FOR AGENDA

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September 23, 1993

To: Members of the Executive Board

From: The Secretary

Subject: Review of Access Policy and Limits Under the Credit Tranches and the Extended Fund Facility

Attached for consideration by the Executive Directors is a paper on the review of access policy and limits under the credit tranches and the extended Fund facility, which will be brought to the agenda for discussion on a date to be announced. A draft decision appears on page 11.

Mr. Burton (ext. 36531) or Mr. Decarli (ext. 37627) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

Review of Access Policy and Limits Under the Credit Tranches and the Extended Fund Facility

Prepared by the Policy Development and Review Department
and the Treasurer's Department

(In consultation with other Departments)

Approved by Jack Boorman and David Williams

September 22, 1993

On November 3, 1992, the Executive Board established a new access policy and limits to apply following the effectiveness of the Ninth Review quota increase. 1/ The new guidelines on access and the access limits under the credit tranches and extended Fund facility are intended to be temporary and therefore are to be reviewed annually by the Executive Board. This paper provides background information for the first such review, which is to be completed not later than October 29, 1993. 2/

I. Background

Under the access policy introduced with the quota increase, the enlarged access policy was terminated and ordinary resources are used to finance all purchases. Limits on annual and cumulative access in the credit tranches and under the extended Fund facility were set at 68 percent and 300 percent of quota, respectively; the triennial limits and the dual limit structure incorporated in the enlarged access policy were terminated. In addition, the floating of facilities with respect to conditionality in the

1/ Decision No. 10181-(92/132), adopted 11/3/92 and Chairman's Summing Up, Buff 92/133 (10/30/92). The background paper for the Board discussion was "Access Policy and Limits in Connection with the Quota Increases--Further Considerations" EBS/92/159 (10/6/92).

2/ Since the decision calls only for a review of the limits on access under the credit tranches and extended Fund facility, access limits for other facilities are not discussed in this paper. However, if changes in the limits on access under the credit tranches and extended Fund facility were deemed appropriate, the access limits for other facilities might also need to be reconsidered.

credit tranches was eliminated. 1/ Within the new limits, access in individual cases continues to be governed by the criteria set out in the Chairman's summing up of December 2, 1983 on the subject. The exceptional circumstances clause was retained. The new limits were intended broadly to maintain potential access for the membership as a whole following the coming into effect of the quota increases and to ensure that the IMF could continue to meet its central role in supporting and catalyzing other support for members' economic adjustment efforts, while maintaining a sound liquidity position.

II. Issues Bearing on Access Policy

This section examines issues that need to be taken into account in reviewing the current access policy and limits. These include the outlook for the global economy and its implications for members' financing needs, the role of the Fund in promoting adjustment in these circumstances, the potential demand for resources by members and the prospects for the Fund's liquidity position, and the experience to date with the new access policy in individual cases.

1. The external environment and balance of payments needs of member countries

External prospects facing member countries in the medium term have not changed much from those envisaged last October when the new access policy was considered by the Executive Board, although there has been some deterioration in the short-run outlook. Projected output growth in industrial countries in 1993 has been revised downward in the fall 1993 WEO by 1 1/2 percentage points to 1 percent, and world trade volume is now projected to grow by only 3 percent compared with the earlier estimate of 6 1/2 percent. However, somewhat faster growth in industrial countries is tentatively foreseen for 1994, and with it a more rapid expansion of world trade, both broadly in line with earlier projections. Developing country terms of trade, reflecting the sluggish economic activity in industrial countries, are expected to be weaker than previously foreseen, declining slightly in 1993 before stabilizing in 1994. While output growth in developing countries as a group is now expected to be slower than earlier projected in light of the weaker external conditions, it is still expected to remain quite buoyant, reflecting sustained stabilization and reform in many countries, low interest rates on dollar-denominated debt, increased capital inflows (see below), and growth in regional trade, particularly in Asia. Among developing economies, stronger growth is now projected for

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1/ With the effect that, if a member's outstanding use of Fund general resources--irrespective of the policies under which the resources have been used--exceeds 25 percent of quota, then all subsequent purchases in the credit tranches by the member will be subject to upper credit tranche conditionality, including phasing and performance criteria.

centrally planned economies. Further progress in these areas is an important element of the cooperative growth strategy as laid out in the April 1993 Interim Committee Communiqué, adding emphasis to the importance of the Fund's role in helping members to implement growth-oriented adjustment policies and in promoting the transformation of formerly centrally-planned economies.

