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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 91/155

10:00 a.m., November 15, 1991

M. Camdessus, Chairman
R. D. Erb, Deputy Managing Director

| Executive Directors | Alternate Executive Directors |
|---|---|
| M. Al-Jasser | A. A. Al-Tuwaijri |
| G. K. Arora | L. E. N. Fernando |
| | Zhang Z. |
| C. S. Clark | |
| T. C. Dawson | Q. M. Krosby |
| | J. Prader |
| E. A. Evans | |
| | N. Kyriazidis |
| M. Finaish | A. F. Mohammed |
| I. Fridriksson | |
| H. Fukui | N. Tabata |
| | B. Esdar |
| J. E. Ismael | |
| | G. Bindley-Taylor, Temporary |
| J.-P. Landau | |
| A. Mirakhor | S. Rouai, Temporary |
| | Y. Patel, Temporary |
| D. Peretz | |
| G. A. Posthumus | |
| C. V. Santos | |
| A. Torres | R. Marino |
| | L. E. Breuer, Temporary |

C. Brachet, Acting Secretary
L. Collier, Assistant

Also Present

African Department: A. Jbili. Central Asia Department: Z. Khan. European Department: R. J. Corker, P. L. Hedfors. Exchange and Trade Relations Department: J. T. Boorman, Director; J. Ferrán, Deputy Director; T. Leddy, Deputy Director; A. Basu, A. V. Georgiou, G. R. Kincaid, J. P. Pujol, B. E. Rourke, M. Shadman-Valavi, H. J. G. Trines. External Relations Department: J. E. McEuen. IMF Institute: R. E. Daumont. Legal Department: F. Gianviti, General Counsel; R. Munzberg, Deputy General Counsel. Secretary's Department: K. S. Friedman, A. Tahari. Treasurer's Department: D. Williams, Treasurer; G. Wittich, Deputy Treasurer; E. Decarli, S. J. Fennell, H. Flinch, D. Gupta, A. J. Richards, S. M. Thakur. Western Hemisphere Department: E. S. Kreis. Office of the Managing Director: P. R. Narvekar, Advisor. Personal Assistant to the Managing Director: B. P. A. Andrews. Advisors to Executive Directors: P. Bonzom, L. Dicks-Mireaux, B. R. Fuleihan, A. Gronn, A. Raza, B. Szombati, A. M. Tanase. Assistants to Executive Directors: Chen M., J. A. Costa, S. B. Creane, Deng H., Duan J., N. A. Espenilla, S. K. Fayyad, A. Giustiniani, S. Gurumurthi, K. M. Heinonen, V. Kural, W. Laux, J. Mafararikwa, M. Mrakovcic, D. Saha, S. Shimizu, D. Sparkes, Tin Win, R. Thorne, C. M. Towe, J. W. van der Kaaij.

1. FINLAND - EXCHANGE RATE FOR FINNISH MARKKA

Mr. Fridriksson informed Executive Directors that in response to strong pressures against the Finnish markka, the Bank of Finland had decided the previous day to allow the exchange rate to float temporarily, and subsequently new fluctuation limits had been established around a central ECU rate entailing a devaluation of about 12 percent.

2. ENLARGED ACCESS POLICY AND ACCESS LIMITS IN CONNECTION WITH QUOTA INCREASES - PRELIMINARY CONSIDERATIONS; FLOATING NATURE OF FACILITIES FINANCED BY GENERAL RESOURCES; AND REVIEW OF LIQUIDITY POSITION AND FINANCING NEEDS

The Executive Directors considered staff papers on preliminary considerations for the review of the enlarged access policy and for access limits in connection with the increases in quotas under the Ninth General Review (EBS/91/152, 9/9/91), on issues related to the floating nature of facilities financed by the Fund's general resources (EBS/91/186, 10/31/91), and on the review of the Fund's liquidity position and financing needs (EBS/91/139, 8/20/91; and Sup. 1, 11/8/91). They also had before them a background paper on the use of the Fund's general resources under arrangements and the special facilities (EBS/91/182, 10/28/91).

Mr. Posthumus made the following statement:

> Reacting to the first two issues for discussion, my first and major remark is that the intention of the preliminary staff proposals seems to be to formulate a new access policy which, in practice, will not provide limits to access for any members. Access policy, however, in my view is a policy to safeguard the financial position of the Fund and not to essentially safeguard access for the members of the Fund. An insufficient quota increase cannot be compensated for by an increased access policy. The rationale for this position apparently is that "in present circumstances any material reduction in potential access would add to existing uncertainties and could adversely affect the role of the Fund in the international financial system," quoting from the staff paper (EBS/91/152). With all due respect, I find this position somewhat farfetched.
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> My second remark is that the present enlarged access policy is the prime example of a temporary policy which has proved quite durable. The staff reminds us that in addition to the proposed new access policy, the Board has considered the possibility that maximum potential access would be maintained for some time following the quota increase. I recall that the discussion in the Board was rather controversial and not conclusive. The staff indicates that the reason for the Board's position at that time

was that an early return to the traditional limits would create significant difficulties. Which traditional limits? They are not described in the paper. Perhaps, in the absence of a new policy, access limits would be 100 percent or 140 percent of quota; but this solution is done away with in a note on page 6 of the staff paper, probably because it would be unrealistic. Another traditional limit might be the self-financing ratio of 250 percent of quota, calculated in document EB/CQuota/90/2, submitted to the Board last year. Now, the self-financing ratio is not even mentioned by the staff. I remember that our calculations at that time indicated that the self-financing ratio was more likely to be lower than that resulting from the staff's calculations.

I agree, of course, that the new access policy should guarantee that purchases are always financed from the Fund's ordinary resources.

I therefore support the proposed new guidelines for borrowing by the Fund. But as I indicated, the staff's calculations are completely demand oriented--in fact, so much so that the suggested limits of 303 percent of new quota have no limiting effect at all. The Board should be prudent, and because access under the compensatory and contingency financing facility (CCFF) is in addition to this limit, we should limit access to 250 percent--if this is the self-financing ratio--or at most 267 percent--alternative 3--even though this figure is demand oriented rather than derived from supply limits. But if I agree with the 267 percent limit, it would be on the condition that we will not introduce a new temporary enlarged access on top of the new access policy; we still have the exceptional circumstances clause to solve specific and urgent needs.

I agree with all the other suggestions of the staff, particularly uniform repurchase terms, one rate of charge, abolition of the confusing and completely unrealistic dual access limits, establishment of access limits under special facilities in line with the adjusted access limits under tranche policies, as well as adjustment of access to the structural adjustment facility (SAF) and enhanced structural adjustment facility (ESAF) according to the same principle.

Although the Fund's liquidity position is at present sufficiently strong, we agree with the staff that the projected fall in the liquidity ratio underscores the importance of an early conclusion of the ninth quota increase. On the more technical issue of the adjustment factor, the proposed reduction to 20 percent, after it has constantly been 25 percent over the past six years, could be questioned. The reduction implicitly means that the five currencies which were recently excluded from the operational budget had a risk factor of 60 percent, which makes it doubtful whether they should have been included in the operational budget at all.

Finally, I recognize the arguments for elimination of the provisions for the floating of the various Fund facilities in relation to the credit tranches. This would ensure a more consistent implementation of conditionality and performance criteria for successive Fund credits. Furthermore, the phasing of disbursements would be improved, thereby in some cases avoiding undue front-loading of access and allowing a more prolonged application of conditionality. Also, the complicated modalities governing the use of Fund credit would be somewhat simplified, an admirable goal. However, I am not fully convinced that this is an important issue, and the availability of the first credit tranche can in some cases be a useful instrument for members. I will therefore make up my mind later on this issue.

Mr. Landau made the following statement:

Before detailing the core of this chair's proposals on the main issue of access limits and on some other, more specific, questions, I would like to share with you some considerations on the general environment and on the role of access limits in the Fund's policy.

The first characteristic of the environment surrounding all these issues is certainly the increase in financing needs of the membership. Indeed, the developing countries' financing needs are estimated at SDR 132 billion a year for the 1991-95 period--a 13 percent increase over the 1986-90 period. To meet this need, the Fund could be asked to provide some SDR 35 billion. In fact, this trend has already materialized; average access to Fund resources, for instance, has tended to increase since 1988. This is due mainly to the growing financing needs associated with the program--"the base"--rather than to any increase in the share of the Fund in total financing--"the rate."

Second, the staff itself stresses the extreme sensitivity and high level of uncertainty of such projections. This is illustrated by the fact that, since August, the projected level of the Fund's gross commitments has been re-estimated upward by SDR 3.2 billions for the period 1991-92. The potential instability of any projection is certainly not surprising, given the increasing level of integration of the global economy.

Third, the coming period will certainly be one of important challenges for this institution. The staff rightly warns us against overestimating the very positive but also very recent and limited developments on spontaneous access of indebted countries to financial markets. Equally important is the challenge raised by the transformation of formerly planned economies, including the U.S.S.R.

In such an environment, it is the opinion of this chair that it will be essential to preserve and reinforce the influence and the catalytic role of the Fund which is based on a very delicate balance: as experience has shown, the influence of this institution rests on the quality of its analysis and the relevance of its advice, but also on its ability to back its recommendations by providing a very minor but critical part of the external financing needs of member countries. This can be possible only if the Fund's intervention capacity is seen as sufficient to meet a wide range of country-specific or systemic shocks.

Those are the main characteristics of the environment around us. Let me now stress a few general points on the role played by the main question before us today, namely, access limits, in the framework of the Fund's policies.

First, the record of the 1980s shows no clear links between access limits and effective access. This point is made by the staff when it states that the guidelines on individual cases "embody principles that are relevant in determining the appropriate amounts of financing that could be provided under almost any system of access limits." Indeed, for a number of years after 1983, average access decreased much more rapidly than annual limits. Similarly, access limits have seldom been reached, let alone surpassed, in programs.

Second, and as clearly shown in Table 5 of the paper on access policy, alternative choices of access limits--at least within the range that is proposed for our discussion--have no dramatic effect on the Fund's liquidity. The difference between the "high" and "low" cases mentioned by the staff is only 9 points, and in the worst case, the liquidity ratio would be 68 percent in 1995, thus very close to the optimal level of 70 percent.

Indeed, from the propositions put before us, one fact emerges as far as liquidity is concerned: it is influenced mainly by resources available rather than by the level of future access. The main constraints, in this regard, are the possibility of implementing the Ninth Quota Review and, to a lesser extent, the reduction in the number of usable currencies.

All these considerations on the environment and the significance of access limits lead me to the following conclusions: access limits are essentially a signal sent by this institution to its membership and, more broadly speaking, to its environment. Under the present circumstances, I have no doubt that the principal message must be that the Fund is ready to meet unexpected and changing challenges. If further proof of this reality is needed, I would point out that, not so long ago, one of the Fund's main reactions to unfolding events in the Middle East consisted of temporarily suspending the lower access limits, even if it was known that it was very likely that they would not be binding in any case.

This being said, I will now address the proposals on access limits and other related questions. The position of this chair, already stated when we discussed the quota increase, is that no member country should find itself, after the quota increase, with a lower level of absolute access. This is in accordance with the staff's general approach to the problem. These considerations, as well as those I have just mentioned on the general environment, reinforce our convictions that the right message would consist in reducing the present dual limit of 90 percent or 110 percent to a single limit of 83 percent for annual access and 330 percent for cumulative access--all this, of course, after the increase in quota.

We also believe that the same approach should be applied to the limits for debt reduction operations and for the CCFF. As regards the latter, the change would also stress the point that the facility remains available in case of extreme variations in a country's economic environment, that such a situation appeared most obviously in 1990 and 1991, but that, given its relatively low level of conditionality, the CCFF should not be allowed to remain permanently at the same level of access.

However, I have some concerns with respect to the staff's proposals on the specific point of the SAF and ESAF. We would strongly prefer that the same principle be applied to the SAF, ESAF, and enlarged access policy: namely, no eligible country should suffer from a reduction in absolute access. I cannot see the rationale for reducing, even by a few points, the level of access of the poorest countries which are also those whose increase in quota is very often lower than the average.

On the other questions related to access policy, first, we agree on the proposals to maintain the "exceptional circumstances clause," which provides necessary flexibility, and to abandon the triennial limits, which are not operational.

Second, we fully concur with the staff that the present guidelines for individual access are appropriate. Therefore, the Fund's case-by-case approach finds one of its main foundations in these guidelines. We would not object, however, to discussing them again later in light of the latest and projected developments at that time; in particular, we would like to consider the new needs of countries that are beginning the difficult process of transforming their economies to market-oriented systems, with quick establishment of external convertibility, but with very low or nonexistent levels of foreign reserves. These needs can be met, either by resources--as they have been up to now--or by any other means, such as an allocation of SDRs. In the former case, it might be appropriate to take these needs more explicitly into account in the individual guidelines at a later stage.

Third, we also favor a longer-term approach to access policy. In the present framework, some continuity is needed, and it would seem appropriate that the next decision on this subject be taken not for one year, but for at least a three-year period.

On more specific issues, we share some of the concerns expressed by the staff in support of its proposition to reverse the decision on the floating nature of facilities vis-à-vis the first credit tranche and, in particular, the concerns about the possible drawbacks of front-loading and the complexity of Fund mechanisms. However, I would like to point to other types of concerns that lead me to a different conclusion.

First, the floating nature of facilities gives us the ability to respond, on a timely and quantitatively adequate basis, to sudden, unexpected developments. This was the case, in the past, in respect of individual countries--for example, India--and also in situations of more systemic significance, such as the Middle East crisis or events in Eastern Europe. Future developments in the U.S.S.R. could fall in both of those categories and would require as much flexibility and rapidity.

From the individual country's perspective, of particular concern to me would be the fact that under the proposed modification, a country having graduated successfully from an extended arrangement but encountering temporary, exogenous difficulties might not be able to draw on the first credit tranche on a timely basis until the extended arrangement has been reimbursed. This would clearly be counterproductive.

Moreover, I am not fully convinced by the evidence provided in the papers on the links between the floating nature of facilities, the long utilization of Fund resources, front-loading, and the appearance of arrears. I am somewhat reassured by the fact that the staff itself does not seem fully convinced since it states that "it is not possible to attribute the emergence of problems" to the floating nature of facilities. Besides, Table 3 of the paper on the floating nature of facilities illustrates a number of rather successful stories among those countries that benefited from the most front-loaded arrangements. I am also concerned that the proposed decision could substantially reduce the attractiveness of special facilities, in particular the CCFF.

