BUFF/94/71

July 25, 1994

Statement by the Managing Director on
Access Limits, SDRs, and Cofinancing Trust Accounts
Executive Board Informal Session 94/7
July 26, 1994

We met on July 6 for an informal discussion of access policy, SDRs, and cofinancing trust accounts, and we are to continue our discussion on July 26 on the basis of my July 1 statement (BUFF/94/66). For this discussion, I would add the following points on the STF.

In our informal discussion on July 6, most Directors favored a one year extension of the availability of the facility, an enlargement of access under it, and elimination of the 12-month rule for second purchases. There were, however, differences of view about how best to proceed with regard to the amount of additional resources that would be made available and the possible tranching of those resources, and also on whether we should leave open the possibility of having additional stand-alone STF purchases in truly exceptional circumstances. These issues are not independent and I believe we may be able to come to agreement on a combination of these elements that will satisfy most Directors.

I understand fully the Board's strong preference to link increased access under the STF to upper credit tranche conditionality. This is my preference as well; however, I remain concerned that in definitively closing the door on stand-alone purchases we may be limiting our flexibility to deal with difficult situations in the future. I would still like to consider how we might leave the door unlocked in the event we face truly exceptional circumstances. We could consider, for example, having an understanding that the Executive Board would be consulted in advance of any discussions with a member on a possible stand-alone STF purchase beyond the first two purchases.

The desire to link increased access under the STF to upper credit tranche conditionality also has implications for total access and phasing. A few Directors favor a larger increase in access under the STF than the 30 percent of quota proposed in my July 1 Buff statement. We could consider a larger increase, possibly by 40 percent of quota, which would bring the limit for total STF access to 90 percent of quota. However, this approach would make it even more important that the resources are made available on the basis of the implementation of strong policies. There is clearly the possibility that excessive frontloading may occur if all the additional resources were to be made available in a single purchase, and this could actually weaken incentives to adhere to agreed programs. Therefore, I could recommend increasing access under the STF by more than 30 percent of quota only if there were agreement that the increase would be disbursed in two

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purchases, either on approval of an arrangement or on completion of a review under an arrangement. This would maintain appropriate incentives and still provide the flexibility to frontload resources through the underlying arrangement when policies warrant this.

On the question of timing, it is expected that the Board would consider formal decisions on the components of a comprehensive package after the Annual Meetings. In the meantime, the twelve-month period during which one member can make a second purchase under the existing decision is going to expire. Since elimination of the 12-month rule appears to have raised no objections as part of the package, we would propose issuing a draft decision next week, for approval on a lapse-of-time basis, eliminating the requirement under the present decision that a second purchase be made no later than twelve months after the first purchase. This would clarify the framework for policy discussions with that member. It would mean that, in the absence of any further changes to the STF, any member that had made a first STF purchase by end-1994 would have until end-1995 to make the second purchase.