stated, mainly because it would deprive the Fund of much-needed flexibility in a few cases, the more so as recent practice had been very conservative in that regard.

On the remaining issues for consideration, he could go along with the staff's proposals, Mr. Kabbaj said. He supported Mr. Végh's call for reviving work on the simplification of the operational side of the CCFF.

Mr. Prader made the following statement:

On the real significance of today's meeting, I share the views of those who stress the importance of the Fund taking a cautious, nonautomatic approach in deciding members' access to Fund credit. At the same time, there is a need to provide certainty to those countries that are willing to reform and adjust. They should know what they can expect when they approach the Fund for programs and financing. This is why we maintain the position we took during the previous discussion of access policy and access limits one year ago. At that time, we supported option IV, which proposed setting the access limits at 68 percent and 303 percent of quota, adjusting the present lower limit so as to avoid reducing the potential access of the member having the smallest percentage quota increase. Our support for that option was based on the reaffirmed understanding that the upper access limit would be left unchanged for some time after the quota review became effective, in order both to meet the continuing strong demand for Fund resources and to convey appropriate signals in order to catalyze financing from donors and creditors in support of structural reform and systemic transformation in some member countries. It was based also on the assumption that the new level of global access would not constrain Fund liquidity.

Since then, the expected addition of a large number of countries to Fund membership has considerably changed the projected financing need for 1992-95. Even so, the quota increase should protect the Fund's liquidity position despite expectations of a relatively high demand for Fund resources by some of the new member states, particularly of the FSU countries, and no deterioration of the Fund's liquidity position is foreseen before end-1995.

The staff now proposes to set the access limits at 65 percent and 290 percent of quota, which would reduce access to Fund resources for one fourth of its members. This proposal is unacceptable for several reasons. The immediate future is a period of great uncertainty; in any event, the challenges to the Fund in this decade will be at least as great as those of the decade just past, and new tasks are constantly being added to those left over from the 1980s. The present situation of many

Fund members is far from satisfactory, and their outlook is bleak. For the many countries that lack access to commercial markets, signals from the Fund that it is determined to continue its role in the adjustment process are the key to catalyzing the financing needed from other sources.

We therefore do not accept the staff's proposal but continue to support setting the access limits at 68 percent and 303 percent of quota. At the same time, however, we can accept the staff's suggestion for eliminating the triennial limits and the dual limit structure, as we did during the earlier discussion. I also agree that the present guidelines for individual access and the exceptional circumstances clause be retained in order to preserve the Fund's ability to respond flexibly and adequately to members' needs.

On the SAF and ESAF, we share Mr. Landau's concerns and, therefore, could support Mr. Fukui's position on a 190 percent limit on ESAF access in order to ensure that the poorest countries do not become, in the real world, the losers of today's debate over symbols. On the related issues of the financial terms and the floating of facilities, we also support the staff's proposals. Regarding access under the special facilities and augmentation for debt operations, we still maintain that these should be changed to keep them in line with the adjustments decided for the annual access limit on credit tranches and extended arrangements.

In concluding, I would like to stress that by 1995, the Fund's liquidity will again come under strain. This prospect adds to the urgency of proceeding as rapidly as possible with the Tenth General Review of Quotas, and of examining the usefulness of an SDR allocation accompanied by an adequate redistribution mechanism.

Mr. Fayyad said that on the basis of the considerations mentioned in the staff paper, it could well be argued that the annual and cumulative limits should be set at 70 percent and 300 percent, or at 65 percent and 290 percent, as suggested by the staff. However, it was not clear that higher limits implied higher average access, which was the more relevant number. Notwithstanding his chair's concern that higher limits might actually reduce average access, he could go along with the limits of 70 percent and 300 percent, for the reasons mentioned by previous speakers. In addition, on balance, his chair would favor retaining the floating provision.

He could agree with the other proposals of the staff, Mr. Fayyad stated. On the ESAF, he could go along with the consensus of 190 percent.