All those arguments lead to the conclusion that the flexibility provided by the present rules on the use of the first credit tranche must be maintained.

My second and last point deals with the consequences of the progressive substitution of ordinary resources for borrowed resources. We very much welcome the completion of this trend, which stresses that, as emphasized by this chair on many occasions, ordinary resources and, under exceptional circumstances, the resources of the General Arrangements to Borrow are the normal ways to finance the Fund's activities. We thus fully support the proposed decision. It has the merit of respecting the basic principle I have just mentioned and, at the same time, it will provide for a degree of flexibility which, among other advantages, will strengthen the confidence of potential creditors.

As for the consequences of this change on the cost and duration of the use of the Fund's facilities, I would ask the staff for further information. This decision on substitution could be reviewed after the entry into effect of the increase in quotas.

We have before us a set of questions, proposals, and decisions to address sooner or later that are all more or less related to the quota increase. As I said, the satisfactory solution of all these issues hinges heavily on the successful and expeditious conclusion of the increase in quotas. My authorities strongly believe that, in all these interlinked matters, the policies implemented and the messages sent by this institution should be clear, consistent, and worthy of the tremendous challenges of our time.

Mr. Fukui made the following statement:

I welcome this opportunity to discuss issues related to financial policies before the end of 1991, which is the target date for the ninth quota increase. The staff's papers depict the need for early adoption of the quota increase and also provide background for our discussions on how to meet the increasing demand for Fund resources after the Fund's financial position is strengthened and, at the same time, how to maintain the Fund's sound financial position.

On the Fund's liquidity and financing needs, I basically agree with the papers' conclusions, and I support the proposed decision on the guidelines for borrowing by the Fund. I share the staff's concern about the sharp deterioration in the Fund's liquidity position. As the papers point out, the demand for the Fund's resources will continue to be strong, and unless the ninth quota increase comes into effect, it is estimated that the liquidity ratio will decline to 43 percent by the end of 1992, which is the lowest in a decade. Furthermore, given the strong demand for the Fund's resources, there is a downside risk in the liquidity ratio. Therefore, I join the staff in stressing the urgent need for members to ratify the quota increase.

Following the exclusion of Cyprus and Saudi Arabia from the operational budget, the staff reduced the adjustment factor from 25 percent to 20 percent. This reduction in the adjustment factor almost offsets the decline in usable currencies owing to the two countries' exclusion. At the same time, however, the staff notes that the balance of payments of some countries will weaken, and I think that this could lead to further exclusion of countries and thus to a further reduction in usable currencies. I wonder whether this assessment and the reduction in the adjustment factor are consistent. I would like the staff to elaborate on its reasons for reducing the adjustment factor under these circumstances and projections.

As to access policy and limits, first, there was general agreement that maximum potential access available under the current facilities should be maintained, and I consider it appropriate to preserve the absolute amount of access to the Fund's ordinary resources, even for those members whose quota increases are small, so that the quota increases are advantageous to all members. Therefore, I basically support the first approach suggested in the paper which will preserve the maximum potential access for Equatorial Guinea and eventually increase access by more than 10 percent on average.

Second, the access limit should be both operational and simple. Since the upper limit has not worked as a limit in practice, it should be abolished. I also support the elimination of the triennial limit. In addition, the structure of CCFF access limits is complicated and we should discuss its simplification.

Third, there is no reason to use different methods in changing the access limits of the facilities that use general resources. The same method should be applied to the CCFF, the buffer stock financing facility, and the enlarged access policy.

Finally, the SAF and ESAF are different from other facilities in that their resources are linked to particular, limited resources. Since the total resources of these facilities are not to be increased, it is necessary to reduce the access limit so that total access to such facilities remains the same.

With respect to the floating nature of facilities financed by general resources, I share the concern underlying this discussion that there have been cases where the Fund's resources have not been used as envisaged. If the floating nature is abolished, it would alleviate this concern, although at the expense of flexibility. The world situation has changed significantly, witness the Middle East crisis and the reforms in Eastern Europe and the Soviet Union. These changes are affecting members' economies, and the Fund is required to meet these members' needs. I am pleased to note that the Fund has reacted to such needs, for example, by using the CCFF more flexibly. It is my position that we cannot ignore the advantages of this type of flexibility.

In conclusion, the demand for the Fund's resources is increasing and the scope of the Fund's activities is broadening. At the same time, the financial position of the Fund should be safeguarded. How to balance these objectives is an ongoing question for the Fund, and one that has to be discussed. I believe the approach to access limits which I am supporting today will basically meet the above-mentioned objectives. Finally, I would like to emphasize the need for the ninth quota increase in order to strengthen the Fund's financial position and to meet the growing demand from members. I believe that the current status of the ninth quota increase is such that the Fund must take further action to encourage those members who have not yet accepted the ninth quota increase and the proposed Third Amendment of the Articles of Agreement to accelerate their procedures. As I said during the discussion of the work program, we should seek a constructive way to ensure that the quota increase comes into effect as soon as possible.

Mr. Kyriazidis made the following statement:

In view of the complex and uncertain evolution of the economic and financial situation in the different regions of the world over the medium term, today's review of the Fund's access policy is an extremely important matter. The issue assumes even greater importance if looked at in the context of the implications that any change in access policy could have at this time if it signals to the international financial community a change in attitude by the Fund toward its members in greatest need of assistance.

In fact, considerations relating both to the prospects for the use of Fund resources in the next few years and to the need for the Fund to affirm its continuing readiness to support members' adjustment programs motivate the position of this chair on the staff's proposals on enlarged access policy. This chair is satisfied with the way this policy has worked so far. Its guidelines have enabled the Fund to respond to members' requests for resources in a sufficiently flexible manner and in a way that was consistent with the criteria for prudent financial management.

We certainly agree that the policy, as it now stands, should in principle be terminated with the coming into effect of the Ninth Quota Review. At the same time, however, we recognize that for reasons of prudence, and provided that enough liquid resources are available, it would be desirable that for a period after the quota ratification, the Fund retain enlarged access limits that would allow it to meet larger than normal needs of member countries in the coming years. External financing needs are projected to remain large and to even increase sharply for a significant number of member countries, while the various sources of balance of payments financing outside the Fund's resources are expected to remain basically unchanged.

As the staff points out, retaining enlarged access limits would enhance members' confidence in the Fund's capability to respond quickly to a sudden deterioration in their external position and would signal to markets, as well as to official creditors and donors, the Fund's intention to maintain its central role in sustaining adjustment programs. This, of course, should not detract from the necessary efforts to mobilize larger resources from donors and creditors in support of adjustment and reform processes, as well as debt alleviation policies. However, retaining enlarged access limits should not detract from the ultimate objective of establishing worldwide sustainable external positions that could rely mainly on spontaneous flows of capital. To this effect, the idea of retaining enlarged access limits should be associated with that of strengthening to the extent possible the necessary policies in countries undertaking adjustment efforts.

Before commenting on the proposals put forward by the staff, I will first raise a few points which call at this time for close attention from this Board. First, we wonder what would happen to the enlarged access policy in the event that the Ninth Review of Quotas should not come into effect within the envisaged deadline.

Should we retain the policy in its present form, or should we not perhaps reconsider the access limits in light of the more limited Fund resources and the implication in the medium term for the liquidity position of the Fund.

Second, we believe that this Board should start considering the appropriate time, after the quota review comes into effect, by which to terminate the enlarged access policy. In this regard, precisely to avoid the risk that the intent to terminate this policy some time in the future might be perceived outside the Fund as a signal of a partial disengagement of the Fund from its commitment to support developing member countries, it would be desirable that, from the time of approval of the new enlarged access policy, we make clear and public that the policy will at some point be terminated.

In this connection, my third point is that perhaps a plan for a gradual phaseout of the enlarged access policy should be considered and worked out, also in view of the need to signal to the international financial community the Fund's orientation in this respect.

With these provisions and issues in mind, this chair sympathizes with the staff's proposals as listed in the report's summary. In particular, with regard to the alternative access limits considered in the exercise, we agree that those based on the current lower annual/cumulative limits (90/400 percent), adjusted to preserve the access in absolute amount of the member with the smallest quota increase, would in principle serve better than the alternative option the desired objective of maintaining maximum potential access for the whole membership, while confining the revised limits to within the present operative limits.

We believe, however, that a somewhat lower limit than that proposed by the staff under this option would better reflect the direction in which we would like the Fund to move on this matter, namely, a progressive reduction of the enlarged access. Thus, a compromise access limit between the 60 percent and 68 percent options--perhaps 65 percent--could be acceptable to everybody, as the possible loss for some members in terms of slightly lower potential maximum access would not be significant and would thus not have major consequences. In any event, to make up for the lower limits in some cases, the Fund could retain the exceptional circumstances clause that would allow it, when necessary and appropriate, to respond adequately to members' requests for the use of resources beyond the established limits.

Furthermore, this chair would agree that all purchases under stand-by and extended arrangements should be financed by the

Fund's ordinary resources under the terms and conditions proposed. It would support the proposal to adjust the limits on augmentation of stand-by and extended arrangements for debt and debt-service reduction operations and on special facilities in proportion to the adjustment of the annual access limit on the use of general resources agreed upon by the Board, and it would endorse the proposed simplification of the current access policy by eliminating the present structure of dual and triennial limits. Also, this chair could go along with adjustments in access limits to the SAF and ESAF that would be in line with the agreed annual limit on the use of general resources.

With regard to the Fund's liquidity position, I have no difficulty in agreeing with the staff's conclusion that the resources of the Fund are adequate to meet prospective demands until the end of 1992. The prospective increase in the demand for Fund resources is a welcome development, but it is bound to place some stress on the Fund's liquidity in 1992. Past experience indicates that the consequent decline in the Fund's liquidity ratio, even if it is not as precipitous as the staff projects, may well be a cause for concern, particularly in view of the need to maintain the liquidity of members' claims on the Fund at all times. Therefore, there is an imperative need to bring into effect the Fund's quota increase under the Ninth General Review as early as possible. I agree with the staff proposal on the guidelines for borrowing, and therefore I support the proposed decision.

At this time, I can only make some preliminary comments on the issues relating to the floating nature of facilities financed by the Fund's general resources. The matter is a highly technical one but with important political ramifications which have to be weighed seriously by my authorities.

As I have already indicated, it is particularly important to avoid giving a signal that might be interpreted as a shift in this institution's policy toward restricting or rendering more difficult the timely access of member countries in need of Fund support to this institution's resources if, of course, members meet the conditions for such access. However, on a technical basis, it would be logical in order both to simplify our procedures and to make our interventions more effective to eliminate, as the staff suggests, the floating nature of facilities financed by the Fund's general resources. Indeed, it appears illogical that countries with outstanding credit from the Fund equivalent to a multiple of their quota should continue to have access to drawings under the first credit tranche. If, as described by the staff, the shortcomings of eliminating the floating nature of the Fund's facilities outside the tranche policies can be overcome, I would venture to say that the matter merits further study and discussion on the basis of concrete proposals from management. For obvious reasons, this issue should at any rate be resolved within the framework of our eventual decision on access policy.

Mr. Ismael made the following statement:

I agree that, if possible, it would be desirable to simplify the present enlarged access policy, perhaps by introducing a single-limit new access policy as suggested by the staff. With regard to the size of the new limit, my preference, taking into account the desire to send the correct signal with regard to the Fund's ability to meet members' needs, is for the first approach, which does not reduce the maximum potential access for any member. This view is strengthened by the fact that the second approach would tend to reduce access proportionately more for those countries that are most likely to need Fund resources, namely, those in Africa, the Western Hemisphere, and Eastern Europe. Within the first approach, a new limit based on the present upper limit would seem to be reasonable, since it represents a limit in the traditional sense of the word and not a target and would provide the Fund with considerable flexibility. Access in specific cases should continue to be based on balance of payments need and the strength of the member's adjustment program. Moreover, consideration should continue to be given to the member's past record of policy implementation and the level of Fund credit outstanding.

For the sake of simplicity, I agree with the proposed elimination of cumulative limits, especially as they have had no operational significance. Also in connection with the new access policy, I agree with the proposal to finance drawings under this policy with ordinary resources at the initial stage, under the usual terms. However, in view of the uncertainties concerning members' needs for Fund resources, especially in light of the impending membership of the U.S.S.R., the option of using borrowed resources should not be entirely ruled out for the longer term.

With regard to the special facilities, including augmentation, I agree that access should be adjusted using the same approach as that chosen for the new access policy. Ideally, SAF/ESAF access should also be adjusted using the same approach as that for the new policy. Nonetheless, taking into consideration the resource constraints for these two facilities, I could go along with adjustment by a factor related to the average percentage increase in quotas of eligible members, namely 37 percent. For arrangements already in effect, I would like to know what the legal basis would be for the Fund to reduce access in SDR terms in relevant cases.

Despite sympathizing with many of the arguments to eliminate the floating nature of the special Fund facilities, on balance, this chair feels that it would be preferable to maintain it. The idea of restoring the first credit tranche to being the first recourse to Fund credit is indeed an attractive one. The elimination of floating would imply that low conditionality applies only to drawings in the first 25 percent of quota under the first credit tranche, or to the first 20 percent or 40 percent of quota under compensatory financing, depending on the circumstances, and 45 percent of quota under buffer stock financing. In other words, unless the first credit tranche is drawn before compensatory financing or buffer stock financing, the conditionality would be the same as drawings in the higher credit tranches. This is acceptable, if it is agreed that low conditionality should not apply to the first credit tranche, unless no other drawings are outstanding. Moreover, elimination of floating helps solve the problem of phasing and front-loading. It could also encourage members to come to the Fund early for first credit tranche purchases--that is, before circumstances become such that only larger drawings, with higher conditionality, will be enough to help.

However, first, the elimination of floating could simply affect the timing of purchases by encouraging members to make use of the first credit tranche prior to the compensatory financing facility in order to take advantage of the low conditionality of both, rather than vice versa. Moreover, it could give rise to the situations described on page 13 of EBS/91/186. This would be tantamount to making the Fund unable to respond appropriately to members' circumstances.

Second, the concern about conditionality of first credit tranche drawings which follow or are simultaneous with compensatory financing is unfounded. From the experience in 1982-90, 80 percent of first credit tranche drawings were in the context of stand-by arrangements in the upper credit tranches and therefore subject to higher conditionality in any case. Only a small portion was in fact subject to the Fund's "liberal" attitude because it was limited to the first credit tranche. This is as it should be, for such drawings, whether or not in combination with compensatory financing, would normally signify minor problems. Any remaining concern could perhaps be addressed by not permitting drawings limited to the first credit tranche in situations where it is obvious that the member's problems will require greater support in the near future, if this option were legally feasible.

