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October 6, 1992

To: Members of the Executive Board

From: The Secretary

Subject: Access Policy and Limits in Connection with the Quota Increases - Further Consideration

The attached paper on further consideration regarding the access policy and limits in connection with the quota increases is proposed to be brought to the agenda of the Executive Board for discussion on Friday, October 23, 1992. Draft decisions will be circulated shortly.

Mr. Burton (ext. 36531) or Mr. Dhruba Gupta (ext. 38321) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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Access Policy and Limits in Connection with the Quota Increases--Further Consideration

Prepared by the Policy Development and Review
and the Treasurer's Departments
(In consultation with the Legal Department and other Departments)

Approved by Jack Boorman and David Williams

October 6, 1992

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I. Introduction

The Executive Board held a preliminary discussion on November 15, 1991 of access policy and limits to be applied following the quota increases under the Ninth General Review. 1/ Recent progress by the membership in consenting to increases in quotas and accepting the proposed Third Amendment of the Articles of Agreement suggests that the necessary requirements for the quota increases to become effective could be achieved soon. Decisions on the access policies to be applied following the quota increases could therefore be needed in the near future.

At the November meeting, Directors expressed general support for:

(i) termination of the present Enlarged Access Policy (EAP) in its reliance on borrowed resources, and replacement of that policy with one of reliance on the Fund's ordinary resources for the financing of access under the credit tranche policy or the extended Fund facility (EFF) on the terms normally applying to the use of ordinary resources;

(ii) simplification of the system of limits under the new access policy, through elimination of the triennial limits and the dual limit structure of the EAP;

(iii) retention of the exceptional circumstances clause;

(iv) adjustment of access limits under the special facilities in proportion to the adjustment to be agreed for the limits on access under the credit tranche policy and EFF; and

(v) adjustment of access levels under SAF and ESAF in relation to the average of quota increases of eligible members.

The appropriateness of the guidelines for access in individual cases was reaffirmed. Also, Executive Directors expressed general support for efforts to simplify the structure of limits under access policies including, if possible, a rounding of percentage limits. 2/ However, views differed in particular on the levels at which future access limits should be established and, to some extent, on related questions of the duration of new

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1/ EBM/91/155-156. See "Review of Access Policy and Limits in Connection with Quota Increases--Preliminary Considerations," (EBS/91/152; 9/9/91), "Issues Related to the Floating Nature of Facilities Financed by the Fund's General Resources," (EBS/91/186; 10/31/91), and the Concluding Remarks by the Chairman, (Buff Document No. (91/213; 11/21/91)).

2/ Some Directors suggested in the November 1991 discussion that in establishing the new access limits under various facilities, the numbers could be rounded to avoid a false impression of "scientific" derivation and also to make them easier to keep in mind.

limits and whether an explicit phasedown should be planned. Views were also mixed on whether the "floating" nature of various facilities with respect to the policy conditionality applicable to purchases under the credit tranches should be retained or discontinued.

The present paper is intended to provide a basis for the Board's further consideration of these issues as well as several other questions that were raised at the meeting in November or will have to be decided in implementing access policy under the new quotas.

II. Issues for Consideration

1. Limits on access under the credit tranches and the Extended Fund Facility--framework of earlier discussions

Before turning to the limits themselves, it may be helpful to clarify the general nature of the access policy the staff envisaged in setting out the proposals in EBS/91/152. In particular, it was envisaged that with termination of the Enlarged Access Policy--under which borrowing by the Fund is an essential feature--the framework of future access policy would rely on ordinary quota resources for its financing as an integral element of the Fund's operations. 1/ The specific limits on access to be applied in that general framework would be subject to periodic Board review, in light of members' needs for Fund financing and developments in the Fund's liquidity position.

In that framework, a decision on the duration of new access limits or on a specific schedule for a phasedown of the limits would depend in part on where the limits were set initially. For example, if initial limits were set at levels that were not thought to be sustainable for long, it would seem important to set the limits with a relatively short time horizon in mind before a scheduled review, and/or to decide at the outset on a system for phasing down the limits. If, in contrast, the limits were set initially at levels that were thought consistent with maintenance of a sound Fund liquidity position for the reasonably foreseeable future, then longer review periods might be considered, and it would seem less relevant to program a specific phasedown of the limits. In any case, under either approach an

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1/ In this connection, it should be recalled that the Interim Committee has concluded that the Fund should reduce its reliance on borrowing. This is not to say that borrowing by the Fund would be precluded in the future; the Executive Board can always decide to resume borrowing by the Fund and to modify access policy if and as considered appropriate in the circumstances at the time. Similarly, it would not preclude a decision to borrow in connection with a particular operation, for example, as has been suggested in connection with possible activation of the General Arrangements to Borrow to finance a stabilization fund for the ruble in the framework of an arrangement for Russia.

objective could remain an eventual return to the traditional access of 100 percent of quota in the credit tranches, 140 percent of quota under the extended Fund facility, and a combined access of 165 percent of quota under both; and it would remain open for the Executive Board to review the situation and the limits at any time as might be warranted by developments in the world economy, members' needs, or the Fund's liquidity.