Mr. Al-Jasser added that he supported an annual review of access limits, as suggested by Mr. Dawson and other speakers.

Mr. Dawson noted that, as a compromise, he could go along with 190 percent access under the ESAF.

The Chairman remarked that there was a broad majority for reconsidering the staff's proposal for access under the ESAF and for setting a limit of 190 percent of quota. He asked the Secretary to indicate the extent of support for the staff's proposal for maximum annual and cumulative access of 65 percent and 290 percent, respectively, and for the suggestions made by some Directors for annual access limits of 68 percent or 70 percent, and for a cumulative access limit of 300 percent.

The Secretary commented that Directors having more than 40 percent of the voting power could accept annual and cumulative limits of close to 70 percent and 300 percent. Directors with a strong preference for lower limits, starting at 60 percent for annual access and 250 percent for cumulative access, accounted for more than 30 percent of the voting power. The staff's proposal, for 60 percent annual and 290 percent cumulative access, had received the support of approximately 25 percent of the voting power.

The Chairman observed that the initial tally did not facilitate a compromise, and the discussion would need to be continued in the afternoon. His personal preference, whether or not it stood a chance of being accepted as a compromise, would be to drop floating; introduce annual and cumulative access limits of 68 percent and 300 percent, respectively; and, for the ESAF, introduce the limit that had been generally supported of 190 percent of quota.

Given the contradictory references that had been made to symbols during the discussion, the Chairman explained, he would like to look to the 1990s and not exclusively to the Fund's past. Two symbolic signals should be clear: first, the need for strong policies in each case of Fund intervention; and second, confidence in the Fund's ability to support the membership. Floating had been related to the debate in the early 1960s about the need for a soft window at the Fund, but in practice, floating had introduced an abnormal element into the Fund's policies and had reduced its flexibility. In dropping floating, the Fund would reassert the need for strength both in Fund policies and in the stance of governments cooperating with the Fund.

Mr. Goos said that he could move toward higher access limits, if there was agreement to drop floating. It made no sense, as Mr. Filosa had said, to fix access limits while maintaining a floating provision, in the knowledge that actual access would exceed the agreed limits. At the same time, he had not been convinced that an annual access limit of 68 percent would not lead to a difficult financial position for the Fund in two years' time. Certainly, he hoped that by then the Board would be flexible enough to reconsider the access limits, lowering them if necessary to safeguard the Fund's financial position.

The Chairman remarked that annual reviews of access would be part of his proposal.

Mr. Posthumus stated that the farthest he would be prepared to move the limits would be to 65 percent and 270 percent.

Mr. Dawson suggested that, as the compromise proposal implied a general movement in positions, an annual access limit of 68 percent, with a somewhat lower cumulative limit of 290 percent, might be acceptable.

The Chairman said that he recognized that, although floating had symbolic rather than effective significance, its loss would be a great sacrifice to those who supported its retention. The difference between cumulative access of 290 percent and 300 percent was also more symbolic than effective. His proposal was designed to provide signals that went in the right direction, and to achieve a new balance of sacrifices.

Mr. Filosa stated that he could accept the Chairman's proposal for annual access of 68 percent of quota. On the cumulative limit, Mr. Dawson's suggestion to adjust the structure somewhat would retain, for him, an important symbol.

Mr. Landau commented that as there might be a slight majority in the Board in favor of retaining floating, to eliminate it would entail a significant compromise and thus it should be assured that the integrity of the Chairman's proposal would be respected.

Mr. Peretz remarked that he was disinclined to change his position on access of 65 percent and 290 percent and the elimination of floating. If the majority favored annual access of more than 65 percent, he would have to support cumulative access of less than 290 percent.

Mr. Kabbaj said that he supported the retention of floating. However, like Mr. Landau, he considered that the Chairman's proposal was a good compromise.

Mr. Végh remarked that he too could go along with the Chairman's proposal. He could also accept a lower limit for cumulative access, for the reasons stated by Mr. Filosa, in order to send the right signal.