With regard to the problem of front-loading in arrangements combined with purchases under the CCFF, we can understand the staff's concern. Nonetheless, the special purpose of compensatory financing must be taken into account, as must the usually urgent need for financing to compensate for export shortfalls or import excesses. Indeed, the bulk of drawings in combination cases usually consists of compensatory financing, with the first credit tranche limited to 25 percent of quota. Any increased flexibility in phasing gained from the elimination of floating would be limited to the size of the first credit tranche, which is usually much less significant than the accompanying purchase under compensatory financing.

Third, with regard to the extended Fund facility, the appropriateness of permitting first credit tranche purchases depends on the member's circumstances. If an extended arrangement had been completed successfully, and a small need arises some time later while financing under the extended arrangement is still outstanding, it would seem reasonable that the member should be able to use its first credit tranche at low conditionality. To eliminate floating would not permit the Fund to address this kind of case. If the member's problem appears to be large and requires assistance extending beyond the first credit tranche, a stand-by arrangement covering higher credit tranches would provide the needed conditionality.

Fourth, the idea of striving for simplicity is also appealing. However, the kind of flexibility envisaged by the staff to accommodate purchases in higher amounts once the floating provision is eliminated causes us to wonder whether things will really be simplified. Moreover, we are not convinced that this so-called greater Fund flexibility can be exercised without sacrificing transparency in the treatment of members.

Fifth, we agree with the staff that experience does not provide strong evidence that floating, including heavy front-loading resulting from concurrent requests, has contributed significantly to problems of prolonged use or arrears. We feel that the strength of adjustment programs, where relevant, and appropriate interpretation of a member's cooperation are more important in this connection.

The seemingly large total access quoted by the staff--over 500 percent of quota--that could potentially float, if enlarged access is included, was the result of a realistic view by the Board that Fund quotas were simply not keeping up with global and national developments, and the needs of members. Such large percentages by themselves should not be a cause for alarm.

Moreover, they will be scaled down when new quotas under the Ninth General Review come into effect.

On the final topic, from the staff's useful analysis of members' financing needs, we can expect external financing requirements of many member countries to be large in relation to quota in the period ahead. Therefore, potential need for the Fund's resources could be quite substantial in order to support the strong adjustment policies required to restore members' creditworthiness. However, the Fund's liquidity is expected to be reduced shortly--although the coming into effect of new quotas should keep the Fund's liquidity in a relatively comfortable position, at least in the medium term.

Nevertheless, the staff projects the liquidity ratio to be at about 68 percent by 1995. This is close to the minimum average level considered sufficient by the Fund. Moreover, the staff points out that its projections are fraught with many uncertainties, implying that the liquidity ratio could be either higher or lower. To preclude the situation of a sustained low liquidity ratio, it would be wise for the Fund to begin without delay deliberations on the Tenth General Review of Quotas.

Mr. Al-Jasser made the following statement:

Regarding the Fund's liquidity and financing needs, first, the high level of new commitments during 1991 should be viewed as exceptional. Therefore, it will be important to keep in mind, when we discuss individual requests for Fund resources, that the Fund's financial involvement should be strictly catalytic in nature. Second, despite the unexpected and exceptionally high level of commitments in 1991, the Fund's liquidity ratio is healthy. However, in view of prospective demands as well as possible requests for Fund resources from potential new members, early action to bring the quota increase into effect is needed. Finally, I can support the proposed decision on new guidelines for borrowing by the Fund.

I am not in favor of eliminating the provisions for the floating of facilities in relation to the credit tranches. Fundamentally, the elimination of floating would give rise to a tightening of conditionality, which I do not support. As experience has shown, problems associated with the prolonged use of Fund resources and arrears cannot be directly attributed to the provisions for floating. Furthermore, while offering little in the way of substantial benefits, the elimination of floating would penalize members who have maintained a good track record with the Fund.

In this respect, I do not agree with the view that the elimination of floating would be more consistent with the concept of liberal first credit tranche conditionality. For example, a country that has used the CCFF to address an earlier temporary and reversible export shortfall, which was not associated with an underlying balance of payments problem, should still have access to a liberal credit tranche. Similarly, a country that has successfully completed an extended arrangement should not be prevented from using the first credit tranche to address a minor balance of payments problem because of the long repurchase period associated with the extended arrangement. Indeed, it would be regrettable if, because of the elimination of floating, countries were more inclined to adopt stand-by arrangements with shorter maturities rather than extended arrangements with longer maturities, when other more fundamental criteria might dictate otherwise. Furthermore, this particular problem would be aggravated under the proposed new access policy when the use of borrowed resources would cease.

As regards access limits in terms of new quotas, I can go along with the staff's proposal to eliminate the dual access limits and adopt a single access limit of 68/303 percent of quota. This proposal has several merits. First, from a distributional point of view, it is pareto-optimal; no member country is made worse off by this proposal. Second, in terms of potential demands for Fund resources by individual members, it is unlikely to present any constraints. In the event that a binding constraint did arise for a particular country, it could be dealt with through invoking the exceptional circumstances clause. Third, by not reducing access in SDR terms, it would avoid the risk of conveying the wrong signal to the financial community about the Fund's commitment to the adjustment process. Fourth, from the perspective of the prudent management of the Fund's liquidity, this option does not raise total maximum potential access above the level that currently exists. Overall, the proposal before us is a sensible compromise.

As for the length of the interim period during which these access limits should prevail, I would propose a period of one year. At that point, we could revisit the whole question of access limits. In examining these issues, I would suggest that particular account be taken of two factors: first, the outcome of the Uruguay Round negotiations, which could affect the need for Fund financing; and two, the prospective membership of the U.S.S.R. and its possible implications for the Fund's liquidity position.

As regards the matters raised in Sections V and VIII of the staff's paper, I can support the several amendments proposed, with two caveats. First, with respect to the SAF, the decision should be amended so as to ensure that the amounts available in SDR terms under operative arrangements are not reduced. Second, concerning the adjustments proposed for the ESAF and the SAF, I note that the new access limits would be based on a calculation that excludes India. Could the staff elaborate on how, if at all, these calculations and limits would be affected by the use of the ESAF by India. Also, would the proposal for an expanded eligibility list affect the access limits proposed in the paper?

With respect to the financial terms of the purchases under the new access policy, I can support the staff's proposal. Furthermore, I agree that the current modalities concerning the financing commitments in excess of available borrowed resources should be continued. On this latter point, would I be correct in thinking that, for the current practices to stay in effect after December 31, 1991, pending the increase in quotas, a new decision is required by the Board?

Mr. Esdar made the following statement:

At the outset, I should like to reiterate briefly the few main principles which have guided our considerations for the discussion today. First, there is no doubt that the Fund must maintain its central role in its support of member countries overcoming their balance of payment problems and adjusting their economies. That implies that the Fund must have sufficient scope to address member countries' needs. The paper provides estimates of the amounts that are needed on the basis of past practice and experience. However, when considering the financial needs, we should be aware that the Fund, financially, can only play a limited role and that its financing has a largely catalytic function in mobilizing additional support from other sources as well. In addition, the Fund's financial involvement in member countries can be only of a temporary nature. In the course of the adjustment process, the Fund's resources must be replaced gradually by regular financial flows and direct investment. I was somewhat puzzled to read in EBS/91/152 that the financial needs, especially of middle-income countries, are influenced largely by an increase in payments obligations related to earlier debt restructuring. Generally, in my view, a refinancing of debt rescheduling arrangements of other creditors by the Fund would be contrary to the temporary character which should guide its financial involvement.

The principle of the second paragraph, in our view, should be that the financial integrity and stability of the Fund has to be maintained. The expected demand for Fund resources for the next four years ending 1995 is estimated to be in the range of SDR 23-25 billion. This calculation is based on the assumption that industrial countries will not draw on Fund resources and, more important, does not take into account the possible additional demand of new member countries. Furthermore, experiences with the Ninth Quota Review clearly demonstrate that a quasi-automatic replenishment of the Fund's resources after the expiration of the Ninth Quota Review period cannot be taken for granted. Therefore, it would be prudent to maintain an adequate level of resources to meet possible additional demand and at the same time to ensure that the revolving nature of Fund resources is safeguarded by their appropriate use.

Third, I fully agree with the staff that our consideration should be guided by a clear understanding that the Fund in the future should rely only on its ordinary resources in providing financial assistance. Therefore, the possibility of new borrowing--for the time being--should be excluded from our considerations.

Fourth, it is correctly pointed out by the staff that the policy of enlarged access was adopted as a temporary measure with the clear understanding that it would be phased out when conditions allow. This basic principle remains valid, even when we decide today to integrate this policy into the structure of ordinary quota financing. The temporary nature of this policy should therefore be emphasized adequately in the decision, even when described by the staff as a "new access policy."

Fifth, when discussing access limits, it should be kept in mind that access limits are by no means targets or entitlements and rather should be seen as some kind of precautionary indicator for very exceptional circumstances. The actual access has to be decided carefully considering the special circumstances of the respective case. The prudent policy course pursued by the Fund in the past in this regard should be continued and maintained.

Having said this I should like to turn now to the concrete issues addressed in the papers, beginning with the paper on access policy and limits.

On the issue of future access limits, I very much support the view that given the difficult circumstances for many developing countries and given the situation in many countries in Central and Eastern Europe, a reduction in financial support provided by the Fund might give the wrong signal by creating the impression that the Fund is turning away from its central role. However, as pointed out by the staff and as demonstrated by previous speakers' interventions, there are different views on whether this should be defined as maintaining the absolute level of access for each individual country or the absolute access of all member countries.

My authorities, in this regard, have not come to a final conclusion. However, adjusting the access limits in a way that the maximum possible access for the country with the lowest increase in quota remains unchanged would lead to the result that the access of virtually all countries would be increased more or less substantially. This would contrast with the understanding that the policy on enlarged access should have a temporary character and should be phased out within an adequate time frame. Therefore, my authorities sympathize with the view that we should refer to the overall access. This would imply new access limits of 60 percent for the lower limit and 73 percent for the upper limit, and 267 percent and 293 percent, respectively, for the cumulative limits in terms of the new quotas.

This seems to be a reasonable solution given, as mentioned already and from past experience as clearly demonstrated in the staff paper, that access limits, if at all, are only in very exceptional circumstances expected to become a constraint. These cases in my view can be addressed adequately by applying the exceptional circumstance clause which--in the view of my authorities--should be maintained as a precautionary element of flexibility.

However, having said this, my authorities acknowledge the concerns of countries for which, owing to disproportionately low quota increases, access limits will be reduced. Perhaps the concerns of these countries could be met by agreeing as a sort of compromise on the proposal made by the staff to maintain the absolute access of all countries but to abolish the upper credit limit.

With regard to the financial terms of purchases under the "new access policy," I endorse the view that in the future all purchases would be subject to uniform repurchase terms of 3 1/4-5 years and 4 1/2-10 years under stand-by and extended arrangements, respectively, and that all Fund holdings of members' currency should be subject to the same rate of charge.

As to the limits on access to the regular facilities, I share the staff's view that the triennial limits could be eliminated without causing any problems. I also share the view that it is sufficient to define annual as well as cumulative access limits.

On the new access limits for the special facilities as well as the limits for the resources for debt reduction, as far as these are related to member countries' quotas, I can go along with the proposal to adjust these limits in terms of new quotas by the same adjustment factor as that proposed for the general resources.

I can also agree with the proposed procedure to recalculate the access limits for SAF resources referring to the adjustment of the average quota increase of SAF-eligible countries. Since the amounts available for the SAF are fixed, there seems to be no feasible alternative to this procedure. With regard to the proposal to change retroactively access under existing arrangements, I have no strong feelings. It would be interesting to know what absolute amounts would be involved and what technical complications could arise.

With regard to the adjustment of access limits under the ESAF, I can go along with the proposed procedure as well. Any change in the existing arrangements, as the staff has pointed out, is obviously not necessary.

Concerning the floating nature of facilities, I very much support the staff's view that the present practice of floating purchases under special facilities in relation to the first credit tranche has led to severe disadvantages and consequences that had not been envisaged originally. In this context, I would merely recall the rather disappointing experiences with the liberal attitude governing the drawings under this credit tranche--a finding during our discussion of this facility last summer. In addition, the elimination of the provisions for floating of the various facilities would avoid the undue front-loading of Fund resources which has been criticized by this Board on several occasions. Therefore, there are, to say the least, very good reasons to return to the original objectives that have guided the considerations establishing lower conditionality requirements for drawings under the first credit tranche. I support the view that the lower conditionality requirements should be applied only if drawings under the first credit tranche are effectively the initial form of resource to Fund resources by the respective country.

Finally, on liquidity needs, the deterioration of the liquidity ratio projected by the staff underlines the need to finalize the quota increase as soon as possible. I can go along with the proposals to retain the guidelines for borrowing. However, I would like to emphasize that this should not imply a weakening of the principle that the Fund normally should rely on its own resources. To clarify this, I would like to propose a change in the second sentence of the first paragraph of the proposed decision to read: "However, on a temporary basis, to meet exceptional circumstances, borrowing by the Fund can provide an important supplement to its resources."

Mr. Dawson made the following statement:

The staff marshals an impressive array of qualitative and quantitative considerations as a backdrop for our discussions. While there is much in the analysis (EBS/91/152) with which I agree, I also at times found the presentation somewhat pessimistic.

The staff points to difficult near-term prospects for growth and trade, continuing large external financing needs, inadequate support from other creditors, and adverse signals from material reductions in access for the international community. The growth outlook in the major countries clearly is not robust. Growth has been weak this year, and the prospects are for moderate recovery in comparison with past expansions. But, at the same time, progress has been made in creating a more solid foundation for growth. Inflation has been significantly reduced, and interest rates have fallen sharply. External imbalances are also being reduced, thereby, it is hoped, decreasing protectionist pressures globally.

The external financing needs of reforming countries will remain large in coming years, and one cannot underestimate the continuing adjustment requirements of these countries. But under the debt strategy, many developing countries are implementing sound reforms, and they are achieving the benefits of debt and debt-service reduction and new money. Also, many Fund members are restoring access to world capital markets. The large interest rate reductions are substantially reducing debt-servicing costs.