A number of members over the past year, including some of the largest users of Fund resources, have made substantial progress in redressing imbalances and re-establishing market access under their Fund-supported programs, and have either ceased new use of Fund resources or may soon be in a position to do so. At the same time, there remain other members that have made slower progress or are at much earlier stages of the reform process. These members, including many economies in transition, continue to face substantial economic difficulties and balance of payments needs that are large relative to quotas and exceed available financing from other sources. Also, for some members that currently have access to sizable spontaneous inflows, there may be questions as to whether these can be sustained at their present levels. It will therefore be important for the Fund to continue to be in a position to provide adequate support for the economic programs of these members to help ensure that their adjustment efforts are sustained or, if necessary, adapted to reflect changes in the availability of private flows. In this connection, while most economies in transition are potentially eligible for financing under the STF, this facility is intended to prepare the ground for arrangements in the upper credit tranches under which, particularly for most FSU countries, substantial support is likely to be needed.

3. Experience with access in individual cases

Under the new access policy, access in individual cases, as noted above, has continued to be governed, mutatis mutandis, by the Chairman's Summing Up of December 2, 1983 on the subject, with access levels determined in light of balance of payments need, the strength of the program, and ability to service indebtedness to the Fund. Since the effectiveness of the quota increase, nine stand-by and three extended arrangements have been approved, with annual access ranging from 18 to 48 percent of quota--well within the new limit--and averaging 31 percent of quota (Table 1). It should be noted that access under the extended arrangement with Peru used in calculating this average excludes access related to encashment of accumulated rights under its Rights Accumulation Program; such arrangements can involve unusually high access in relation to quota and, given their special purpose and characteristics, inclusion of the accumulated rights in the average would give a misleading picture of access determination under the limits. Also, in the case of the stand-by arrangement with the Kyrgyz Republic, while annual access is 46 percent of quota, the requested annual access level was reduced from 68 percent of quota prior to approval of the arrangement in light of a simultaneous request for access under the STF, so as to limit combined access to an appropriate level. In several

Table 1. Access Under Fund Arrangements Approved Since November 3, 1992 1/
(As of 20 September 1993)

	Effective Date of Arrangement	Amount of Arrangement (In mn SDRs)	Amount of Arrangement (In % of quota)	Duration (In months)	Average Annual Access (In % of quota)	Use of Fund Credit Outstanding Excluding Special Facilities 2/: Beginning of arrangement (In percent of quota)	Use of Fund Credit Outstanding Excluding Special Facilities 2/: End of arrangement (In percent of quota)	Associated Purchases Under CF 3/ (In % of quota)	Associated Purchases Under STF (In % of quota)	Gross Fund Financing as Proportion of Total Gross Financing Need 4/ (In %)
Upper credit tranche SBA										
Costa Rica	04/19/93	21	18	10	21	22	39	--	--	4
Czech Republic	03/17/93	177	30	12	30	77	107	--	--	8
Dominican Republic	07/09/93	32	20	9	27	26	45	22	--	11
El Salvador	05/10/93	35	28	10	33	--	28	--	--	7
Guatemala	12/18/92	54	35	15	28	8	35	--	--	3
Hungary	09/15/93	340	45	15	36	90	131	--	--	8
Kyrgyz Republic	05/12/93	27	42	11	46	--	42	--	50	18
Pakistan	09/16/93	265	35	12	35	33	56	--	--	9
Poland	03/08/93	476	48	12	48	44	78	--	--	7
Sum		1,427								
Average					34					8
EFF arrangements										
Egypt	09/20/93	400	59	36	20	22	81	--	--	5
Jamaica	12/11/92	109	54	36	18	157	121	--	--	8
Peru 5/	03/18/93	394	85	36	28	135	218	--	--	11
Sum		903								
Average					22					
Total		2,330								
Average					31					8

1/ Through September 20, 1993; reflects amounts approved at the time arrangements were initially approved; excludes potential access under external contingency mechanisms and potential augmentation for debt reduction operations.

2/ Excludes purchases under the CCFF, STF, SAF and ESAF; end position assumes full disbursement of committed amounts.

3/ Purchases envisaged at the time of program approval.

4/ Gross Fund financing includes associated purchases under the CCFF and STF. Gross financing need is defined as the sum of the current account deficit (excluding grants), amortization including Fund repurchases, the targeted reduction in arrears and the targeted buildup in gross reserves.

5/ Amount of arrangement excludes encashed rights of SDR 624 million; the encashed rights are included in gross Fund financing.

other cases, access was moderate because the adjustment process was well advanced and balance of payments need was limited; in some cases the arrangement was precautionary. Overall, the average of 31 percent of new quotas noted above compares with about 49 percent of old quotas in recent years under the enlarged access policy, 1/ suggesting a slight decline in absolute terms.

