0404

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 91/156

3:00 p.m., November 15, 1991

M. Camdessus, Chairman

Executive Directors	Alternate Executive Directors
M. Al-Jasser	A. A. Al-Tuwaijri
G. K. Arora	L. E. N. Fernando
	Chen M., Temporary
	C. M. Towe, Temporary
	Q. M. Krosby
	B. Szombati, Temporary
E. A. Evans	
	A. Giustiniani, Temporary
	A. F. Mohammed
I. Fridriksson	
H. Fukui	
	B. Esdar
J. E. Ismael	
	G. Bindley-Taylor, Temporary
	P. Bonzom, Temporary
	S. Rouai, Temporary
	Y. Patel, Temporary
D. Peretz	
G. A. Posthumus	
C. V. Santos	
A. Torres	R. Marino
	A. G. Zoccali

C. Brachet, Acting Secretary
L. Collier, Assistant

Also Present

African Department: A. Jbili. Central Asia Department: Z. Khan. European Department: R. J. Corker. Exchange and Trade Relations Department: J. T. Boorman, 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. Fennel, H. Flinch, D. Gupta. Personal Assistant to the Managing Director: B. P. A. Andrews. Advisors to Executive Directors: L. E. Breuer, L. Dicks-Mireaux, B. R. Fuleihan, A. Gronn, A. Raza, A. M. Tanase. Assistants to Executive Directors: J. R. N. Almeida, J. A. Costa, S. B. Creane, Duan J., S. K. Fayyad, S. Gurumurthi, W. Laux, M. Mrakovcic, D. Saha, S. Shimizu, R. Thorne, Tin Win, J. W. van der Kaaij.

1. 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 continued from the previous meeting (EBM/91/155, 11/15/91) their consideration of 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).

The Deputy Director of the Exchange and Trade Relations Department explained that the staff had used the term "new access policy," or NAP, in the paper only to avoid confusion with the present enlarged access policy, and other names, as suggested by Directors, could of course be considered. A number of Directors had observed that the staff's suggestions on access limits implied increases of 12 percent for developing countries and 14 percent for the membership as a whole, against the base of an annual limit of 90 percent. A degree of ambiguity arose concerning the proper base. When the implications of the staff suggestions were presented against the base of the upper annual limit of 110 percent, access moved in the other direction.

A specific provision in the regulations of the structural adjustment facility (SAF) provided the legal basis for, in effect, a retroactive reduction of access in SDR terms under existing SAF arrangements when the quota limits were changed, the Deputy Director noted. No such provision existed in the enhanced structural adjustment facility (ESAF) regulations, and thus no retroactive adjustment of access would result under the ESAF. The staff had suggested that the SAF regulations could be amended to prevent the reduction under existing arrangements--a suggestion supported by many Directors. The amount involved, related to three countries, totaled only SDR 1.3 million.

The proposed adjustment factor for SAF and ESAF access, related to an average increase in the quotas of current SAF-eligible members of 37 percent, did not include India's quota increase, the Deputy Director remarked. But as India's proposed quota increase was almost precisely equivalent to the average, its inclusion would not change the calculations appreciably. The proposed adjustment to access limits under ESAF would in effect leave the present situation essentially unchanged. The proposed expansion of the ESAF eligibility list would require further consideration of access for the newly eligible members, presumably with a proportionate adjustment for members in that group.

As to whether a new Board decision was required concerning the modalities for financing commitments in excess of available borrowed resources beyond December 31, 1991, the enlarged access policy would continue to apply until the quota increase became effective, the Deputy Director remarked. However, a decision relating to the policy's financing--specifically, the substitution of ordinary resources for borrowed resources--would be required.

A transitional device for new quota limits on access, which, as a starting point, would effectively have been each member's current absolute access, had been discussed extensively in the context of the 1983 quota increase, the Deputy Director of the Exchange and Trade Relations Department recalled. It had been called "grandfathering" at that time and had been found to be inconsistent with the principles of uniformity of treatment of members.

The Treasurer observed that while Mr. Posthumus had pointed out that access limits could be looked at in relation to the long-run self-financing ratio of the Fund, which would result in a limit of 250 percent of quota, it was interesting to note that considerable deviations arose around that average. Taking the data in the staff papers on the past two years and the staff's forecasts to 1995, the resulting self-financing ratio was slightly more than 300 percent, rather than 250 percent. Therefore, the staff's suggestions were fully consistent with a self-financing ratio of about 300 percent, a ratio that would not require borrowing during that particular period. Of course, there was also the possibility that the Tenth Review of Quotas would come into effect by the end of 1995.