The staff is right to alert us to the signal effects of our actions. It is important that we leave no doubt in the international financial community about our determination to support reforming countries. This was a key factor in U.S. decisions to support leaving access limits unchanged in the latter years of the 1980s. But we have demonstrated the Fund's resoluteness in supporting the membership. Moreover, we must be careful that the international community does not interpret our concerns over signal effects as an indication that official and Fund debt should substitute for private markets.

In this regard, projections that suggest that the Fund should meet a given percentage of countries' external financing needs are inconsistent, we believe, with the Fund's role as a catalyst and a monetary institution.

The staff is also correct to note uncertainties confronting the world economy. But we must remember that uncertainties are always present. The question we must ask is whether we have any basis to assume uncertainties will be greater in the future. We think not. While the growth outlook is less robust, and the reforming countries face important challenges, we no longer face a systemic crisis on the debt front. Also, the Central and Eastern European countries face debt burdens far lower than those in many developing countries. The many solid programs of countries now undergoing strong adjustment show a demonstrated commitment to reform that should put countries on a sound financial footing.

Taken together, I believe the above suggests that the need for Fund financing could decline in comparison with the 1980s.

In examining the quantitative implications of new access policies, the staff warns against material reductions in access and suggests setting access limits to new quota resources either to preserve maximum access for the country with the smallest quota increase or to preserve access in absolute terms for the membership on average.

It is important to note that neither recommendation entails a material reduction in access. With respect to the options dealing with adjustment of lower tier limits, the fact of the matter is that if we adjust access limits to accommodate the country with the smallest quota, then every other country receives an increase in possible access. This is borne out in Tables 3 and 4 (EBS/91/152). In Table 3, by adjusting the lower tier limits for Equatorial Guinea, developing countries' access to IMF resources increases by over 12 percent. In Table 4, use of the Equatorial Guinea option would swell remaining nominal access to Fund resources for all members, and those with constrained positions by 19 percent.

In contrast, these same tables show that by preserving maximum potential access on average, developing country access does indeed decline, but only by 1 percent. Also, the constrained countries as a whole would still have remaining access of over SDR 20 billion, the members with relatively high financing needs would have SDR 36 billion, and other members with financing needs, SDR 41 billion.

These limits are also not meaningful in an operational sense. It is rare that countries receive maximum annual access. As the staff notes, cumulative access limits have not been breached, and, indeed, aside from one member, no countries are even close to approaching their limits.

Moreover, as the staff states, countries would only come close to breaching their cumulative limits using extreme assumptions. To the extent that these limits were binding, we assume that they would be so only for countries that have already made heavy use of Fund financing and that would not be expected to be major users of future financing under the Board's approach to prolonged use. In addition, even if additional access were needed for a country beyond the limits, it could be provided under the exceptional circumstances clause which we strongly support.

There is another important policy aspect of our discussions that was somewhat neglected in the staff's analysis. Namely, the paper devotes inadequate attention to the long-standing policy of this institution that the enlarged access policy is temporary and to be phased down. Under the enlarged access policy, we have financed assistance to members with needs that are large in relation to their quotas by borrowings from major creditor countries. These borrowings allowed the Fund to maintain an imbalance in the structure of its uses and sources of financing.

Most of these borrowings have been or soon will be repaid, and all of the borrowings are committed. Many of our governments face budgetary constraints, and difficult legislative hurdles must often be overcome in securing Fund financing. Furthermore, we have agreed that the Fund should remain a quota-based institution, and that the reliance on borrowed resources should be reduced.

Further to this point, the access limits are ceilings, not targets. Indeed, the Fund has done a very good job in applying its access policy within the limits in a responsible and appropriate manner, a point made clear in the background paper. Raising maximum potential access to Fund resources on a sustained basis as would occur under the option, however, could give rise to perceptions that access within the limits should also be substantially increased.

Against this background, let me turn to our preliminary views on the new access policy. In principle, we fundamentally believe that in setting the new access limits, there is a far better case for preserving access in absolute terms for the membership on average than for the other option. In this context, we also agree with the staff that the dual limits have proved cumbersome, serving little operational purpose.

I recognize that many of you will suggest that this approach could result in an immediate and abrupt reduction in the access limits, that some countries might immediately lose maximum potential access--albeit large and unused--and that there are concerns about the signal effects of such a decision. In these circumstances, we would be prepared to consider transitional mechanisms that would promote a more orderly and gradual adjustment to the new access limits.

Our proposal would be to reduce each member's cumulative access limit proportionate to the amount of its quota increase, if the country's quota were to rise less than the overall 50 percent increase in quotas. Then, over a three-year period, any difference between the level of nominal access thus resulting and the amount that results from reducing access by 50 percent would be phased down in three equal annual steps. The annual limit would be reduced from the outset to 60 percent of quota.

I understand that the staff is of the view, however, that this approach would not be consistent with the principle of equal treatment. I would appreciate an explanation for this reasoning. It would seem to me that under this proposal, the access limits of all countries would still be expressed in percentages of quota and that the level of access that would be reached over the three-year period would be the same for all. Additionally, in the quota increase, some countries received non-uniform selective increases, and the percentage amount of countries' quota increases varied. Moreover, our proposal would provide countries with higher nominal access than would result from an immediate reduction to the average, something that I am sure many of our colleagues would support.

With respect to the other matters on which staff is seeking our guidance, we are prepared to support the proposal to adjust CCFF and augmentation limits proportionate to the reduction in overall limits as part of a satisfactory overall decision. We also support the proposals to adjust SAF/ESAF access limits in relation to the average quota increases for eligible members, as well as that to eliminate triennial limits. Moreover, we would support financing of access beyond historical limits with ordinary resources.

With regard to the paper concerning the floating nature of certain facilities, the staff makes a convincing case that first credit tranches have often been used when exposure was already high. It is also apparent that first credit tranche purchases, accompanied by CCFF drawings in certain cases, have led to excessive front-loading.

At the heart of conditionality lies the principle that there should be an appropriate mix between phasing and performance, increasingly emphasizing performance as exposure rises. But the practices cited by the staff are inconsistent with this principle. Instead, they upset the delicate balance and have the potential to put Fund resources at serious risk. Moreover, the provision of first credit tranches when exposure is already high is inconsistent with the spirit of the Fund's tranching policies--namely, that first credit tranche purchases are the first line of resources.

I realize that the staff's proposals may have limited effects. But, on balance, we are firmly persuaded that the application of conditionality would be improved and the Fund's financial integrity would be far better safeguarded by eliminating the floating provisions, especially with respect to the extended Fund facility and the enlarged access policy.

I also found the staff paper on Fund liquidity unduly pessimistic. The key point is that Fund liquidity remains more than ample to cover financing needs for the foreseeable future. The staff's projected sharp declines in the liquidity ratio are importantly associated with large commitments, many of which will not be called until 1993 and 1994. For example, if we measured the liquidity ratio in terms of adjusted resources on hand, the end-1991 and 1992 liquidity ratios would be an extremely comfortable 104 percent and 66 percent, respectively. Further, as we know from experience, commitments rarely end up matching disbursements. Accordingly, it is difficult to argue that the wolf is at the door. Finally, the suggestion that the staff's projected liquidity ratios are below the long-run norm of 70 percent and are therefore unsustainable is a proposition that I do not fully accept for reasons spelled out during the quota review.

Mr. Peretz made the following statement:

The immediate prospects for Fund liquidity look slightly better than previously forecast--thanks perhaps to conservative forecasting methods. Nevertheless, the need for implementation of the Ninth Quota Review is becoming steadily more urgent. While Fund resources look adequate for the time being, the liquidity ratio has already fallen by 30 percentage points since the end of last year, and others have spoken about the likely future demand for Fund resources. We do not want there to be even the slightest doubt about the medium-term adequacy of Fund resources. I certainly do not think that the slightly improved liquidity position provides any reason for being more relaxed about the deadline for consents to the quota increase.

One factor which has helped to improve the outlook for end-1991 liquidity since we last reviewed the situation in March is in any case a rather notional one--the reduction in the adjustment factor for usable resources. This is a subject which this chair has raised on several previous occasions, and we have bigger issues before us today. I will just say that we still question the calculation process. I also share Mr. Posthumus's and Mr. Fukui's concerns about the implied adjustment factors for members who have recently been excluded from the operational budget.

With respect to access policy, I would just note in passing that the United Kingdom is one of only two countries whose maximum potential access will be reduced under any of the proposed alternatives. I do not propose to argue against that. Therefore, I hope we can be regarded as a fairly disinterested party. I have some thoughts on how we might reconcile the objectives of maintaining the same overall level of maximum access, while ensuring that the access of any individual member is not materially reduced.

On the question of dual access limits, I agree with the staff that under the current system there is doubt about the particular circumstances in which the upper, rather than the lower, access limits might apply. I therefore favor the staff's proposal to simplify the system by moving to a single limit.

The lower limit has in practice only been breached on very rare occasions. The calculation on which it is based involved the maintenance of the same average access level at the last quota review. I assume we will be retaining the rule allowing any limit to be breached in exceptional circumstances. So I agree with staff that the lower limit should be used as the basis for the new single limit. I also agree with staff proposals to abolish triennial limits, and agree that access limits on special facilities should be dealt with in a fashion consistent with the enlarged access limit. I would like to reserve my position on the staff's proposal on floating resources.

As to the central issue, I start by recognizing that the quota review necessarily involves a change in members' relative quota positions, and this inevitably means that relative levels of access to Fund resources will be altered. I also recognize that the principle of equality of access, as a percentage of quota, must be maintained under the Fund's Articles of Agreement. I understand the staff's reasons for suggesting in addition that the percentage access to resources be adjusted so as to ensure that no country has a lower absolute level of access. But at the same time, I feel uneasy about the general principle of allowing the most extreme example that can be found among the Fund's membership to guide the overall rules on maximum access for the Fund membership as a whole. As a finance ministry official, I have become very suspicious of financial policies--tax changes, for example--designed so as to create no losers. It is usually a recipe for a very large number of windfall gainers at a considerable cost. It is not an approach I would expect the Fund to recommend to members in respect of fiscal policy. A great deal of cost can usually be avoided by a very small degree of rough justice and some special action to provide a safety net for particularly hard cases. I was intrigued and a little attracted to Mr. Dawson's proposal for transitional arrangements for what one might call hard cases. However, in this particular respect, I have a rather different compromise to propose.

I do not pretend that the analogy between tax policy and the subject we are now discussing is an exact one. But if the extreme example of Equatorial Guinea is, as in Alternative 4, used to determine overall access levels, then the aggregate maximum level of access to Fund resources for the membership as a whole will rise by 14 percent. This is a quite considerable slippage from the idea that maximum potential access should be maintained at its present level.

At the same time, part of the reason why the aggregate increase is so large is that it includes the theoretical increases in limits for industrial countries and for creditor developing countries, which are probably unlikely to make significant purchases in the foreseeable future. A more realistic objective might be to seek to maintain the aggregate maximum level of access for those likely to make purchases. For the group of net debtor countries, the staff's Alternative 4--or the Equatorial Guinea solution, as Mr. Dawson calls it--would involve a 10 percent rise in overall access. I also see from the staff's figures that all the traditionally used groupings of developing or debtor countries, whether by region or by debtor status, would have significantly increased limits under the Equatorial Guinea solution.

I accept, though, that it is highly desirable presentationally that no individual grouping of resource users with a need for funds lose out from the review, since the review's whole purpose after all is to ensure that funds are available where necessary. The staff's Alternative 3, namely, maintaining the average limit, does not meet this test; under that Alternative several regional and other groupings which are at present in need of considerable finance would see their limits, as groups, fall significantly.

This leads me, like Mr. Kyriazidis, to suggest a compromise. Somewhere between staff Alternatives 3 and 4, in other words, between annual percentage access of 60 and 68, there lies a compromise where no grouping of potential purchasers loses out. I an not entirely sure what the figure is--but for the sake of illustration let us take 65 as a round number.

I recognize that this would mean that some individual members would see a slight reduction of their access limits, but even in Equatorial Guinea's case this would be less than 5 percent. In any event, I assume, as I said earlier, that we will be retaining the clause that any limit can be breached in exceptional circumstances. The aggregate limit for ESAF-eligible countries as a whole would fall by less than 1 percent. In any case, these countries' access to concessional financing, including concessional debt relief, is a far more important issue, and progress there, I believe, would be the clearest signal of commitment which the international institutions and creditor countries could give. I do not think that minor reductions in the enlarged access limits would risk being seen as an unhelpful signal to the outside world, especially given the overall slight increase in access for debtor countries as a whole that it involves.

As to the access limits under the SAF and the ESAF, I agree with the staff that we must be sure that whatever is done must in the end be consistent with the particular financial constraints of these facilities. For the SAF, where the actual level of access has historically been close to the maximum, there may well be a rationing problem which could imply a need to maintain the current average access levels so as to ensure that funds do not run out too quickly. But I would hope we could avoid reducing access levels on existing arrangements. I would be interested to see more information from the staff on exactly how the constraint bears down on likely future demand.

On access to the ESAF, I was rather surprised to see financing constraints used as an argument for opting for a different type of solution to the one proposed for enlarged access. For ESAF arrangements, as for enlarged access, the limits on purchases are only supposed to be approached rarely. If all members were to purchase the maximum allowed, the finance available would be clearly insufficient, even under existing quotas.

It is clear that available finance has to be borne in mind in setting access levels for individual arrangements, but I do not see that this need be the overriding consideration for theoretical maxima for the ESAF as a whole any more than it is at present. However, we will perhaps be better placed to make decisions on this when we know the outcome of the present discussions about a possible expansion of the list of eligible countries.

We are having today what in Britain is called a second-reading debate, that is, an occasion in Parliament when general views are set out, but before any detailed decisions are taken. I look forward to further staff work and proposals based on the views expressed today. I hope that this work can include a calculation based on the kind of compromise on access limits that I have tried to set out.

Mr. Clark made the following statement:

We are in broad agreement with most of the recommendations and proposals contained in the papers before us today, and I will only summarize our views on the main proposals.

As regards Fund borrowings, we can support the recommendation to eliminate the financing of access beyond historical limits with borrowed resources, as well as the proposed revision to the guidelines for borrowing, which appears to provide sufficient flexibility for the future.

We would be prepared to accept the staff's proposal on access limits if that should become the consensus of the Board. Nonetheless, like a number of other speakers, this is not our first preference. We would prefer limits based on the criterion of preserving the maximum access for the membership as a whole, implying, on the basis of the lower access limit, an annual access limit of 60 percent of quota with a cumulative limit of 267 percent. Our preference for this alternative is based on several factors.