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." In EBS/91/152, and in light of earlier Board discussions of alternative meanings of this concept in the context of the quota discussions, the staff put forward four alternatives that could be regarded as compatible with the concept. These involved the maintenance of absolute maximum access either for the membership on average or alternatively for the member with the smallest percentage quota increase, 1/ with each option based on either the present lower annual and cumulative limits (90/400 percent of quota) 2/ or the present upper limits (110/440). The resulting four alternatives for new annual and cumulative limits were:

I. Annual and cumulative limits of 73 and 293 percent of quota, based on the present upper limits adjusted to maintain potential access for the membership on average.

II. Annual and cumulative limits of 83 and 333 percent of quota, based on the present upper limits adjusted to maintain potential access for the member with the smallest percentage quota increase.

III. Annual and cumulative limits of 60 and 267 percent of quota, based on the present lower limits adjusted to maintain potential access for the membership on average.

IV. Annual and cumulative limits of 68 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 presenting these alternatives, 3/ the staff paper pointed out that, while the upper limits might be viewed as the relevant base in a formal sense, the lower limits had served as the operational limits in practice, having been exceeded in only two cases, both of which had exceptional characteristics. It suggested that Alternative IV (68/303 percent of quota)

1/ Except for Cambodia and the United Kingdom.
2/ The temporary suspension of the lower limits agreed in the context of the Fund's response to the Middle East crisis lapsed at end-1991.
3/ See EBS/91/152 (9/9/91), pp. 13-14 and Table 3.

appeared to have the merit of deriving from the present practical operating limit while avoiding a reduction of maximum absolute access for any member in relation to that base. It also presented projections of use of Fund resources by the membership under the alternatives that fell within a relatively narrow range of likely outcomes over the period through 1995, with the Fund's liquidity position projected to remain broadly satisfactory throughout the period under all of the alternatives.

A majority of Executive Directors expressed support for, or appeared prepared to accept, one or the other of the two alternatives based on adjustments to the present lower limits (Alternatives III and IV) or possibly something in between. Most other Directors favored Alternative II.

2. Further considerations regarding the setting of access limits

The following comments would appear relevant to the Board's further consideration of the limits.

a. The Fall 1992 WEO suggests that the prospective balance of payment financing needs of the countries that were members of the Fund in the fall of 1991 have not changed significantly since the previous Board discussion of access policy. Although the gross financing needs of those members that have used Fund resources 1/ are now projected to be about 14 percent higher on average during 1992-95, this is largely attributable to revised forecasts of the level of current account deficit that may be financeable on a sustainable basis for a number of middle-income countries. These countries have recently experienced a resurgence of private capital inflows, which are now expected to persist through the medium term and to allow a higher level of investment and imports. Neither these developments, nor the most recent projections made in connection with the Fund's liquidity, suggest that prospects for use of Fund resources through end-1995 by countries that were members in the fall of 1991 would be materially different from those presented for the earlier discussion, with new commitments in the range of SDR 22.5-24.5 billion over the period 1992-95 (of which actual commitments so far total SDR 5.0 billion and SDR 17.5-19.5 billion is projected for the period October 1992-December 1995). 2/ The staff would, therefore, not see

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1/ Measured as the sum of the current account deficits (excluding official transfers), amortization payments to official and private creditors, and repayments to the Fund by countries that have used Fund resources since 1980.