The decision on the substitution of ordinary for borrowed resources was in effect only until the end of 1991, the Treasurer commented. Two important elements were involved: first, the decision had been taken to maintain the repurchase terms for ordinary resources used in substitution for borrowed resources so that they would be the same as for borrowed resources--beginning three and one-half years and ending seven years after the purchase--and to use the ordinary rate of charge for substituted resources, plus the burden sharing adjustment. Because the repurchase terms were not the usual ones, that decision would need to be renewed by an 85 percent majority. Thus, both the repurchase terms and the charges would need to be reviewed before the end of the year.

The staff had proposed the reduction of the adjustment factor from 25 percent to 20 percent of total usable currencies, the Treasurer observed. The staff's proposal had not been arbitrary; it had reduced the adjustment factor in the light of experience since 1989, as a number of countries' positions had weakened, and countries such as Australia, Greece, Kuwait, and Saudi Arabia had been taken out of the Operational Budget. The countries that might now drop out of the Operational Budget would be relatively small. The staff felt it appropriate to revise the adjustment factor downward at the present stage, without envisaging an increase in an early forthcoming budget, in view of the countries that had already dropped out of the Operational Budget.

The additional language to the guidelines for borrowing proposed by Mr. Esdar, referring to borrowing "in exceptional circumstances," could limit the flexibility of the Fund when it wished to borrow, the Treasurer remarked. It could be interpreted as indicating that the Fund would have to be in exceptional circumstances, which was the worst time to borrow, rather than when the Fund's liquidity was falling but was still quite high, which was a more prudent time to borrow. To retain its flexibility when making a decision to replenish currencies through borrowing, it might be preferable to leave the original preamble to the guidelines unchanged, as reflected in the proposed decision. The preamble did not specify the type of situation but merely the timing, namely, temporary. Except for the strict terms attached to activation of the General Arrangements to Borrow, the aim was to allow the Board to consider a proposal to borrow on its merits at the time.

As to rounding the access limits, the Board could make that decision, but the staff had thought it best to be precise in the calculations presented to Executive Directors, the Treasurer said.

Under the new access policy, the charge for the use of ordinary resources used in substitution for borrowed resources would lead to some redistribution of the burden sharing adjustment, the Treasurer commented. One element was noteworthy, however: charges on both borrowed resources and ordinary resources, plus the burden sharing adjustment, had been close for the past 18 months with a differential of less than 1/16 of 1 percent at present. So while there would be some redistribution, through burden sharing, to those who would have high holdings resulting from the substitution of ordinary resources for borrowed resources, the actual impact on individual members would not be large so long as the differential between the costs of borrowed resources and of ordinary resources, plus burden sharing, continued to be small.

The Deputy General Counsel, referring to Mr. Esdar's suggested amendment to the guidelines for borrowing, explained that Article VII of the Articles of Agreement referred to a replenishment as deemed appropriate. Therefore, while the Board was not prevented from deciding on another formulation for the guidelines, the existing language followed more closely that in the Articles. If "in exceptional circumstances" was included in the policy, factors that would be relevant in future decisions would be predetermined, and in case of a future decision on borrowing, the burden of proof would be on the Board to show that such circumstances existed.

Mr. Esdar remarked that the Board should state that the financing of the Fund should be, under normal circumstances, through quota resources and only in exceptional circumstances through other forms of credit. The issue was not the language in the Articles but rather the clear signal that should be sent by the Board, in the present situation, that the Fund should rely on quotas.

Mr. Al-Jasser said that he could sympathize with Mr. Esdar's argument. However, borrowing by the Fund had never been automatic under the Articles, and a decision to borrow in the past had been taken only after long discussions by Executive Directors and only in accordance with the Board's views. The word "exceptional" was already implicit in the decision, and its inclusion would not add substance.

Mr. Esdar observed that, as a compromise, the guidelines could state that the Board considered borrowing an exceptional solution to the financing requirements of the Fund.

The Treasurer expressed his concern that a change in the introduction to the guidelines, after nearly ten years, might signal a change in the Fund's borrowing policy. He considered that further study of the suggestion would be appropriate.