First, we found the arguments favoring the approach suggested by the staff less than convincing. In particular, setting access limits for the membership as a whole on the basis of one country whose growth--and, therefore, its quota increase--may have lagged behind that of other countries seemed particularly odd.

Second, we were unconvinced by the argument that a reduction in access for any country would "add to existing uncertainties and could adversely affect the role of the Fund in the international financial system." In our view, it seems more likely that financial markets will focus on the quota increase, and the increase in the Fund's resources, rather than on hypothetical maximum limits on access. Moreover, such concerns would be most relevant for the small set of countries that might attract voluntary capital flows. For these countries, the possible reduction in access limits is relatively modest, while the staff's projections suggest that their financing needs will be declining.

Third, as others have already noted, access limits have little, if any, operational significance. Access limits have rarely imposed a binding constraint on access, nor, given the maintenance of an exceptional circumstances clause, are they likely to do so in the future. Thus, there seems plenty of scope to ensure that absolute access is maintained in either alternative.

Given the lack of operational significance of access limits, why then our preference for an alternative criterion? It rests on our understanding that present access limits are temporary. We were concerned by the fact that the staff's approach implies an increase in absolute access for all members of nearly 14 percent, and 12 percent for developing countries, which seems inconsistent with our understanding that present levels of access are to be phased down at some point.

Indeed, the minimal reference to the new limits' temporary nature, or to the need for periodic review, left the unfortunate impression that the proposed limits were to be seen as a permanent feature of Fund policy. In our view, it is difficult to adequately consider a new access policy--especially one that implies a substantial increase in overall access--without more careful consideration of this issue.

While Mr. Peretz and Mr. Dawson have offered compromises, I am concerned as to why we need to develop more complicated transitional formulas when, in fact, the access limits have not been, and will not be, binding in an operational sense. Perhaps we need to choose the particular criterion and instruct the staff to be flexible in its application. For example, when the staff makes a recommendation to the Board on access, it does so in terms of the strength of the country's program, the nature of the problem, and so forth. In that sense, I doubt that any country would not have the level of access that is appropriate.

We strongly support the staff's efforts to simplify the Fund's instruments, including the proposal to unify repurchase terms and the rate of charge, and to eliminate the dual access limits. Nonetheless, we see merit in maintaining the flexibility to increase access in exceptional circumstances.

In this same spirit of simplification, I would note that the various numerical limits proposed--such as 60/267 percent and 73/293 percent--seemed unnecessarily precise and confusing. We will provide an important service to ourselves, and to our successors, if we can forestall the inevitable questions regarding the choice of such odd numbers by rounding the limits to the nearest 5 or 10 percent.

As regards other facilities, the recommendation to adjust the limit for augmentation of stand-by and extended arrangements, as well as the limits on the CCFF and the buffer stock facility, in line with that for resources under tranche policies seems appropriate. Similarly, we can support the staff's suggestions regarding the SAF and the ESAF.

Regarding access to the CCFF, however, I have one question. The footnote on page 21 of the main paper (EBS/91/152) seems to suggest that the proposed adjustment to CCFF access would imply a substantial reduction in the rate at which the Fund compensates for shortfalls under the CCFF. Could the staff comment on the implications of such a reduction, and whether it implies an increased demand for other Fund resources?

As regards the present provisions for floating access above the first credit tranche, we have been concerned that these provisions have resulted in a phasing of Fund resources--as well as conditionality--that would be otherwise unwarranted. In particular, two recent programs were approved in which access was excessively front-loaded, since members were able to purchase their first credit tranche as well as amounts under the CCFF at the time of their first drawing. In our view, the need to safeguard the Fund's resources suggests the elimination of the floating provision, and outweighs the greater limitation on first credit tranche conditionality that might result. However, I would expect a change to this policy would be timed so as to avoid disrupting programs that are already in the pipeline.

Finally, while the discussion in the main paper is predicated on the expectation that quota increases would become effective within the next few months, there appears to be some risk that the process could be delayed, certainly beyond 1991. Clearly, the need for the quota increase is urgent, and I join other speakers in urging those who have not completed the necessary legislation, to move as expeditiously as possible to do whatever is required.

Mr. Evans stated that he was in general agreement with most of the staff's recommendations, and he would comment merely on those areas where he had some differences, if only nuances, starting with the biggest issue, access limits. Several speakers had remarked that access limits lacked operational significance; if that were so, the Board would not spend much time in setting them, and would, in fact, set them high enough to cater to all circumstances. He did not believe, because experience showed that those limits had seldom been breached, that they lacked operational significance; rather, it signified that the staff had treated access properly as limits and not as targets, and the Board had acted similarly. The limits were significant operationally, and care had to be taken in setting them.

His thoughts were identical to those of Mr. Peretz on the issue of policies that attempted to ensure no losers, Mr. Evans continued. Such policies were not optimal in the present particular context, and indeed, were the worst sort of recommendations that could be made.

He leaned toward the lower end of the range of possible access limits, for reasons similar to those of Mr. Posthumus, Mr. Peretz, and Mr. Dawson, Mr. Evans remarked. Given the nature of his constituency, he could agree to any compromise that might emerge from the discussion; however, he found the limits put forward by the staff of 68/303 percent particularly unattractive. He could understand how those odd numbers had been reached, but in a short while he would be hard pressed to give a good reason for adopting such numbers. Therefore, like Mr. Clark, he was in favor of rounding those numbers to 65/300 percent. The first figure of 65 would fall as a compromise between Alternatives 3 and 4, as suggested by Mr. Kyriazidis and Mr. Peretz; it would increase potential access marginally to SDR 32.9 billion, and it would ensure that while there were some individual country losers, all regions and all groupings such as net creditors and net debtors were better off in terms of potential access.

The same process of rounding--to 50--should be applied to the figure of 51 percent suggested for ESAF, Mr. Evans added. Another small, but important, matter was the term "new" access policy which the staff used in referring to the proposals under consideration. It must be kept in mind that it remained an enlarged access policy. If it was felt necessary to change the acronym so as to avoid confusion, he suggested TEAP, for temporary enlarged access policy.

While at present he leaned toward abolishing floating, as suggested by the staff, he would reserve his position, Mr. Evans said. On the Fund's liquidity, he had no difficulty with the staff's paper, although he did not particularly like the change in the adjustment factor. Rather than make ad hoc changes to that ad hoc procedure, he would prefer to retain the figure until such time as the staff had undertaken a review of that adjustment factor, as had been agreed in the past.

Mr. Landau observed that the issues raised by Mr. Peretz--the nonoperational aspect of access limits and the no-loser policy--were linked. According to the French authorities' calculations, if the 60 percent solution--or Alternative 3--were adopted, 112 members would have their access limits reduced. If the 68 percent solution were adopted, again a lot of members would have access reduced. Mr. Dawson spoke about Equatorial Guinea, but he referred to nominal access in 1983 in SDRs without taking into account any inflation process; Malaysia would lose 32 percent and Senegal 14 percent, and among the middle-income countries, Argentina would lose 14 percent and the Philippines 9 percent. He was concerned about the compromises suggested between 60 percent and 68 percent and wondered whether the results of the Ninth Review of Quotas should affect access policy. The merit of Mr. Dawson's proposal was that it avoided such a situation; the drawback of his proposal was that it did not avoid it for long enough.

Mr. Posthumus remarked that it should be made clear in the decision that no country would "lose" anything with respect to a limit; moreover, most countries were not even near their present access limit.

Mr. Landau stated that the issue was critical to the net loser concept vis-à-vis the operational concept. The question was whether, following the Ninth Review of Quotas, the access limits of a significant number of low-income countries and others would be reduced.

Mr. Bindley-Taylor made the following statement:

> In the expectation that quota increases would become effective in the near future, the staff has indicated two options with respect to maximum potential access. The first defines access limits in terms of quota that preserve the maximum potential absolute access for the country with the smallest proportional increase in quota--namely, Equatorial Guinea. Under these circumstances, all other member countries--except Equatorial Guinea--would experience increases in their maximum potential absolute access. In the second option, the new access in terms of quota would seek to preserve the present maximum potential absolute access on average for the membership as a whole.
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> It is expected that when the quota increase becomes effective, no new borrowing will be necessary. Should we then abandon the current enlarged access policy? This is clearly not feasible as many members continue to experience a need for resources that is large relative to their quotas. Therefore, the concept of enlarged access must be preserved; however, in this case the financing of this new enlarged access policy could be based on the use of general resources. Moreover, we can support the view that access limits with respect to the new quotas be set in such a way that the maximum absolute potential annual access is preserved for the member with the smallest increase in quota.
>
> We wonder whether we are really dealing with a facility that is purely temporary. Every year since 1984 we conclude at our annual review of enlarged access that the needs of the membership are great and that the uncertainties that affect the international economic environment are many, and therefore on this basis we have voted to continue enlarged access policy every year. In this context, we wonder whether reviews on access policy should not take place for periods in excess of one year.
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> On other matters, although the exceptional circumstances clause in the enlarged access policy has been used only once, such a clause should be maintained in the context of Fund access limits and in the interest of flexibility. We agree that the limits on the augmentation of stand-by and extended arrangements in support

of debt reduction exercises should be adjusted by the same adjustment factor that will be applied to general resources. With respect to the CCFF, we would prefer maintaining access limits as a percentage of quota as presently exist. Of course, this would imply an increase in absolute access, but it must be kept in mind that the original concept behind the CCFF was based on the fact that the resources under this facility would be used to finance external shocks and disruptions that were considered to be short term and reversible. However, we can go along with any consensus on this issue.

We agree with the staff that the dual limit structure should be simplified as it remains a relatively confusing system. It should be unified at the upper limit of its current structure, since it is a limit, not a target.

Under the Fund's guidelines, the total outstanding borrowing plus unused credit lines are not to exceed 50 percent of quota. In addition, the guidelines provide for a review of borrowing by the Fund when the Ninth Review of Quotas was completed. The staff has suggested a revision to these guidelines, but we see no reason why the current guidelines cannot remain in existence. The guidelines adequately provide a threshold at which point there may be a need to reconsider the policy on borrowing.

SAF resources will not be directly affected by the proposed quota increase. However, access under this facility is expressed in terms of prevailing quotas; therefore, if SAF resources remain at the same level, access in terms of new quotas will need to be adjusted downward. The staff has suggested that the downward adjustment in access be related to the average percentage increase in the quotas of the group of SAF-eligible countries such that the new access limits would preserve average access for all SAF-eligible members. Adjustments with respect to the access limits under the ESAF would be carried out in the same manner. The effect of these adjustments under the SAF and the ESAF would imply that some countries may have maximum potential access either larger or smaller than under the present limits. The staff is of the opinion that, with respect to the SAF, those members with a lower than average increase in their quotas may not make full use of the SAF resources, and no member country, according to the staff, will experience a decline by more than 4 percent under the revised limits. We would prefer to see a clause to the effect that members with SAF arrangements in place prior to the coming into effect of the Ninth Review of Quotas will not suffer any loss of resources in SDR terms once the quota increase becomes effective.

The staff has raised the concern that as a result of the floating of such facilities as the CCFF, the extended Fund facility, the buffer stock financing facility (BSFF), and the oil facility, there may have been a shift toward greater use of less conditional resources. Moreover, the high access afforded by the combination of the CCFF and first credit tranche drawing may have been contributing to prolonged use and arrears. On this basis, the staff concludes that there is some merit in considering the elimination of the provisions for floating of various facilities in relation to the credit tranches.

We are totally opposed to this idea on the following grounds. First, even the staff concedes that there is no strong evidence that front-loading has contributed significantly to either the emergence of arrears or the prolonged use of resources. Second, we must not forget that the CCFF was originally based on the need for short-term exceptional financing because of circumstances considered to be self-reversing. Third, the acceptance of any such suggestion would effectively mean a loss of flexibility in the use of the first credit tranche for members with outstanding purchases under any of the floating facilities. Admittedly, by the elimination of the floating provisions, a member will not have its access to the credit tranche or other facilities diminished. However, its ability to access resources in the first credit tranche would be subject to greater conditionality once the member has outstanding purchases in any of the Fund's facilities considered at present to be a floating facility. We do not feel that this is warranted.

At end-1991, the Fund's liquidity is projected to reach 85 percent--a level we consider to be adequate. Current and projected demand for Fund resources continues to be strong, and uncertainty is affecting the factors influencing the currencies in the operational budget. However, given the assumed quota increase in either late 1991 or early 1992, a substantial improvement in liquidity is expected and, therefore, the projected low liquidity ratio of 1992, which does not assume an increase in quota, should never materialize.

Mr. Rouai made the following statement:

The staff projections for the use of Fund resources confirm that the external position of many developing countries will continue to be fragile and very dependent on financing despite their perseverance in the implementation of adjustment programs aimed at reducing financial imbalances and strengthening domestic savings. In addition, notwithstanding the encouraging results achieved in the debt strategy, many developing countries continue to face heavy debt burdens and reduced capital inflows. Under these circumstances, and in an environment characterized by heavy demand on international savings, we are concerned that the restoration of normal and voluntary financial relations between debtor countries and creditors will take a considerably longer time than had been expected. It is against this background that the need for and the size of the Fund's direct financial support as well as its catalytic role must be assessed.

We consider that in conducting its financial operations, the Fund should rely on quotas, and we take this opportunity to encourage the membership to accelerate the procedures for the consent to the ninth quota increase. In addition, and in order to replenish the Fund's resources, we encourage countries in arrears to embark on the collaborative approach.

With respect to the papers on access policy and limits, we would like to reiterate the following principles. First, we believe that it is critically important to maintain the policy of enlarged access, in order to maintain the Fund's unique role in the financing of adjustment programs of countries facing large external imbalances. This policy was instrumental in enabling the Fund to fulfill its traditional role of helping to finance the balance of payments needs of members, and in particular, in adapting its policies regarding the use of the Fund's resources to a changing world economy. The validity of this policy was confirmed by the important role the Fund assumed in the debt strategy and in its rapid reaction to the needs created by the transformation of Eastern European economies and the Middle East crisis.

Second, we believe that any reduction in access limits, even as a symbolic gesture to emphasize the temporary character of the enlarged access policy, would constitute a wrong move on the part of the Fund, and it would send a wrong signal to the international financial community regarding the Fund's ability to continue to play its traditional leading role in financing balance of payments needs.

As to the staff proposals, we agree that, with the new quota increase coming into effect, all purchases under a new access policy should be financed by ordinary resources under uniform financial terms of purchase. This is consistent with our position of eliminating recourse to borrowed resources. Specifically, we consider that the application of the same rate of charge to all Fund holdings of member's currency will have a positive impact on burden sharing since purchases financed by borrowed resources are not subject to the burden sharing mechanism. We would be interested in any comment from the staff on this point.