2/ New commitments in the remainder of 1992 are projected at SDR 3.6 billion. Also, since the discussion in November 1991, eligibility for use of ESAF resources was expanded to include another eleven member countries and the commitment period for ESAF arrangements was extended to November 30, 1993. Though the impact of these developments should have some effect of easing demands on the Fund's general resources over the next few years, this effect is likely to be marginal and would not give cause to alter the staff's earlier projections.

reasons to change the earlier projections for use of Fund resources by these members.

b. The projections for the period 1992-95 made in the fall of 1991 do need to be reconsidered, however, because a significant number of additional countries have, or soon will, become members of the Fund--including in particular the states of the former Soviet Union--and a number of these new members are expected to require considerable external financing support for stabilization and structural adjustment programs. At the same time, the increases in the Fund's membership may not in the near term entail a very significant inflow of usable resources in connection with quota subscriptions (other than from Switzerland). The earlier projections for the evolution of the Fund's liquidity over the next few years through end-1995, thus, must now be reconsidered in this new light.

c. Given the needs of the states of the former Soviet Union to implement strong adjustment programs, introduce relatively open trading systems, and build up international reserves, it is likely that relatively large access to the Fund's resources may be expected over the next few years. In light of this and the size of the quotas of the states of the former Soviet Union, it would seem reasonable to place the possible commitment of Fund resources to this group of countries under stand-by arrangements and extended arrangements in the neighborhood of some SDR 13.5-17.5 billion during 1992-95 (excluding any commitment for the purposes of financing stabilization funds in the context of Fund arrangements), 1/ of which SDR 0.8 billion has been committed and SDR 12.7-16.7 billion is projected to be committed in the period October 1992-December 1995. 2/ Although this would represent a relatively high contribution of Fund resources--in relation to total projected needs for financing--compared with the Fund's average participation, the Fund's experience with East and Central European members in 1990-91 has shown the need for a large financial Fund involvement at least in the early stages of the reform process.

d. Table 1 shows the impact on the Fund's liquidity position (starting from end-September 1992) that could potentially result from a demand for Fund resources along the lines discussed above. The flows in the table take account of the effect on usable resources of the increases in

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1/ This estimate is derived from projections prepared in the context of the recent liquidity review. It will be recalled that the Managing Director in a statement earlier this year on the financing needs of the states of the former Soviet Union had indicated the possible total external financial requirements of these countries (Buff No. 92/66, April 6, 1992). The projections in this paper of Fund financing for the states of the former Soviet Union take into account the financing needs outlined in the Managing Director's statement.

2/ New commitments to these states are projected at SDR 2.1 billion during the remainder of 1992.

quotas on the basis of the present list of usable currencies; assume an addition to usable resources because of the inclusion of the Swiss franc in the list of usable currencies; and further assume that the Fund does not enter into new borrowing agreements in the period under consideration and does not call on the GAB. It is, therefore, assumed for the purposes of this exercise that (apart from use of SAF/ESAF resources and possible use of resources for a ruble stabilization fund financed by the GAB) demands for Fund credit will be financed from the Fund's ordinary quota resources.

e. On these assumptions, the Fund's liquidity ratio is projected to improve to over 100 percent immediately following the payments for the quota increase and to decline thereafter, as new stand-by and extended arrangements are approved and purchases are made. The staff projects that the liquidity ratio would fall to some 33-49 percent by end-1995. (This compares with the range of 68-79 percent estimated in November 1991 without including any commitments for the newest members of the Fund or taking into account the addition of the Swiss franc to the list of currencies usable in Fund transactions.) Such a liquidity ratio would be considerably below the broadly satisfactory levels that had been estimated earlier through end-1995. It should also be noted that these projections assume that the list of usable currencies remains broadly unchanged and that none of the industrial countries use the Fund's resources. 1/

f. The question was raised at the November meeting whether the access limits suggested by the staff were consistent with the Fund's longer-term "self-financing ratio"--that is, its ability to finance purchases without recourse to borrowing. 2/ It was pointed out by the staff that calculations of the self-financing ratio suggested that in recent years, a cumulative limit in the order of 300 percent of quota would have been financeable without borrowing, given the high levels of usability of the Fund's currency holdings. However, calculations of the self-financing ratio involve averages of the aggregate shares of creditor and debtor members, which change over time. While it may be expected that some present debtor countries will reduce their indebtedness to the Fund (and may be in a

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1/ With regard to a stabilization fund for the ruble, for each SDR 1.0 billion of purchases financed by borrowing under the GAB, the liquidity ratio would decline by about one percentage point.

2/ The self-financing access limit was discussed in the context of the Ninth Review in EB/Quota/90/2 (1/8/90) and Buff 89/240 (12/22/89). See also EB/Quota/88/5 (6/17/88), especially p. 17, and EB/Quota/88/1 (2/17/88).