The Chairman agreed that further discussion would be required before amending the language of the decision, and he proposed that Mr. Esdar's suggestion be taken up at another meeting.

The Deputy General Counsel explained that an amendment of the SAF Regulations would be necessary because access to the facility was expressed as a uniform proportion of members' quotas; obviously, when a quota was changed, and a new quota basis introduced, that proportion would have to be adjusted; no resources were added to the SAF as a result of the quota increase; under paragraph 4 of the Regulations an adjustment would affect existing arrangements. Therefore, an amendment would be needed to preserve the absolute amounts committed under existing arrangements and, thereby, to avoid the distributional effect of adjustments in quotas on existing arrangements. SAF resources were limited, and paragraph 4 attempted to balance the interests of present and potential users of SAF resources. However, the described limited amendment seemed justifiable since it had been explained that the amounts involved were relatively small and the exception would not upset the balance.

The transitional mechanism suggested by Mr. Dawson--leading to the maintenance of maximum access in nominal terms before the change in quotas, to be expressed in terms of new quotas--would necessarily result in different quota percentages under the new quota structure, admittedly with a schedule to bring them into line with a uniform quota base, the Deputy General Counsel commented. However, three points were of the essence: access to the Fund's resources was determined on the basis of quotas; in determining access, the current quotas of members were to be used; and access policies had to be determined on a uniform basis at a point in time. Those three elements showed that policy on access to the Fund's resources, after the change to the new quotas, had to be expressed using uniform limits based on the new quotas.

Mr. Posthumus observed that the self-financing ratio had increased from 160 in the 1950s to 260 in 1980-87. While the ratio might continue to increase somewhat because the number of borrowing countries would decrease, there was also the possibility that more members might want to borrow. On another point, the new access policy, as perceived from the staff papers, was a permanent policy, even though the Board would review it every year. Other Directors had viewed it as another temporary access policy, and he wondered which view was correct.

The Board had considered access in terms of quota, which meant in terms of what members could eventually borrow from the Fund, Mr. Posthumus continued. The Board should also look at access in terms of the institution's basic commitment to all its members that they could borrow up to a stated limit, according to the Fund's means. During the present Eighth Quota Review period, those means were the general resources plus borrowed resources, which varied every year. Under the Ninth Quota Review, there would not be borrowed resources, but there would be more general resources. He would be interested to learn about the relationship between the old access policy and the new policy in terms of the Fund's means. The answer would require a number of calculations to determine whether the Fund's commitment to its members would be of the same order as in the previous period.

The Chairman said that the staff would try to provide a few calculations, although the situation was less clear cut than suggested. Decisions to borrow and to provide access to members would have to be considered in light of circumstances.

The Chairman then made the following concluding remarks:

> I will make only concluding remarks today, because Directors' positions understandably were quite tentative. The discussion has been constructive, but it has also indicated a broadly held desire for simplification. The Board is generally agreed that access limits to be established under the new quotas must enable the Fund to continue to play a central, even if catalytic, role in promoting macroeconomic and structural adjustment in member countries, which for many entails far-reaching systemic changes. The Board is equally agreed that access policies must continue to be applied with prudence in order to strike an appropriate balance between members' needs for financing and adjustment and the revolving nature of the resources of a monetary institution. In that connection, it was noted again by many that access limits are ceilings and not targets. Additional documentation will be prepared in light of the views expressed by Directors today, which provide guidance for our further work.

Directors generally indicated that maximum potential access available under the present Enlarged Access Policy should be maintained, at least for an interim period, under a new access policy--or whatever the eventual label--following implementation of the quota increases under the Ninth General Review. Directors agreed that, as new borrowings are not now anticipated in the period following the quota increases, financing of access by borrowed resources under the Enlarged Access Policy should be ended with the effectiveness of new quotas. Directors also generally agreed that all purchases under a new access policy should be subject to the repurchase terms for ordinary resources of 3 1/4 to 5 years and 4 1/2 to 10 years under stand-by and extended arrangements, respectively. It was also agreed that all Fund holdings of members' currency arising from purchases under the new access policy would be subject to the same rate of charge referred to in Rule I-6(4).