With regard to the level of annual access under the new access policy, we appreciate the staff analysis regarding member's financing needs and the uncertainties underlying the availability of external financing. We consider, however, that the proposed level of annual access of 68 percent of new quota errs on the side of caution. We strongly support Mr. Landau's proposal for one limit of 83 percent and hope that this proposal will receive the Board's approval. Our second preference is to fix the annual access limit at 75 percent of the new quota. The level of 75 percent constitutes the average between the lower limit of 68 percent and the upper limit of 83 percent and is therefore consistent with the proposal to eliminate dual limits. On more practical grounds, the level of 75 percent is more compatible with the tranche policy. In fact, any reduction in the level of annual access increases the relative importance of the first credit tranche and could reduce the attractiveness for member countries of starting a bold program supported by the upper credit tranche.

With regard to the guidelines on access in individual cases, we would like to emphasize the importance of retaining the exceptional circumstances clause. We also encourage management and staff to make active use of the latitude provided within the access limit when deciding on the appropriate level of access in individual cases. On this latter point, it is worth noting that the average level of access remains relatively low. Since 1989, average annual access remained at about 52 percent of quota, corresponding to half the potential access limit. In addition, it must be kept in mind that even this level was attained only because of the Fund's exceptional intervention in the debt strategy and in the financing needs created by the transformation of Eastern Europe. This is confirmed by the enlarged standard deviation between the highest and lowest annual access, which increased from an average of 14 percent of quota during the period 1984-88 to 21 percent of quota during 1989-91.

We agree also to the adjustment of access limits under special facilities in line with the final decision on annual access limits applicable to the use of the Fund's resources under the tranche policies and the extended Fund facility. With regard to the SAF, we support the staff proposal to ensure that the amount in SDR terms under existing arrangements should not be reduced when access is adjusted in terms of new quotas.

Regarding the issue of floating purchases under special facilities in relation to the credit tranches, we believe that attempts to change "a long-established Fund policy" constitute a clear signal of further tightening of Fund conditionality and would also diminish the role and scope of special facilities. We consider some of the issues raised in this context, like front-loading in conjunction with the CCFF purchases, to be the essence of special facilities. In our opinion, it would not be advisable to introduce changes to these facilities through, for example, the elimination of floating, which would remove the special character of these facilities.

Finally, we consider that the Fund's liquidity position remains satisfactory and sufficiently strong to accommodate the potential use of resources.

Mr. Fridriksson made the following statement:

I would first like to say that I associate myself with Mr. Esdar's general remarks.

We agree with the view that the enlarged access policy still needs to be extended. The staff proposes certain simplifications and improvements in the access system, and, to signal a break with existing policies, a so-called new access policy is proposed. My authorities can support the essence of these changes. Moreover, as I mentioned in the recent Work Program discussion, my authorities see a need to simplify the facility structure of the Fund. Our attention should be turned toward this issue as soon as circumstances permit.

Over time, access policy has undergone some modifications to close gaps, thereby increasing its complexity and leading to some internal inconsistencies, as pointed out by the staff. For example, the ability to make use of credit tranches while having access to other facilities can create a dilemma, as the effective front-loading may not be consistent with the required conditionality. We support the proposal to eliminate the floating provisions. In particular cases, as the staff proposes, some flexibility can be applied to countries that have good track records but are experiencing minor and temporary balance of payments difficulties.

The staff paper assumes that the Ninth Quota Review will take effect as planned. This will make it possible to eliminate the use of borrowed resources and to greatly simplify the lending terms of the Fund. My authorities endorse the staff's proposal to no longer apply borrowed resources under the enlarged access policy.

With regard to the potential use of Fund resources by member countries, my authorities wish to emphasize that it is entirely possible that the demand for Fund resources will be greater than assumed by the staff. It is essential that the Fund have the ability to deal with such a situation, should it arise. The financing requirements of Eastern Europe have proved to be difficult to forecast. Moreover, within the time horizon under consideration, the U.S.S.R., or perhaps more probably, its constituent republics, may be expected to become users of Fund resources.

My authorities can endorse the staff proposal to simplify the system of access limits by eliminating the upper as well as the triennial limits. The rationale for maintaining just the lower limits of the dual structure is that the upper limit was intended for exceptional cases, and, in practice, the lower limit has rarely been a binding constraint. The triennial limits are of no practical value.

On access limits, my authorities support the proposal to maintain, in SDR terms, the absolute access for the country receiving the lowest relative increase in its quota, as it provides for the largest degree of flexibility. We believe that the same principle should apply to the augmentation of current programs. Moreover, in this context, we would like to emphasize the importance of maintaining the exceptional circumstances clause.

Several arguments support the selection of this access limits option. First, the Fund signals its intention to continue its current lending policy and conditionality. Second, by doing so, the Fund makes clear its intention to continue to play an active role in the formulation of economic policies of member countries through limited financing, but above all, through the catalytic effect of its involvement. Third, as it is not the intention to make use of borrowed resources, it will be possible to establish uniform charges and amortization structures.

With regard to the access limits under the special facilities--CCFF and BSFF--we support the staff's proposal to make changes in line with the adjustments in the general access limits. We also agree with the suggested adjustment of the SAF and ESAF limits. However, we should ensure that no current program will be affected by a decrease in the limit expressed in SDRs.

On the Fund's liquidity and financing needs, the review of the Fund's expected liquidity situation shows the importance of avoiding any significant delay in the ratification of the ninth quota increase, and I agree with those who have emphasized the need to conclude the General Review of Quotas as quickly as possible. My authorities find it difficult to tolerate a liquidity ratio of below 70 percent for any extended period. In the unfortunate case that the quota increase is significantly delayed, it will become imperative to conduct a new review to consider, among other things, the possibility of resorting again to borrowed resources. On a technical point, we share the staff's view that we should not at this stage set a new upper limit for the Fund's borrowing.

Finally, on another technical matter, we can accept the staff's proposal to reduce the adjustment factor from 25 percent to 20 percent.

Mr. Torres made the following statement:

The operational impact of today's debate on access policy will probably be very limited. As is evident from the staff paper, the potential access limits have not been binding constraints on the majority of users of Fund resources. In the cases where they have been binding, there have been strong arguments to invoke the exceptional circumstances clause. The Fund's liquidity remains adequate, notwithstanding the fact that the Ninth Quota Review has not taken effect. The Board, management, and staff have exercised a prudent and flexible policy toward access in individual cases. Therefore, it is tempting to underestimate the consequences of today's deliberations on access policy.

However, looking beyond the numbers and more at the issues and the role of the Fund in the 1990s, the symbolic implication of today's discussion can be seen. Any action that might be perceived by the international community as a reduction by the Fund of its financial support to member countries at a time of profound systemic transformations in many corners of the world economy would certainly be the wrong signal. It will be quite difficult for the Fund to have a leadership role if, in this world of symbols, we decide to reduce our "potential" financing possibilities to member countries.

It seems somewhat paradoxical that only two days after we had an important discussion on the Fund's need to expand, on the important leadership role that the Fund should have in the transformation of Eastern Europe and the Soviet Union, and on the important role that it is already playing in Africa, Latin America, the Middle East, and Asia, we meet to discuss proposals that include the reduction in potential financing by the Fund. It would be an unfortunate signal to send to the international community, if indeed this decision were taken.

Member countries are being asked to persuade parliaments to increase the quotas of the institution and to ratify the Third

Amendment of the Articles, when at the same time we might be sending the message that the quota increase will not translate into greater potential availability of resources. On the contrary, under one of the alternatives, most of the members--almost all developing countries--would have lower maximum potential normal access. Moreover, we might soon be telling these countries that the cost of using the resources will also increase.

When asked to explain this paradox, our answer might be that the past access policy was temporary. However, we will not be able to say that the underlying causes, the reasons which led to the creation of the enlarged access policy, have disappeared. The enlarged access policy can be phased out only when Fund quotas have been realigned with the actual size of payments imbalances.

To evaluate the enlarged access policy and its future, the staff requests that we take into account several factors: the current prospects for the world economy and members' financing needs, the uncertainties regarding the availability of alternative sources of financing, the Fund's liquidity position, and the signal we wish to convey regarding the future role of the Fund. On this last point, I have already elaborated. From our reading of the prospects for demand and supply factors, the need to maintain current access in absolute terms, at a minimum, is reinforced.

On the demand side, the outlook for the world economy is a lot grimmer than at the time of the last review of access policy. According to our optimistic world economic outlook, prospects for the growth of world economic activity and trade remain difficult. Payments imbalances in many member countries are severe. The large majority of developing countries are likely to require substantial external inflows to finance their current account deficits and meet principal payments on external debt and, therefore, member financing needs will continue to be large. It is clear that only a few indebted developing countries have regained limited access to the voluntary capital markets and that the implementation of strong adjustment policies needs to be supplemented with official financing to ensure an orderly transition. The importance given to structural reforms in adjustment programs requires adequate amounts of financial support to ensure perseverance with the adjustment effort until the country starts to overcome the transition costs.

On the supply side, the Fund's liquidity position is expected to remain strong over the next few years and, according to the staff's analysis, it should not be a constraining factor under any of the alternatives proposed. As already mentioned, effective average access will very likely remain well below potential access, given the prudent application by the Board, management, and staff of the guidelines for access by individual member countries.

For all these reasons, our chair is deeply concerned about the possibility that the quota increase may not produce an increase in access to Fund resources. Of the alternatives presented in the staff document, the least damaging would be Alternative 2, which at least maintains the status quo for all member countries. We are tempted to encourage the staff to give active consideration to other alternatives that would result in an increase in access at least similar to the increase in quotas, but we will refrain from doing so for the time being.

Regarding the issues related to the floating nature of facilities financed by the Fund's general resources, the staff has done an excellent job in providing the pros and cons of eliminating such provisions. The so-called merits of re-establishing the first credit tranche unambiguously as the earliest recourse to Fund credit, to avoid excessive front-loading, and to simplify access rules do not seem to weigh heavily against the costs of changing long-established rules and, by eliminating the flexibility of present provisions, of unduly constraining the access of countries that encounter minor balance of payments problems and need to effect quick disbursements.

Therefore, having pondered carefully all the arguments, we prefer to maintain the current long-established Fund policy on floating provisions. Current provisions give the benefit of the doubt to member countries. We cannot, as a cooperative institution, act as if all users of Fund resources have a "take the money and run" attitude and, as the staff points out, "experience does not provide strong evidence that floating... has contributed significantly to problems such as prolonged use or arrears to the Fund." Let me say, in passing, that the idea that floating provisions have in a sense contributed to prolonged use or arrears is a typical example of a spurious correlation, and as the staff knows very well, correlation does not imply causation. Of course it is obvious that if the Fund had not provided resources to the arrears countries there would not be arrears.

If we want to simplify the Fund's facilities, let us start with those features that are truly cumbersome and that warrant careful discussion. As our U.S. colleagues would say: let us keep our eye on the ball; let us not lose time, as we are all aware that time is the scarcest of resources.

Mr. Posthumus observed that the quota increase itself was the major issue behind the discussion, and the quota increase was, first, smaller and later than most countries wanted, and second, not intended to compensate for the abolition of the enlarged access policy.

Mr. Torres agreed that it was unfortunate that the quota increase was not bigger. At the same time, he was concerned that the increase, even if not optimum, might imply a reduction of potential access for most members and basically the most needy members of the Fund.

Mr. Fukui said that his first impression was that a meticulous exercise of determining different figures was not necessary. Basic guidelines were necessary, and he would suggest that, even after the ninth quota increase, no member should be at a disadvantage; in that sense, there were no losers. Therefore, the first proposal of the staff was reasonable; a 14 percent increase, on average, would be given to all members--a figure whose appropriateness was judgmental, he realized. Of course, the liquidity situation should also be given due attention, but according to the staff, the first proposal would not endanger the Fund's liquidity position on a medium- and long-term basis.

Mr. Breuer made the following statement:

> This chair broadly agrees with the positions stated by Mr. Torres and Mr. Landau. The question of access limits should be based on a few clear, transparent, and simple guiding principles. These should include continuity and stability in the rules of the game that, nevertheless, should evolve parallel to the changes in the world economy and with the role of this institution. We should also add the suggestion just made by Mr. Fukui that absolute access for no member should be reduced in the context of the increase in quota. These principles indicate that proportionality between maximum potential access and the level of quotas should be maintained.
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> With regard to the new access policy discussed in the staff report, we have two main concerns. First, while we support the substitution of ordinary for borrowed resources, this chair is concerned about the potential impact this will have on the cost of these resources, particularly in light of the fact that the real interest rates on Fund resources is already at an all-time high. Second, we believe that the scenarios described by the staff are very restrictive, as they all assume a reduction in relative access, and all but one imply an absolute reduction in access as well. Of these four scenarios, this chair favors the approach that ensures that the member with the smallest quota increase maintains its maximum potential access, taking the current annual limit of 110 percent of quota as the base. This would lead to a relative

decrease in annual maximum potential access to 83 percent of the new quotas and to a modest absolute increase.

Doing otherwise would present a problem of reversed moral hazard in the sense that countries that have performed well during the past years and have seen their quotas increased will actually see their potential access lowered. In addition--and as mentioned by Mr. Ismael, Mr. Torres, Mr. Landau, and other Directors--it also risks sending the wrong signals both to the staff and to the world regarding Fund involvement in the current transformations of the world economy, including in the financing of external imbalances. With regard to the staff, we are concerned that the maintenance or reduction in absolute terms of the maximum potential access could quite possibly lead to a reduction in the effective or average level of access. Moreover, at a time when many countries are implementing bold and comprehensive adjustment and reform programs, and are looking to the Fund for financial and technical assistance, reducing potential access would send the message that the Fund is pulling back, which will certainly be counterproductive, particularly in light of a number of factors that are worth mentioning. These include the increase in quotas and its impact on the Fund's liquidity, the absence of commercial bank finance, and the problems and constraints that have appeared with official financing.

This chair understands the concerns mentioned by other Directors in this and related discussions regarding the financial position of the Fund--and here we are implicitly referring to issues such as prolonged use of Fund resources and the arrears problem--as well as the exceptional nature of the enlarged access policy. However, we do not believe that the problems associated with the first two issues--prolonged use and arrears--are best dealt with in the context of access policy for we risk penalizing the many for the problems of a few countries. In addition, we see the present circumstances as anything but traditional. On the contrary, if the oil shocks and debt crisis of the late 1970s and 1980s were exceptional, these times are profoundly exceptional. And in these circumstances, both the Board and management and staff must be flexible. In particular, this Board should not tie the hands of the staff by defining an overly restrictive access policy.