Table 1. Estimates of the Fund's Liquidity Position
October 1992 to December 1995

(In billions of SDRs unless otherwise indicated)

Adjusted and uncommitted ordinary resources as of end-September 1992 1/			22.1
Plus:	Resources from payments of quota increase 2/		26.0
	Resources from quotas of new members 3/		1.7
	Repurchases		13.0
Less:	Repayment to lenders 4/		2.5
	New commitments: 5/ States of the FSU	12.7-16.7 6/	
	Others	17.5-19.5	30.2 - 36.2
	CCFF purchases		4.0
	Reserve tranche purchases 7/		1.6
	Adjusted and uncommitted ordinary resources as of end-December 1995		24.5 - 18.5
Liquid liabilities at end-September 1992			25.8
Plus:	Reserve asset payments		8.0
	Purchases in currencies		28.8 - 34.8
Less:	Repurchases		13.0
	Liquid liabilities as of end-December 1995		49.6 - 55.6
	Liquidity ratio, in percent		49.4 - 33.3

1/ The higher level of adjusted and uncommitted ordinary resources at end-September 1992, compared with the level for end-July 1992 (SDR 21.5 billion), as reported in the most recent liquidity review, reflects (i) the reserve asset payment by a new member, and (ii) the high level of repurchases relative to new commitments and purchases under the special facilities.

2/ The quota increase for members on the transfer side of the September-November 1992 operational budget is estimated at SDR 29.4 billion. The portion of this increase paid in currency has been reduced by a factor of 20 percent to reflect the adjustment to usable currencies normally made in evaluating the Fund's liquidity. Payments of the reserve asset portion of the increase in quotas by other members are estimated at SDR 1 billion.

3/ This amount represents resources from Switzerland, which is assumed to be included on the transfer side of the operational budget beginning in December 1992.

4/ Outstanding loan claims of SDR 1.1 billion are projected at end-1995.

5/ Commitments under arrangements are projected to amount to SDR 11.5 billion in 1992 (see EBS/92/128, 8/7/92).

6/ Does not include possible financing of a stabilization fund for the ruble to be financed by activating the GAB as indicated in the Interim Committee Communique of April 28, 1992.

7/ Reserve tranche purchases included here are estimates for countries not currently included on the transfer side of the operational budget (SDR 0.6 billion.) and estimates of reserve tranche purchases made to reverse the impact on external positions of the reserve asset portion of subscription payments (SDR 1 billion). For illustrative purposes, most countries not included on the transfer side of the operational budget are assumed to make immediate use of reserve positions resulting from the reserve asset portion of their subscription payments.

position to assume a creditor's position), the expansion of the Fund membership to include countries likely to have a net debtor position with the Fund will tend to lead to some reduction in the self-financing ratio toward its long-run average of 250 percent. It also cannot be precluded that some industrial countries may need to use the Fund's resources (or that their currencies may be excluded from the list of currencies considered usable in the operational budget), which would put further strain on the Fund's liquidity position. In sum, therefore, the prospective self-financing ratio is likely to be above the traditional long-term average of 250 percent of quota, though not as high as the 300 percent calculated in 1989/90--say, of the order of 265-275 percent of quota.

g. Several Executive Directors stressed at the November meeting that the decisions on access should not convey wrong "signals" to the international community--that is, that they should not convey a sense that the Fund is withdrawing from its central role in supporting, and catalyzing others' support for, members' adjustment efforts. As noted in the earlier paper, and 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, and in the staff's view they could properly be described as such in informing the international community of the Board's decisions. It is to be noted also that the expansion of Fund credit that resumed in 1991, following substantial declines over an extended period, is projected to continue in the next few years under any access limits in the range discussed, even before taking account of any demands for use of Fund resources by new members.

h. The staff was asked to examine possible annual access limits that would have the result that no grouping of potential "users of Fund credit" would experience a reduction in maximum annual access (from the base of the present lower limit of 90 percent). Although it is not possible to identify countries in a way that would reliably point to well-defined groups of "potential users," various types of groupings were presented in EBS/91/152 (Table 3, page 15). Taking the developing countries as a whole, for example, an annual access limit of 63 percent of quota would avoid a reduction for any major geographical grouping of these members; and a limit of 65 1/2 percent of quota would avoid a reduction for any of the other major groupings listed in that table, including the SAF/ESAF eligible countries. The new and prospective members have been incorporated into Table 2, which presents the implications of a 65 percent of new quotas annual access limit on potential maximum access for the various groupings of

Table 2 Implications of a 65 Percent Annual Access Limit on Potential Maximum Annual Access