For arrangements approved since the new access limits came into effect, gross Fund financing, including associated purchases under the STF and the CCFF, has averaged about 8 percent of the member's projected gross financing need, broadly in line with the average for recent years. 2/ In some cases, this proportion was relatively low because the programs involved substantial debt restructuring, with the Fund financing playing a mainly catalytic role. For a number of members in recent years, particularly in Eastern and Central Europe, Fund financing has been relatively large in relation to gross financing need and in the upper ranges permitted under the access policy, reflecting the need for early support of ambitious stabilization and reform efforts and the existence of only nascent relationships with other sources of financing. In some cases, initial efforts toward stabilization and structural reform have not been followed through forcefully enough. Nonetheless, in general, as reform efforts take hold and the members make headway in developing access to other sources of financing, private as well as official, the Fund's relative role in providing financing has declined, as appropriate, and access under successor arrangements has tended to be lower in proportion to quota. Broadly similar patterns may be anticipated with regard to the FSU states and other new members facing major challenges of economic transformation. Thus, for example, during the period under review, the Fund provided financing for the Kyrgyz Republic that was well above average in relation to gross financing need but not out of line with that provided under arrangements for some other transitional economies in recent years.

Overall, and taking into account the role played by the STF, it would seem, on the basis of the limited experience thus far, that the annual access limit has not been a constraint on the provision by the Fund of appropriate support for members' adjustment efforts. Nor has the cumulative access limit been a constraint, with the highest actual use of Fund resources under the credit tranches and the EFF as of end-August 1993 (excluding countries in protracted arrears) at about 213 percent of quota; the highest projected net use, on the same basis and assuming that all

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1/ Average for the period 1986 through end-October 1992, during which the access limits were unchanged.

2/ Gross financing needs under these arrangements is measured as the sum of the current account (excluding grants), amortization including Fund repurchases, the targeted reduction in arrears, and the targeted buildup in gross reserves. This broader concept of need is appropriate for this purpose as program targets for arrears reduction and reserve buildup are known precisely.

purchases under the arrangement are made by the end of each of the arrangements in effect as of September 20, 1993, is about 218 percent of quota. Also, given the slower-than-envisaged pace of commitments under the arrangements since last October, fewer members now could potentially be constrained by the cumulative limits than was projected last fall. 1/ At the same time, the limits have provided scope for the Fund to respond appropriately to needs in individual cases; access determination within the limits has been managed prudently and has essentially represented a continuation of recent experience in absolute terms, in line with the intention last year. The exceptional circumstances clause remains available if the need arises.

4. Outlook for the Fund's liquidity

The potential demand for Fund resources and the outlook for the Fund's liquidity through 1995 were discussed in the previous paper on access policy and limits. 2/ Those projections were based on actual data through end-September 1992 and on estimates of commitments of Fund resources under stand-by and extended arrangements for the period from October 1992 through end-1995 for the overall membership including countries of the former Soviet Union (FSU), based broadly on gross financing needs of members (rather than on area departments' country-by-country projections) as well as on projections of other factors influencing inflows and outflows of Fund resources during that period, including those resulting from the payment of quota increases under the Ninth Review. It was thought at that time that it would seem reasonable to place the possible commitment of Fund resources to the FSU countries in the neighborhood of some SDR 13.5-17.5 billion (200-260 percent of their aggregate quotas) during 1992-95. Commitments of some SDR 22.5-24.5 billion were projected for other members for the same period. Total new commitments in the period 1992-95 were estimated at SDR 36-42 billion. On this basis the staff projected that the liquidity ratio would fall to some 33-50 percent by end-1995.

In light of subsequent developments and the update of the Fund's liquidity as reported in the latest liquidity review, 3/ it is now tentatively estimated that total new commitments to all members over the period 1992-95 are likely to be somewhat below the lower end of the range projected earlier, i.e., of the order of SDR 26 billion. This includes actual new commitments so far since the beginning of 1992 of SDR 8.0 billion; projected commitments (on a country-by-country basis and on

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1/ Assuming at the extreme--for purely illustrative purposes--purchases at the limit of 68 percent of quota in every year beginning in 1994, there are no members (excluding members in protracted arrears to the Fund) that would become constrained by end-1995, and only two members would become constrained by end-1996.

2/ EBS/92/159.