On the Fund's liquidity position, this chair joins the calls for a quick implementation of the quota increase resulting from the Ninth General Review. The central role of the Fund in guiding the adjustment process is reflected in the large number of arrangements envisaged for 1992, and the latter should not come as a surprise. In addition, the projected substitution of borrowed with ordinary resources correctly focuses attention on the expected evolution of the Fund liquidity ratio. As noted by the staff, the projected decline of the liquidity ratio to 85 percent by end-1991 and to 43 percent by end-1992 is worrisome and clearly inadequate by historical standards.

Nevertheless, we share some of the concerns mentioned by Mr. Dawson in the sense that past liquidity projections have usually turned out to be overly cautious and even pessimistic. The fact that total expected commitments are deducted from the amount of usable currencies--including commitments that may not come into effect and total disbursements unlikely to be drawn--and the fact that a large portion of usable currencies is also deducted to cover unexpected deterioration in the external position of creditor countries, contribute to the persistent perception of fragility that is felt in the Board when the time comes to assess the liquidity position of the Fund, particularly in the period immediately before a general review of quotas. In this respect, it should be noted that while at present the liquidity ratio is still close to 90 percent, during the period immediately before the Eighth General Review it had fallen to 35 percent, a level that is lower than that envisaged for the end of 1992 assuming no quota increase.

Moreover, just as the ratio improved in 1983 from 35 percent to 71 percent after the Eighth Review went into effect, the staff notes that the liquidity ratio would increase to at least 120 percent if the Ninth Review came into effect in early 1992. We could conclude, therefore, that the Fund's liquidity position is not at exceptionally high risk, provided that the quota increase is forthcoming.

In respect of the decline in the adjustment coefficient from 25 percent to 20 percent, this chair shares the reasons provided by the staff. It is worth mentioning, however, that once you change the coefficient, its arbitrary character becomes more apparent. Perhaps the experience already gained with the actual occurrence of the risk being considered, that is, the weakening of the external position of those countries whose currencies are used in the operational budget, may be taken into consideration when evaluating the appropriate size of the adjustment factor.

Finally, this chair supports the proposals for eliminating the dual and triennial limits, maintaining the provisions for exceptional circumstances, and the floating nature of certain facilities, as well as the changes with regard to the SAF and the ESAF and access in support of debt reduction operations in line with the criteria adopted for the tranche policies.

Mr. Santos made the following statement:

I would like to offer only some preliminary remarks on access policy and limits. I share the view that the recent assessment of the world economic outlook may have been somewhat optimistic and that many countries, especially the large majority of developing countries, will continue to confront growing external financing needs. The staff's updated projections suggest that the demand for Fund resources by developing and Eastern European countries would remain particularly strong given the still limited access by those countries to international capital markets on a voluntary basis. Admittedly, while strong adjustment policies should facilitate the resumption of spontaneous capital inflows to these countries, it should be noted that the experience to date has not been encouraging. The Fund should, therefore, be prepared to continue to play a catalytic role in mobilizing the needed financing which is indispensable to support the adjustment process in member countries.

A new access policy along the lines described in the staff paper (EBS/91/152) is warranted, and we support it. We are of the view that a new access policy, once adopted, and the Fund's new policy on borrowing should be implemented with enough flexibility. This flexibility is well justified because with the expected increases in members' quotas, the Fund's liquidity ratio will improve considerably and will not be a constraining factor in formulating access policy. In considering access limits, it is critical that the Fund avoid sending the wrong signals to creditors and the membership thereby creating further uncertainties about financing assurances. On this basis, a case could be made for not changing the present access limits. However, given the concern expressed by Directors during the lengthy work on the Ninth Quota Review, we would go along with a formula that could preserve maximum potential access in nominal terms for the country with the smallest quota increase under the Ninth Review. Regarding the base to which the annual and cumulative limits should be applied, we are, however, of the view that 110/440 percent appears appropriate. This would result in new access limits of 83/333 percent, or Alternative 2 of the staff's paper.

Regarding other issues related to access limits, I can support the adjustment of access in support of debt reduction operations in proportion to the adjustments of the annual access limit under the new access policy. The staff has also made the point in recommending the elimination of the dual limit system, proposing at the same time retaining the exceptional circumstances clause that would provide flexibility in support of exceptional needs of member countries. We agree with these proposals.

Regarding access limits under the SAF and the ESAF, we note that adjustments need to be made in relation to the average of quota increases for eligible members in order to keep access in line with available resources. We can therefore go along with the proposal that the SAF decision be amended to ensure that the amount in SDR terms under existing arrangements is not reduced.

For access limits under the ESAF, we see no problem in the downward adjustments in the maximum access limits from 250 percent and 350 per cent of current quotas, to 182 percent and 255 percent of new quotas, respectively, and in the average access--from 150 percent of current quotas--to 109 percent of new quotas.

While we note the staff's concerns about the floating provisions related mainly to the conditionality that should be attached to the use of Fund resources, we cannot endorse the view that these concerns are better addressed by the elimination of the floating provisions of the various facilities in relation to the credit tranches. Previous speakers--Mr. Landau, Mr. Ismael and Mr. Torres, among others--have elaborated extensively on the reasons why elimination might not serve the membership, and I shall refrain from repeating their statements. These provisions have allowed Fund members to have greater access to Fund resources under exceptional circumstances, and it would not seem appropriate to modify such a long-established practice.

On the Fund's liquidity and financing needs, we note the staff's assessment that the Fund's liquidity position currently remains adequate. However, in view of the continued strong demand for Fund resources that has been projected, we are of the view that the Fund's financial situation will weaken substantially through 1992. The Fund's liquidity ratio is now projected to decline from about 89 percent at end-October 1991 to 43 percent by end-1992, far below the historical norm of 70 percent. The staff paper also indicates the possible exclusion from the operational budget of some member countries because of unexpected balance of payments problems. This would add further strain on the Fund's liquidity position in the years ahead. Since it is generally accepted that the Fund should normally rely on ordinary resources to meet its members' demand, we endorse the staff recommendations that swift action by the membership is needed so as to make effective the ninth quota increase at the earliest date possible. In the same vein, the present guidelines for borrowing should be reviewed, and we support the view that provisions need, nevertheless, to be made to enable the Fund to borrow on appropriate terms, as the circumstances warrant that it retain the capability to respond to exceptional demands from the membership. In this context, we support the proposed decision on guidelines for borrowing by the Fund.

Mr. Prader made the following statement:

First, the Fund's liquidity position remains satisfactory at the end of 1991 despite the strong increase in the use of Fund resources. Although the liquidity ratio has declined from its end-1990 level of over 100 percent, it is still high at 89 percent. However, the staff foresees serious deterioration in the Fund's liquidity position by end-1992 under the increasing strain of financing commitments, owing to the fact that since the use of borrowed resources has been discontinued, all purchases must be financed wholly by ordinary resources. Notwithstanding Mr. Dawson's comments, I agree with the staff that events which delay the effective date of the quota increase beyond the end of 1991 could easily have results that would not be acceptable even temporarily. It is discouraging now to learn that we cannot expect the quota increase to become effective on schedule, and I would like to know whether this delay is not likely to put the Fund in a difficult position. I would appreciate the staff's comments on this issue.

Second, the staff's projections of members' need for Fund resources make no allowance for the use of resources by possible new members, although clearly the new relationship between the Fund and the former Soviet republics, and the probability that some of them will gain full membership on their own, will affect the Fund's liquidity position over the medium term. I would also value the staff's comments on the likely liquidity effect of new members' use of Fund resources.

I believe that the starting point of our debate on the Fund's future access policy should be a reaffirmation of our former understanding that maximum potential access should be retained for some time following the quota increases. When interpreting this understanding, the potential demand for Fund resources should be established as the principal determinant of access. Since this demand continues to be very strong, and since the Fund wishes to retain its central role in supporting members' adjustment programs, we favor an approach which would set the access limits under the new quotas in such a way as to preserve maximum potential access for those countries whose quota increases are smallest. I also believe we should give priority to promoting and strengthening the Fund's potential role in financing the structural and systemic transformation of some member countries.

Based on these considerations, I share the staff's evident preference for setting the access limits at 68/303 percent of new quotas, in line with the present lower limits. I agree with the staff that this option would have the advantage of preserving, at least for the immediate future, access limits that will provide sufficient flexibility for addressing members' needs on a case-by-case basis. By somewhat increasing the absolute amount of potential maximum access, such limits would provide the markets and the creditors and donors with a signal adequate for catalyzing the needed financing during a period when the world economy is still affected by large problems and uncertainties. At the same time, the guidelines now in effect for individual access also make these limits consistent with the continued prudent management of the Fund's liquidity. Based on experience with the average use of Fund resources, the new level of global access will not be such as to constrain Fund liquidity, which will be ample after the payment of the increases in quotas.

On the issue of triennial limits, the staff points out that this type of assurance for providing resources has little practical value under the present system of multiyear arrangements. Like other speakers, we can therefore go along with eliminating those limits.

Regarding the financing terms attached to Fund resources, I agree with the staff that since all future purchases under stand-by and extended arrangements are to be financed from the Fund's ordinary resources regardless of the scale of access, the terms applied should be uniform with respect to both the maturity and the rate of charge. I can likewise go along with the staff's other suggestions for simplifying the modalities of access policy, such as eliminating the dual limit structure. Like the staff, I believe that the exceptional circumstances clause is important for keeping the Fund in a position to respond flexibly and adequately to legitimate requests for the use of resources beyond the agreed limits. This clause should receive due emphasis when the guidelines for the new access policy are being formulated.

As to future access limits under the special facilities, it seems rational and desirable, from the standpoint of both historical experience and the Fund's liquidity prospects, to maintain an appropriate balance with respect to the credit tranche and extended arrangements. The staff's assessment of the adequacy of such proportionately adjusted access limits is hindered by large uncertainties in the projections of the members' future need for resources under the special facilities; these uncertainties introduce a risk that the compensation rate will be lower. Nevertheless, in light of the Fund's rapid and flexible reaction to the situation created by the recent Middle East crisis, I can agree with the proposed realignment of access limits for the CCFF and for the buffer stock financing facility.

Concerning access levels under the SAF and the ESAF, the only revision proposed is related to the fact that they are expressed in terms of quotas. Since the resources for these facilities are not affected by the quota increase, the staff is right in recommending that both the SAF and the ESAF should be adjusted on the basis of the average quota increases of the eligible members so as to keep total access in line with available resources. As for arrangements that are ongoing when the quotas become effective, I would prefer leaving the access limits unchanged.

Conditionality issues lead to the examination of the floating nature of facilities financed by the Fund's general resources. Since first credit tranche purchases no longer represent a country's first use of Fund credit, we share the concern voiced by most Directors during the last conditionality review that a first credit tranche purchase could push the Fund's exposure to an undesirable level. Indeed, there have been cases during the past ten years where the first credit tranche was utilized by countries whose Fund credit outstanding already amounted to 200 percent of quota. The staff correctly points out that this practice reduces the Fund's ability to phase its resources flexibly by giving it only two options: either to disburse nothing at all or to approve a high level of purchases. We therefore favor eliminating the provisions for floating various Fund facilities in cases where credit tranches are involved. This would inject more logic into the management of the Fund's resources, increase its ability to deal appropriately with members' requests, and give more transparency to the system. This elimination of the floating provisions would not affect any member's access to Fund resources. Some of the problems mentioned in the staff paper (EBS/91/186) in connection with the elimination of floating could in our view be taken care of by enlarging the contingency mechanisms or clauses attached to each facility. The possibility that a first credit tranche purchase might be needed during the repurchase period of an extended arrangement could be dealt with by introducing flexibility into the repurchase terms.

The Chairman commented that at no other time had the projections for the use of Fund resources been so difficult to establish, in view of the dramatic changes taking place in the world.

Mr. Kyriazidis noted that the accuracy of the staff's projections on liquidity had been discussed often in the past, and his chair had joined that of Mr. Peretz chair in criticizing it. He would not reopen the debate, but he was concerned that there seemed to be a consistent bias in the staff's projections toward a more pessimistic view on the development of the liquidity ratio of the Fund. Therefore, there was the risk that the Board might remain more optimistic than it should, and take the wrong operational decision because it had been used to the staff's pessimism.

Mr. Arora made the following statement:

It is a matter of grave concern that the liquidity ratio of the Fund is projected to fall to about 43 percent by end-1992 in the absence of the ninth quota increase coming into effect. The staff paper has noted that this would be the lowest ratio since 1982 and could be regarded as unsustainably low for any but a relatively short period. I would request the Fund membership to take serious note of this situation and make every effort to bring the ninth quota increase into effect as early as possible, preferably by early 1992, if not before the end of this year. This seems inevitable if the Fund were to meet fully the continuing strong demand for its resources without any interruption, particularly in the context of the Fund's reliance completely on ordinary resources.

As regards access policy, we should not forget to place on record the extremely useful purpose served by the enlarged access policy during the past decade. The staff papers have correctly pointed out that, at least for the immediate future, the Fund should maintain access limits which would provide sufficient scope for the Fund to address members' needs on a case-by-case basis and that would provide an important degree of confidence to members that the Fund could respond quickly to any unforeseen deterioration in their external position. The staff is right in emphasizing the fact that, in the present circumstances, any material reduction in potential access would add to the existing uncertainties and could adversely affect the role of the Fund in the international financial system. It may be recalled that the Interim Committee, at its meeting held in May 1990, while approving the general principles of the quota increase under the Ninth General Review, had agreed that the enlarged access policy and the present access limits should remain unchanged until the increase in quotas became effective.

We could broadly support the new access policy proposed in the staff paper, which preserves the access limits under the enlarged access policy. We also welcome the fact that it is proposed to finance the new access policy completely from ordinary resources of the Fund without recourse to any borrowing. We fully agree that quotas should remain the principal means of Fund financing and that dependence on borrowing should be phased out. According to the staff papers, owing to the increase in usable ordinary resources resulting from the anticipated payment of the increase for the new quotas, the Fund's liquidity position is expected to improve substantially by April 1992--with liquidity increasing to about 120 percent--and the liquidity ratio is projected to remain at broadly satisfactory levels through end-1995.