Categories of Fund Membership	Proposed Quotas Ninth Review (1)	Percentage Change from Eighth Review (2)	Annual Access at 90% of Present Quotas (3)	Adjust 90 Percent of Quotas To 65 Percent of New Quotas (4)	Adjust 90 Percent of Quotas Difference (4) / (3) (5)
	(In bn. of SDRs)		(In bn. of SDRs)	(In bn. of SDRs)	(Percentage change)
Existing members as of 12/31/91 1/	136.7	50.0	82.0	88.8	8.3
Industrial	85.9	51.1	51.2	55.9	9.2
Developing	50.8	48.0	30.9	33.0	[illegible]
Africa	8.6	43.1	5.4	5.6	3.4
Asia	13.5	45.8	8.3	8.8	5.3
Europe	5.6	46.0	3.4	3.6	5.5
East Europe	4.7	45.6	2.9	3.1	5.2
Middle East	11.7	60.5	6.5	7.6	15.9
W. Hemisphere	11.4	43.8	7.2	7.4	3.9
Miscellaneous WEO groupings					
Net creditor	8.7	61.7	4.9	5.7	16.8
Net debtor	41.8	45.5	25.9	27.2	5.1
O/w with debt-servicing difficulties	23.4	44.9	14.5	15.2	4.6
15 heavily-indebted	13.1	45.0	8.2	8 5	4.7
Fuel exporters	18.0	55.0	10.4	11.7	12.0
Nonfuel exporters	32.8	44.4	20.4	21.3	4.3
Manufacturers	16.6	47.3	10.1	10.8	6.3
Primary products	8.3	38.8	5.4	5.4	0.2
SAF/ESAF eligible 2/	6.7	40.5	6.1	6.2	1.5
Past Fund users	38.6	44.0	24.1	25.1	4.0
O/w past CCFF users	30.3	44.2	18.9	19.7	4.2
New and prospective members for which quotas have been established 3/	9.3	48.7	5.6	6.1	7.4
Industrial countries 4/	2.5	45.3	1.5	1.6	5.0
Developing countries 5/	6.8	50.0	4.1	4.4	8.3

1/ Includes Albania which was not a member at the time EBS/91/152 was prepared.

2/ Other than China and India, but including 11 countries that became ESAF-eligible in April 1992, i.e., Albania, Angola, Côte d'Ivoire, Dominican Republic, Egypt, Honduras, Mongolia, Nicaragua, Nigeria, Philippines, and Zimbabwe.

3/ Excluding the Republics of Croatia, Slovenia, and Bosnia - Herzegovina, which have applied for membership but for which quotas have not yet been established, as of end-September 1992.

4/ Switzerland.

5/ Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrghyzstan, Latvia, Lithuania, Moldova, Russia, Tajikistan*, Turkmenistan, Ukraine, Uzbekistan, the Federal States of Micronesia, the Marshall Islands, and San Marino.

(*) indicates that country has not yet become a member.

countries, adjusting the annual access limits from the current lower base of 90 percent of quota. 1/.

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Although these various considerations may point in different directions, the staff considers that on balance caution is warranted in setting new limits, in part because of the heightened uncertainties associated with the large addition to the Fund's membership that is now in progress and a possibly relatively fast deterioration in the Fund's liquidity ratios. In particular among the specific alternatives discussed, and in light of the liquidity projections presented above, it would seem difficult to provide strong justification for the solution of new limits of 83/333 percent of quota (Alternative II), which would in fact entail a significant expansion of maximum potential access for all groups of members against any base.

New limits of the order of, say, 65/290 percent of quota (roughly maintaining the relationship between the existing lower annual and cumulative limits and rounding to the nearest number ending in five or zero), would fall in the range supported earlier by the majority of the Board and would seem to meet many of the desiderata mentioned by Executive Directors in the November meeting. Specifically, such a solution would avoid a reduction of maximum access from the present operational base for any of the groups of members identified earlier--including the group of past users of Fund resources; it would provide a limit that is well above the

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1/ Although the staff continues to feel that calculations based on the present lower annual limit are the most relevant in an operational sense, it has to be acknowledged that the present dual limit structure introduces a degree of ambiguity that makes it difficult to establish clearly whether countries or groups would "gain" or "lose" from selection of any particular new limits. One's perception as to which base is relevant for comparison (i.e., either the upper or lower limits) can swamp the calculations. For example, the new annual access limit suggested by the staff in the September 1991 paper (68 percent of quota) implied a "gain" in maximum potential access for the then existing members--by some 14 percent on average--in comparison with the present lower limit; but the same new limit implies a "loss" in absolute maximum access for the then existing members--by 7 percent on average--in comparison with the present upper limit. Among the alternatives discussed, only Alternative II (83/333) produces the result that there are unambiguously no "losers" in terms of maximum potential access by comparison with either base, because this alternative is defined, in effect, to increase maximum potential access above the present upper limit for all but the country with the smallest percentage quota increase (the increase in maximum access under this alternative is 14 percent on average in terms of the present upper limit and some 39 percent in terms of the present lower limit). If nothing else, this ambiguity would seem to reinforce the arguments to move to a single set of annual and cumulative limits which would be transparent and understandable to the membership.