Mr. Fukui recalled that his authorities had wished to retain floating, but, in a spirit of compromise, they could consider its elimination so long as annual and cumulative access limits, respectively, of 68 percent and 300 percent--or even 303 percent--were maintained. The other combinations of limits that had been suggested during the discussion would send a confused signal, when what was needed was a straightforward, strong signal.

Mr. Ismael said that he was prepared to accept the Chairman's proposal, on the understanding that it was a package.

The Executive Directors agreed to resume their discussion in the afternoon.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/92/127 (10/21/92) and EBM/92/128 (10/28/92).

2. REPUBLIC OF ARMENIA - REPRESENTATIVE RATE FOR RUSSIAN RUBLE AS CURRENCY OF ARMENIA

The Fund finds, after consultation with the authorities of the Republic of Armenia, that the representative rate under Rule O-2(b)(i) for the Russian ruble (as currency of the Republic of Armenia) against the U.S. dollar is the midpoint between buying and selling rates for the Russian ruble against the U.S. dollar in the interbank market, as ascertained by the Central Bank of Russia. (EBD/92/248, 10/16/92)

Decision No. 10170-(92/128) G/S, adopted
October 21, 1992

3. ITALY - REPRESENTATIVE RATE FOR ITALIAN LIRA

The Fund finds, after consultation with the Italian authorities, that the representative rate for the Italian lira under Rule O-2(b)(i) against the U.S. dollar is the quotation at the closing of the Milan and Rome markets if the quotation in each market is identical, or the middle rate between the two quotations when they differ. If official quotations of foreign currencies against the Italian lira are suspended by the Italian monetary authorities, the representative rate for the Italian lira under Rule O-2(b)(i) will be the daily indicative rate as established and published by the Banca d'Italia on the basis of rates communicated between central banks at 2:15 p.m. (EBD/92/250, 10/19/92)

Decision No. 10171-(92/128) G/S, adopted
October 21, 1992

4. REPUBLIC OF MOZAMBIQUE - EXCHANGE SYSTEM

The Republic of Mozambique maintains a multiple currency practice arising from the operation of a temporary dual exchange market, which is subject to Fund approval under Article VIII, Section 3. The Fund grants approval for an extension of the retention by the Republic of Mozambique of the multiple currency practice arising from the operation of a temporary dual exchange market until June 30, 1993 or the date of completion of the midterm review under the third annual ESAF arrangement for Mozambique, whichever is earlier. (EBS/92/163, 10/19/92)

Decision No. 10172-(92/128), adopted
October 22, 1992

5. SIERRA LEONE - OVERDUE FINANCIAL OBLIGATIONS - REVIEW FOLLOWING DECLARATION OF INELIGIBILITY - POSTPONEMENT

Paragraph 4 of Decision No. 9970-(92/45), adopted April 3, 1992, as amended, shall be further amended by substituting "not later than November 30, 1992" for "not later than October 31, 1992." (EBD/92/256, 10/23/92)

Decision No. 10173-(92/128), adopted
October 27, 1992

6. REPUBLIC OF TAJIKISTAN - EXTENSION OF PERIOD FOR ACCEPTANCE OF MEMBERSHIP

In accordance with paragraph 10 of Board of Governors Resolution No. 47-14, adopted April 27, 1992, the period during which the Republic of Tajikistan may accept membership in the Fund pursuant to that Resolution is extended to April 27, 1993. (EBD/92/259, 10/26/92)

Decision No. 10174-(92/128), adopted
October 27, 1992

7. APPROVAL OF MINUTES

The minutes of Executive Board Meeting 92/34 are approved.

8. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAM/92/99 (10/20/92), EBAM/92/101 (10/21/92), and EBAM/92/103 (10/26/92), by an Advisor to Executive Director as set forth in EBAM/92/101 (10/21/92), and by Assistants to Executive Directors as set forth in EBAM/92/100 (10/20/92) and EBAM/92/102 (10/21/92) is approved.