I have only one concern here. The liquidity projections apparently do not include the possible demand on the Fund's resources by countries like the Soviet Union and the republics which are expected to join the Fund in the not too distant future. In this connection, I would like to draw the attention of the Executive Board to the fact that a temporary policy on an enlarged scale of Fund assistance was formulated in the early 1980s mainly because of the large discrepancy between quotas and the size of payments imbalances. The staff paper proposing the enlarged access policy (EBS/80/262) had pointed out that the discrepancy would remain large even after the seventh quota increase became effective, when the quotas would represent about 4 percent of world imports, marking a sharp decline with respect to the proportion that prevailed in the period 1964-67 of, on average, 12 percent. The ninth quota increase, if it becomes effective in 1992, would still represent only about 4 percent of world imports. This means that the quota increase under the Ninth General Review in itself may not be adequate to meet all the requirements of Fund financing. I would therefore suggest that we should retain some flexibility in conducting the new access policy in the sense that if, for any unforeseen circumstances, it is not possible to finance the new access policy completely from ordinary resources, the Fund should not hesitate to consider borrowing. In this connection, as pointed out in the staff papers, borrowed resources have played an important role in financing Fund credit, accounting for about one half of the outstanding credit provided under the tranche policies and extended fund Facility and about one third of total Fund credit during the past 11 years, as shown in Table 1 of EBS/91/182. In this connection, we would also support the suggestion in the staff paper (EBS/91/139) that the existing guidelines for borrowing by the Fund should be retained in principle for the future, and we support the proposed decision.

As regards the two alternative approaches suggested in EBS/91/152, we would support the first approach, which would preserve the maximum potential access for the country with the smallest increase in quotas. As the staff has proposed elimination of the dual limit structure and the Board has also suspended the lower limit in the context of the Middle East crisis, our preference would be for Alternative 2, namely, the limits of 83/333 percent of new quotas. We could also support the staff proposals on other issues related to access limits, namely, access in support of debt reduction operations, elimination of triennial limits, as well as the revised limits under the SAF and the ESAF.

The decision to substitute ordinary resources for borrowed resources would lapse on December 31, 1991. We would suggest that until such time as the ninth quota increase becomes effective, the substitution should be continued in order to protect the present access limits under the enlarged access policy.

As regards the issues raised in EBS/91/186, we strongly oppose the suggestion in the staff paper to consider the elimination of the provisions for floating of various facilities in relation to the credit tranches. In this connection, I would like to draw the attention of the Board to the fact that the floating provisions were first introduced by the Fund as early as 1965 in the context of liberalizing the then compensatory financing facility, which was to be available for members without any conditionality to meet any unexpected export shortfall.

The proposed elimination of the floating provisions would effectively do away with the flexibility now available with regard to the use of the first credit tranche by members who have outstanding purchases under any of the floating facilities, and consequently it would result in even the first credit tranche being subject to greater conditionality for these members. The staff paper itself has admitted that, based on experience over the past ten years, it is not possible to attribute the emergence of particular problems, such as the prolonged use of Fund resources or arrears to the Fund, to floating or to the heavy front-loading of purchases that could arise from the floating provisions in the case of combined first credit tranche and compensatory purchases. Furthermore, as mentioned in the staff paper, elimination of the floating provisions would lead to a reduction in access by nearly 25 percent for those members who seek a stand-by arrangement with the first credit tranche and a CCFF drawing. At a time when the Fund has acted to liberalize the CCFF to help members affected severely by the Middle East crisis, it seems totally odd to take away an existing provision that has proved to be helpful to the membership for over 25 years. I therefore strongly oppose the move to eliminate the floating provisions. If necessary, we could come back to this issue in our next review of the CCFF.

Mr. Zhang made the following statement:

I can go along with the thrust of the staff's analysis and recommendations on the issues we are discussing today. The enlarged access policy and the guidelines on access have played an important role since the policy's inception. Under this policy, the Fund has been able to provide financial assistance in support of the strong adjustment efforts of member countries on a case-by-case basis, in amounts that were large in relation to members' quotas. The Fund has also been able to play an important catalytic role in financing members' needs for adjustment programs. Therefore, it is our view that, in connection with quota increases under the Ninth General Review, the access policy should continue, and maximum potential access should be maintained.

Regarding the four possible alternatives for annual and cumulative access limits in terms of new quotas, we support the 83 percent for annual and 330 percent for cumulative access limits. As mentioned in the staff paper, compared with an annual average of SDR 117 billion during the 1986-90 period, the aggregate gross financing needs of past users of Fund resources are expected to average about SDR 132 billion a year during 1991-95. Many member countries have implemented strong adjustment programs, and the external financing requirements of the developing and Central and Eastern European countries will likely remain large.

I concur with the staff's assessment that the Fund's liquidity position is not expected to be a constraining factor over the next few years under any of the suggested alternatives for access limits. In order to send the correct signal to the international community regarding support of member countries' adjustment efforts by the Fund, it is both necessary and desirable to adopt maximum access limits among the proposed alternatives. It is also our view that, with the maximum access limit, the Fund is better able to play a catalytic role in meeting the financing needs of member countries.

We can endorse the staff's suggestion that dual limits and triennial limits be eliminated. I would also like to emphasize the importance of retaining the exceptional circumstances clause to ensure that the Fund has sufficient flexibility to respond adequately to the member country's request for use of resources beyond the access limits, when appropriate.

I have no difficulty in going along with adjusting the limit of 40 percent of current quotas on augmentation of stand-by and extended arrangements in support of debt and debt-service reduction operations in line with the adjustment of the annual limit.

Regarding access limits for the special facilities, we are in broad agreement with the suggestion contained in the paper that access limits for the CCFF be adjusted proportionately in line with annual access limits applicable to the Fund's general resources under the tranche policies and the extended Fund facility. Sublimits associated with the various elements of the

CCFF and the limit under the buffer stock financing facility should also be adjusted in the same fashion.

As for access limits for the SAF, we can go along with proportional reduction of the access limit for the facility. We can endorse the suggestion that the SAF decision be amended so as to ensure that, when new quotas become effective, the amount available in SDR terms under the operative arrangements is not reduced since the amounts involved are likely to be small and will not have a significant impact on SAF resources. We can also support the appropriate adjustment of access limits for the ESAF, as recommended by the staff.

With regard to the paper on the floating nature of facilities, we basically agree with the points made by the staff. I would emphasize that, as the staff has indicated in the paper, experience in the past ten years has shown no direct link between floating provisions and arrears or the prolonged use of Fund resources. Indeed, there are successful cases that have benefited from the flexibility of the floating nature of facilities.

We, therefore, are of the view that the floating nature of facilities should be maintained. I would also add that very careful consideration is necessary before any changes are made to the floating policy. For one thing, many developing countries are making every effort to adjust their economies--even in the face of severe conditions and financial constraints. Fund support, in a flexible manner, will be crucial to these countries. In addition, as any changes in Fund policy will likely have a signal impact on the international community, we trust that precautions will be taken to avoid sending wrong signals.

We can generally endorse the staff's assessment and projections of the Fund's liquidity position and financing needs. We can support the proposed decision. The staff has concluded in the paper that the Fund's resources are at present adequate, and we can go along with that conclusion. Nevertheless, this situation needs to be monitored carefully in the period ahead as many uncertainties will remain unclear because of guarded optimism about the immediate prospects of the world economy, as shown in our recent world economic outlook discussion. Such uncertainties will have implications for both the demand and supply of Fund resources.

Reform and adjustment efforts in countries around the world will be pushed forward in response to both domestic and international imbalances. The Fund has been involved increasingly in supporting and catalyzing support for such efforts. Given the current momentum of reform and adjustment, as well as the difficulties in individual countries, it is hard to foresee a significant decline in the demand for Fund resources in the near future.

However, signs of supply constraints regarding Fund resources--especially usable resources--cannot be ignored following the exclusion of several members from the operational budget since 1990. We note the projected fall of the liquidity ratio to a historically low level of 43 percent by end-1992. This ratio is, however, not surprising as the same phenomenon had occurred before the Eighth General Review came into effect. Such a liquidity ratio will be much lower than the sustainable long-run norm of 70 percent. It is therefore our hope that the situation can be improved by the coming into effect of the Ninth General Review as soon as possible.

On the downward revision of the adjustment factor from 25 percent to 20 percent for reasons shown in the paper, we consider it quite reasonable for a more accurate assessment of the size of usable resources. However, the 20 percent adjustment factor should be closely observed and adjusted when appropriate.

As to guidelines for borrowing, we are pleased that the Fund has been able to keep moving closer to its intention of making general resources the basic source of financing, which has been illustrated by the declining portion of borrowed resources. Actual borrowing has never reached the limit of 50-60 percent of Fund quotas and was as low as 18 percent at end-July 1991. As it is expected to drop further through 1995, we concur with the staff that it is necessary to revise the guidelines for borrowing, especially in view of the pending increase in quotas under the Ninth General Review.

Mr. Mohammed made the following statement:

In view of the many uncertainties that characterize the world economy, we believe that it is essential to maintain present access in absolute terms, and to define it in terms of protecting the access of the country with the lowest increase in quota. We, therefore, support Alternative 2 of the four alternatives proposed by the staff and would use the same base for all the other adjustments suggested by the staff for the special facilities. We would also retain the exceptional circumstances clause and consider it premature to provide for a specific phasedown of access limits at this time.

We can go along with the staff's recommendations on the dual and triennial limits as well as access policy under the SAF and the ESAF. We also agree with the staff recommendation for a uniform rate of charge on the assumption that after the quota increase becomes effective, all disbursements will be funded from the General Resources Account. However, we would like some further thought to be given to the suggestion that two different repurchase periods be maintained for stand-by and extended arrangement transactions. In principle, the repurchase period should be consistent with the time required for the balance of payments adjustment to be brought about by a Fund-supported program. In this connection, two questions can be raised. Has there been any recent analysis of the time required for the balance of payments to respond to the type of economic programs the Fund has been supporting? Is there any evidence that programs supported by stand-by arrangements, which presumably have a lower structural content, take less time to produce their desired balance of payments outcomes?

Regarding access within the limits for individual cases, the staff indicates that there is no need to change existing guidelines because of their very broad nature. Perhaps it would be useful at some later time to achieve more transparency in this area. We were struck, for instance, by the extent of the variance in the ratio of Fund financing to gross financing requirements. There appears to be no particular relationship between gross financing requirements and actual access in individual cases. We realize, of course, that need is not the only criterion, but we do believe that the way need is defined could be treated in a more transparent way.

On the question of floating, we started with mixed feelings about the proposal. But after hearing Mr. Landau, Mr. Ismael, and Mr. Torres, we believe that it would be best to retain the provision.

Finally, on the issue of Fund liquidity, I do not wish to sound pessimistic about the prospects for early effectiveness of the ninth quota increase, but I would suggest that consideration of new borrowing by the Fund not be precluded at this time. Depending on developments in the quota exercise, certain creditors, who realizing that the ninth quota increase was smaller and later than they had hoped for, could be prepared to ameliorate the Fund's predicament.

Ms. Patel made the following statement:

On the issue of access policy and its relationship with the quota review, I concur with the staff that a new policy of access beyond the traditional resources needs to be in place once the resolution on the quota increase comes into effect. Although I could generally agree with the proposal that such access could be financed through ordinary resources, I would like, at this point, to express my concern about the marginal increase in the proposed potential maximum annual access, even under the higher alternative, for the majority of developing countries.

I particularly note with regret that countries in Africa and the Western Hemisphere, which are in great need of external financing to support their adjustment efforts, are to receive the smallest shares of this access. In fact, the balance of payments difficulties of a large number of these countries remain severe and exacerbated by developments in the world economy; their access to financial markets remains highly restricted; the prospects for sufficient official donor assistance seem less comforting owing to the increased demand for limited global savings; and trade barriers by the industrial countries continue to hamper the efforts of these developing countries to expand their export base. In addition, the debt overhang continues to constrain significantly the ability of these countries to achieve external viability despite the adjustment efforts and debt restructuring initiatives. The Fund should, therefore, be in a position to extend adequate financial resources to its members while playing an important role in catalyzing resources from other sources. I, therefore, see a need for a new proposal which properly addresses the critical financial needs of the developing countries in general and of these two regions in particular.

On the proposal to eliminate the dual access limit structure, the staff is correct to say that a return to the single limit structure would simplify the system. However, I have difficulties in endorsing this proposal because the main reasons behind the establishment of the dual system in 1984 are still applicable. In particular, we have to take into account the fact that the current increase in quotas has not removed the inequality which led to the introduction of the dual limit structure.

As regards the SAF and the ESAF, access levels should be augmented or reduced depending on the size of the increase in quotas of individual members relative to the average. Such adjustment should not, however, lead to a reduction of the access levels of those countries that are already implementing programs under these facilities.

As to the Fund's liquidity position, I share the staff's conclusion that at present the Fund's resources are adequate to address current demand. With the implementation in 1992 of the resolution on the increase of quotas, the liquidity position is expected to improve significantly. Although the liquidity ratio is estimated to decline thereafter in view of the increased demand for resources, I hope that any likely reduction will not endanger the Fund's liquidity position. In the not unlikely event that the coming into effect of the Ninth General Review of Quotas is not realized as scheduled in 1992, the liquidity position of the Fund will weaken drastically, as indicated in EBS/91/139, Supplement 1. Could the staff explain what contingency arrangements would be put in place to accommodate the ever increasing demand on the Fund's resources?

With regard to the proposal for the elimination of the floating provisions, we note the concerns expressed by some Directors. I believe that a sufficiently strong case has not been established to justify the proposed action at this juncture. Indeed, the staff seems to have indicated that experience over the past ten years has not strongly linked the problem of prolonged use of Fund resources or arrears cases to the influence of floating provisions, including heavy front-loading. More important, the considerations that led to the institution of these provisions are still pertinent. I therefore advise that the provisions should be maintained for the time being. A cautious implementation of the existing access policy, which reflects each country's balance of payments circumstances and past performance, would help to alleviate the risks associated with the current policy.

The Executive Directors agreed to continue 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/91/154 (11/13/91) and EBM/91/155 (11/15/91).

## 3. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 91/45 through 91/48 are approved.

4. <u>EXECUTIVE BOARD TRAVEL</u>

Travel by Executive Directors as set forth in EBAP/91/267 (11/12/91) and EBAP/91/269 (11/13/91) and by an Advisor to Executive Director as set forth in EBAP/91/267 (11/12/91) is approved.

APPROVED: May 18, 1992

LEO VAN HOUTVEN
Secretary