average of actual access in absolute terms that has prevailed in recent years; and, in the expectation that it would allow the Fund to provide the necessary financial support to its members undertaking strong adjustment programs, it would be supportive of a continuation of the Fund's central role in the international financial system. Finally, 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. 1/

Nonetheless, the staff would emphasize again the unusual uncertainties now posed not only by the large additions to the Fund's membership but also in the evolution of the Fund's liquidity position, and would suggest that, whatever limits might be decided for immediate implementation with the quota increase, the limits be reviewed again after a relatively short period, say, within twelve months of the adoption of the new limits and periodically thereafter.

3. Financial terms for purchases under the credit tranches and the Extended Fund Facility

As indicated earlier, it is proposed that all purchases 2/ under the credit tranches and the Extended Fund Facility be financed from the Fund's ordinary resources after the quota increases under the Ninth General Review come into effect. As discussed in EBS/91/152 and at the November 1991 meeting, the rationale for separate charges and repurchase terms in respect of holdings of members' currency above the traditional limits under enlarged access would no longer apply. At the November 1991 discussion there was general agreement among Executive Directors that the same rate of charge (including adjustments under the decision on burden sharing) should apply to all purchases in the credit tranches and under the Extended Fund Facility; and that all purchases under a new access policy would be subject to the repurchase terms for ordinary resources of 3 1/4 to 5 years and 4 1/2 to 10 years under stand-by and extended arrangements, respectively.

1/ These limits would result in an increase in terms of the present lower annual limit of about 8 percent for the membership (as of 12/13/91) as a whole, 7 percent for the developing countries, and 5 percent for the net debtor countries (see Table 2). Of 134 developing countries, about one fourth would experience reductions in potential maximum annual access, ranging from 0.3 percent to 27.8 percent; nearly all of these are past users of Fund resources, and most of them are eligible for use of SAF/ESAF resources. Only two members (other than some of those now in protracted arrears to the Fund and ineligible to use Fund resources) would become constrained by the cumulative limits by 1994, assuming purchases at the limit of 65 percent of quota in every year beginning in 1992; four more members would become constrained by 1995.

2/ With the exception of purchases financed by activation of the GAB.

4. Access limits under the special facilities and in support of debt reduction operations

The earlier analysis of possible new access limits for the special facilities was based on projections of shortfalls during 1992-96 derived from data on export earnings in the May 1991 WEO. 1/ That analysis has been updated to incorporate data from the latest WEO. The historical averages for the period 1980-90, as would be expected, have changed little, although there have been some changes in the data for individual years--notably 1990, for which largely estimated data were utilized in the earlier WEO round. With respect to the projections for the period 1992-96, although the key relationships for projection purposes have not been affected, the latest WEO has revised downwards the level of exports in 1991 and projects a slower average annual growth rate for export earnings for all developing countries (9 1/2 percent as compared with 12 percent). As a result of these modifications, the projected average annual compensable shortfall during 1992-96 for all developing countries would be reduced from SDR 19.8 billion to SDR 17.7 billion, implying that projected annual average CCFF purchases could amount to SDR 1.5 billion compared with the previous projection of SDR 1.7 billion. 2/ In view of the uncertainties associated with these projections and the relatively small modifications in the projections introduced by the updated WEO, the staff considers that the conclusions of the previous analysis and discussions by the Board have not changed materially.

It was generally agreed at the November 1991 Board meeting that the access limits (and sublimits) for the special facilities, and for augmentation of arrangements in support of debt and debt service reduction operations, would be adjusted in proportion to the adjustment to the annual limit on access under the credit tranches and the Extended Fund Facility, so as to maintain the existing balance among the various facilities and policies. The limits on access under the special facilities have been binding in a number of cases and thus can be regarded as operational limits in practice. As noted before, it would seem appropriate to use the present lower annual limit under the enlarged access policy--which has been the operational limit under that policy--as the base for the purpose of calculating the adjustment of the limits under the special facilities and

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1/ A description of the methodology and associated caveats are contained in Section V and the Annex of EBS/91/52, 9/9/91.