3/ See EBS/93/155, "The Fund's Liquidity and Financing Needs--Review," (9/15/93).

the basis of the current access limits) of SDR 11.4 billion in the period September 1993 through end-1994; and--as country-by-country estimates are not available for 1995--an assumed global level of commitments, taking account of the gross financing needs discussed above, of some SDR 7.0 billion in 1995. 1/ Also, of the total of SDR 26 billion, it is now estimated that SDR 9 billion might be for the countries of the former Soviet Union and SDR 17 billion for the other countries.

These estimates of demand for Fund resources are lower than had been projected earlier, in part because of the difficulties that many of the countries of the former Soviet Union have experienced in formulating and sustaining economic programs that could be supported by arrangements with the Fund. While some of these members have initiated ambitious reforms with the support of Fund arrangements in the upper credit tranches, the formulation of required policies has been slow in a number of other cases; in some, internal and border conflicts have impeded policy formulation and implementation. STF purchases are expected to offset partially the delays in the use of Fund resources that would otherwise result. In addition, the use of Fund resources by other countries is now projected to be lower, as some members have made substantial progress in their adjustment efforts and there has been a resurgence of spontaneous private capital inflows to them. As a consequence, the Fund's liquidity ratio is projected to decline more slowly than earlier projected.

In the paper on the review of the Fund's liquidity, it is projected that the liquidity ratio would be of the order of 129 percent by end-1994, taking account of STF purchases now estimated at some SDR 3 billion over 1993-94, and including likely commitments to a number of ESAF-eligible members that are not expected to be in a position to adopt ESAF arrangements before the cutoff date of November 30, 1993. On the basis of the assumption of further new commitments of SDR 7 billion in 1995 under stand-by and extended arrangements, and taking account of other flows of resources in purchases and repurchases and repayments to lenders during that year, it could be expected that the liquidity ratio would be of the order of 110 percent by end-1995, by comparison with the earlier projection of 35-50 percent. This projection remains highly tentative as it is not yet clear how much of the demand for Fund resources may be met under concessional facilities after end-November 1993, as the level of demand in 1995 is not based on country-by-country projections and as the supply of usable resources is particularly vulnerable at this time as discussed in the liquidity review paper. There is also no allowance made for use of Fund resources by industrial countries, and no Fund borrowing has been assumed.

It is too early to project demands for Fund resources in 1996 with any degree of confidence. While success in economic reforms combined with a

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1/ It will be noted also that as the country-by-country estimates are not available for 1995, the latter projection has not been included in the latest liquidity review.

strengthening of the world economy could lead to a decline in demands, as an illustrative exercise, the staff has projected continued use at the average estimated level for 1993-95. On that assumption, and on the basis of no change in the list of usable currencies and no borrowing nor quota increases, the liquidity ratio could be of the order of 90 percent by end-1996.

III. Conclusions

The new access policy has operated as intended during the initial period following the quota increases. The limits have provided adequate scope for the Fund to give appropriate support under stand-by and extended arrangements for the adjustment efforts of individual members, while average access in absolute terms has been maintained at broadly the same level as before. At the same time, a number of members have made substantial progress in their adjustment efforts and have already ceased or may soon cease to use Fund resources. Other members, however, continue to face sizable external imbalances in the context of a somewhat weaker external environment than envisaged a year ago. There may also be questions as to whether the spontaneous inflows experienced by some countries with stronger adjustment records can be sustained at their present levels, particularly as the recovery in industrial countries takes hold. Importantly, the countries of the former Soviet Union and some other economies in transition continue to face balance of payments needs that are large relative to their quotas. It will therefore be important for the Fund to be in a position to provide adequate support to members for the continuation or adaptation of their adjustment efforts.

Reflecting the progress of some countries in adjustment but also delays by many states of the FSU in formulating economic programs that could be supported by Fund resources, commitments for the period 1992-95 are currently estimated to be lower than projected last fall. As a result, the Fund's liquidity ratio is now very tentatively estimated to be on the order of 110 percent at end-1995. While this estimate is subject to considerable uncertainty and the liquidity ratio is likely to decline in the following year, the latest projections do suggest a more comfortable liquidity position than previously expected.

In view of the continuing need for the Fund to be able to provide adequate support for the adjustment efforts of many members and the stronger liquidity position now expected, the staff would recommend that the current access limits be maintained for the coming year.

IV. Proposed Decision

The following decision is proposed for adoption by the Executive Board:

"Pursuant to Decision No. 10181-(92/132), adopted November 3, 1992, the Fund has reviewed the guidelines and the access limits for access by members to the Fund's general resources under the credit tranches and the extended Fund facility, and decides that they remain appropriate in the present circumstances."

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