BUFF/94/57

0409

June 3, 1994

Statement by the Managing Director on
The Role of the Fund in Financing the Economies in
Transition: Access and Cofinancing Trust Accounts
Executive Board Meeting
June 17, 1994

The Interim Committee has invited us to consider how best the Fund can continue to play its central role in supporting the efforts of a large number of our members in making the transition to market economies. As we have discussed earlier, we must approach this question with an eye to maintaining evenhandedness in the Fund's treatment of all its members. This is all the more important, given that a range of countries outside those typically regarded as "in transition" may face large financing requirements in the period ahead, including for building reserves to safeguard their programs; many of them face challenges no less profound. I remain convinced that an SDR allocation has a role to play in meeting the demand for reserves, but we will be discussing the SDR issue separately. In this statement, I will focus particularly on the question of access to the Fund's resources.

In its companion paper on this subject (EBS/94/121), the staff has reviewed recent experience under the access limits and prospective financing requirements for countries within and outside the transition group. In very summary terms, the paper suggests two steps for the Board's consideration:

-- A temporary increase in the annual access limit applying to stand-by and extended arrangements, from 68 to 85 percent of quota, intended to help provide confidence to all members that the Fund will be in a position to respond to their needs quickly and on an appropriate scale in support of strong measures; and

-- An extension and enlargement of the STF, from up to 50 percent of quota to up to 85 percent of quota, together with modifications intended to retain the "paving" character of the STF. For eligible countries that can move quickly to upper credit tranche arrangements, the enlargement of resources under the STF would permit a better mixing of the maturities of resources provided in the context of those arrangements. But we now understand better the difficulties some of the eligible countries face. We also understand better the determination of many of them to overcome these difficulties even though there are setbacks and delays. Thus, we could also modify the STF to enable it to provide continuing support for some time where progress is encouraging but still not sufficient to qualify for an upper credit tranche arrangement. The idea here is to continue to allow for a first purchase of 25 percent of quota on the basis of appropriate initial conditions but provide for four successive purchases, of up to 15 percent of quota each, with timing depending on movement to a Fund arrangement, or on continuing progress toward that objective and satisfactory financing for the program.

The staff's suggestions are intended to respond to the Interim Committee's call in a way that is responsive both to those problems and also to the potential needs of the membership at large in the period ahead. But particularly with respect to the economies in transition, it has been stressed in our past discussions that an expansion of access will entail risks for the institution, and we must bear this clearly in mind as we consider how to proceed.

As the Interim Committee said, the task before us is one of historic proportions deserving the full and concerted support of the international community; in leading this effort, the Fund's monetary character and catalytic role must be safeguarded; and this requires the support of all potential bilateral and multilateral creditors in providing adequate and timely assistance in conjunction with the Fund. I am prepared to endorse the increase in access limits under arrangements and the modifications to the STF the staff has suggested for consideration, but only if this commands the broadest support among the membership and in plain view of the potential risks involved. It would have to be understood that the membership would stand ready to increase Fund quotas if the Fund's financial involvement with transition economies and other members brought the Fund's liquidity position close to the traditional threshold for action to raise the Fund's capital. It is also essential that we have clearer understandings than has proven to be the case in the past that the Fund's financing role, while perhaps larger, will still be catalytic--including in particular under programs supported by the STF. 1/ Finally, before proceeding in this way, I will ask the membership, through you, to reaffirm its assurances regarding the Fund's preferred creditor status and readiness to provide financing in the future, in the terms provided when the STF was established (see Buff 93/19, April 23, 1993).

1/ The idea of Cofinancing Trust Accounts has a potential role to play in this. I do not believe we need to have a substantive discussion now, but I would invite Directors' comments on the main possible features of such accounts as set out in EBS/94/121, or on other points, for the staff's guidance in preparing further documentation.