2/ In any event, as was noted in the previous paper, under the CCFF decision, exports in the two post-shortfall years are constrained to be no more than 20 percent higher than the two pre-shortfall years. This constraint becomes operative at average annual growth rates of 6 1/4 percent per year, and the most recent WEO projections for export growth of developing countries remain well above this level. Consequently, the revisions to the WEO data base would have on average relatively minor implications for the size of projected compensable shortfall or possible compensatory purchases for any given access level.

augmentation. If it were agreed to reduce the annual limit for access under the credit tranches and the Extended Fund Facility from 90 to 65 percent of new quotas, the limits on access under the special facilities and augmentation would be adjusted downward by about 28 percent (1-65/90 = 0.2778) in relation to new quotas. If this were the case, the present overall limit on access to the CCFF would be reduced from 122 to 88 percent of quota, while the sublimits on compensatory financing and contingency financing would each be reduced from 40 to 29 percent of quota, (or from 65 to 47 percent, taking into account the optional tranche). Similarly, the 45 percent of quota limit under the Buffer Stock Financing Facility (BSFF) would be reduced to 32 percent of quota, and the 40 percent of quota limit on augmentation under arrangements in support of debt and debt service reduction would be reduced to 29 percent of quota. Each of these figures could be subject to rounding, say, to the nearest number ending in five or zero as shown in Table 3, if so desired by Directors.

5. Access under SAF and ESAF arrangements

Executive Directors generally expressed support for adjusting access under SAF and ESAF arrangements in relation to the average of quota increases for eligible countries. Three points of clarification may be helpful with respect to further consideration of access under these facilities.

a. Potential access and individual access are the same under the SAF--70 percent of quota for a three-year period (of which 20 percent of quota becomes available in the first year, 30 percent in the second year, and 20 percent in the third year). The staff's projections of use of SAF resources by the originally eligible members continue to point to virtual exhaustion of SAF resources, and it would thus be necessary to adjust the limit in relation to the average percentage quota increase of the originally eligible members 1/--implying a new access limit of 50.6 percent of quota for the three years (or 50 percent if rounded) to be prorated among the three years of the SAF arrangement in a manner equivalent to that established in the past. In this connection, however, most Executive Directors were of the view that the SDR amounts of those SAF arrangements that are in effect at the time of the quota increase should not be reduced because of the change in access limits as a percentage of quotas. 2/ The amounts involved remain extremely small, and this step would not

1/ The members eligible, excluding China and India, before the April 1992 expansion of the eligibility list. The newly eligible members have communicated their intention not to use SAF resources.

2/ Paragraph 4(3) of the SAF Regulations provides that if, after resources have been committed to a member, the member's potential access is increased or decreased, inter alia, pursuant to changes in the potential access of all eligible members, then the total amount available to the member will be proportionately modified and subsequent disbursements will be modified accordingly.

relatively minor balance of payments problem; or where a member was facing substantial financing needs and seeking use of Fund resources under the CCFF and an arrangement simultaneously.

The staff's concern has been that the floating provisions can be a source of inflexibility and risk to the Fund. With respect to the availability of the first credit tranche when possibly large Fund credit is already outstanding, the basic issue is whether the Fund's "liberal attitude" toward first credit tranche requests and the absence of performance criteria and phasing--policies established at a time when such requests were the earliest use of Fund resources--are necessarily appropriate when Fund exposure may already be large and a further increase is under consideration. The Fund should be able to tailor its conditions--the safeguards applying to further use of its resources--to the nature of the members' problems as well as the level of its exposure. In the staff's view, the Fund has ample scope for this, for example, in determining the size and conditions of the initial purchase under an arrangement, or of an outright purchase, without reliance the floating provisions.

The floating provisions also introduce an element of inflexibility and possibly risk to the Fund when purchases on approval under an upper credit tranche arrangement involve the first credit tranche and purchases under the CCFF combined. As no phasing is permitted for either CCFF purchases or first credit tranche purchases, no phasing is permitted for their concurrent use. This can result in an all or nothing choice between a heavy frontloading of Fund resources--as noted, about 90 percent of quota for initial purchases in some recent cases--or no access at all. Elimination of the effect of the floating provisions on conditionality in the credit tranches would eliminate this element of rigidity and allow the Fund greater discretion in tailoring the initial (concurrent) access to a member's need and circumstances; where large concurrent purchases are justified, for example, the Fund would retain substantial scope to frontload the initial purchase under the arrangement in combination with the CCFF purchase.

For these and the other reasons noted in the earlier paper, including that it would represent some simplification of the Fund's rules on access, the staff would favor an end to the effect of the floating provisions on conditionality in the credit tranches.

III. Summary

For the convenience of Directors in organizing their comments, the points either agreed earlier or suggested above are summarized below. The current access limits and the corresponding limits that would apply under the new quotas are shown in Table 3, on both an unrounded and a rounded basis. Rounded figures are used in the following summary.

1. Access under the credit tranches and the Extended Fund Facility

a. The enlarged access policy would be terminated and replaced by a policy relying on the Fund's ordinary resources for the financing of purchases in the credit tranches or under the extended facility, subject to the normal terms regarding charges and repurchase periods for ordinary resources under each of these policies.

b. Limits on annual and cumulative access would be set initially at 65 and 290 percent of quota and would be reviewed within 12 months and periodically thereafter. The triennial limits and the dual limit structure would be terminated.

c. The guidelines on access in individual cases would be maintained, except that references to access between the present lower and upper limits would be eliminated.

d. The exceptional circumstances clause would be retained.

2. Financial terms

All purchases in the credit tranches and under the Extended Fund Facility would bear the same rate of charge (including burden sharing), and would be subject to the same repurchase terms as for ordinary resources under each of the respective policies.

3. Access under special facilities and in support of debt operations

Access under the CCFF and BSFF (including sublimits), and augmentation of access under arrangements for debt and debt service reduction, would be adjusted in proportion to the adjustment in the annual limit on access under the credit tranches and the extended facility, taking the present lower annual limit as the base. Accordingly, access to the CCFF would be set at 85 percent of quota (and its sublimits adjusted proportionately along the lines presented in Table 3), to the BSFF at 30 percent of quota, and to augmentation under arrangements in support of debt and debt service reduction at 30 percent of quota.

4. Access under SAF and ESAF arrangements

a. Potential access under SAF arrangements would be set at 50 percent of quota (of which, 15 percent of quota in the first year, 20 percent in the second year, and 15 percent in the third year), but the SDR amounts available to those eligible members with SAF arrangements in effect at the time of the adjustment would not be reduced.

b. Regarding access under the ESAF for originally eligible member countries:

-- average access would become 110 percent of quota; and

-- the normal limit on access would be set at 180 percent of quota and the exceptional limit at 255 percent of quota.

c. Regarding ESAF access for member countries which became newly eligible in April 1992:

-- the norm for access would become 60 percent of quota.

5. Floating of facilities

The provisions for the floating of facilities in relation to the credit tranches would be eliminated for purposes of conditionality in the credit tranches.

* * *

Draft decisions that could give effect to the items listed under 1-4 above will be circulated shortly. Draft decisions on floating would be prepared as necessary in light of the Executive Board's discussions.

Table 3. Access Limits Under Fund Arrangements, Special Facilities, and in Connection with Augmentation for Debt and Debt-Service Reduction

(In percent of quota)

	Under Present Quotas	Under New 1/ Quotas (Precise Calculations)	Under New Quotas (Rounded) 2/
Access under credit tranches and the Extended Fund Facility			
Annual	90-110	65.0	65
Cumulative	400-440	288.9	290
SAF 3/	70	50.6	50
1st year	20	14.5	15
2nd year	30	21.7	20
3rd year	20	14.4	15
ESAF 3/			
Average	150	108.3	110
Maximum	250	180.6	180
Exceptional	350	252.8	255
ESAF new members (norm) 3/	80	57.8	60
CCFF	122	88.1	85
Sublimits:			
Compensatory 4/	40	28.9	30
Contingency	40	28.9	30
Cereal 4/	17	12.3	10
Optional tranche	25	18.0	15
Combined (shortfalls plus contingency)	105	75.8	75
Combined (compensatory or contingency plus optional tranche)	65	46.9	45
BSFF	45	32.5	30
Augmentation for debt/ debt-service reduction	40	28.9	30

Source: Fund staff estimates.

1/ Reflects a downward adjustment of about 28 percent (1-65/90 = 0.2778), which is based on 65 percent annual access for new quotas compared to lower annual (operational) limit of 90 percent of present quota.

2/ Limits have been rounded upward or downward to the nearest number ending in five or zero, except for the optional tranche of the CCFF which has been rounded down in order to preserve the rounding of the total combined limits.

3/ Access over a three year period.

4/ If the balance of payments position apart from the effects of the export shortfall (cereal import costs) is satisfactory, the current limit is 83 percent of quota and the proposed limit would be 60 percent of quota.