Views on the operational meaning to be given to the concept of "maintenance of maximum potential access" varied. Many Directors stressed the continuing payments difficulties and uncertainties facing many members and indicated their support for setting the new annual and cumulative access limits at 83 percent and 333 percent of new quotas, respectively. This would base the new limits on the present upper limits of 110 percent and 440 percent and would ensure against any reduction in potential maximum absolute access for all members (except for the United Kingdom and Cambodia) from that base.

Many other Directors were concerned that such a course of action would effectively represent an expansion of potential access for virtually all members. A few in this group thought it would be more prudent to set the new annual and cumulative limits at 60 percent and 267 percent of new quotas, respectively--that is, to use the limits of 90 percent and 400 percent of present quotas as the base and maintain access on average--while others tended to favor the suggestion by the staff regarding limits of about 68 percent and 303 percent. A few asked that the staff consider possible compromises that would result in limits somewhere between these two latter alternatives, and interest was also expressed in possible mechanisms for a gradual transition to new access limits. In addition, a number of Directors noted that the Executive Board had always stressed the temporary nature of the Enlarged Access Policy, and some considered that it should be envisaged that any proposed access limits would be phased down in the future. The staff will reflect on Directors' comments on this issue, and we will try to come back soon with proposals that would have Directors' broad support.

While the overall limits are important, Directors noted that access in individual cases would continue to be the ruling factor and would suggest actual use significantly below the limits. Directors considered that the guidelines on access in individual cases had enabled the Fund to respond prudently but effectively to members' needs for the Fund's financial assistance on a case-by-case basis. It was also agreed that the exceptional circumstances clause--as long as these circumstances were indeed regarded as truly exceptional, as has been our practice so far--was an important feature of the guidelines that should be retained, especially in view of the highly uncertain world economic environment.

Directors stressed that the Fund's liquidity position must be maintained at a level that provides confidence to its creditors and assurances to potential users that resources will be made available under the appropriate conditions. The staff's projections indicate that the access limits discussed today for application under the new quotas can be accommodated without undue strain on the Fund's liquidity over the medium term. However, while the present position is adequate, projections point clearly to the need for urgent action on the quota increase. Whatever is finally agreed for new access policies, the management and staff will, of course, monitor and report to the Executive Board any significant developments in the area of Fund liquidity.

On other issues related to access, Directors were generally in favor of the elimination of the triennial limits and the dual limit structure. They also accepted the staff proposals as regards access to the special facilities and access for debt and debt-service reduction operations.

Regarding the structural adjustment facility (SAF) and the enhanced structural adjustment facility (ESAF), Directors indicated support for adjusting access levels in relation to the average of quota increases for eligible members. Most Directors also considered that the SAF regulations should be amended to ensure that the SDR amounts of those SAF arrangements that are in effect at the time of the quota increases are not reduced because of the change in access limits as a percentage of quotas.

As regards the floating nature of facilities financed by the Fund's general resources, many Directors appeared to favor retaining the floating provisions, some Directors could support their elimination, and others wished to reflect further. My sense of the discussion is that a change would not find at this stage sufficiently wide support, but we should keep the question open.

Our discussion today has focused on the access policies to be followed when the new quotas take effect. I continue to hope that this will be the case by the end of this year, and Directors have been emphatic about the need for prompt action. We again urge all that have not yet consented to the quota increase and accepted the Third Amendment to do so quickly. But as some Directors have noted, we may have to contemplate difficulties in meeting this deadline. We have agreed to meet to consider the situation on December 4.

The Executive Board then took the following decision:

Quota subscriptions are and should remain the basic source of the Fund's financing. However, on a temporary basis, borrowing by the Fund can provide an important supplement to its resources.

The confidence of present and potential creditors in the Fund will depend not only on the prudence and soundness of its financial policies but also on the effective performance of its various responsibilities, including, in particular, its success in promoting adjustment.

Against this background the Executive Board approves the following guidelines on borrowing by the Fund.

1. Fund borrowing shall remain subject to a process of continuous monitoring by the Executive Board in the light of the above considerations. For this purpose, the Executive Board will regularly review the Fund's liquidity and financial position, taking into account all relevant factors of a quantitative and qualitative nature.

2. In advance of any further borrowing undertaken by the Fund, except in the case of borrowing under the General Arrangements to Borrow, the Executive Board shall establish in the context of circumstances prevailing at that time, limits expressed in terms of the total of Fund quotas above which the total of outstanding borrowing plus unused credit lines would not be permitted to rise.

3. Any limits that may be adopted as a result of a review pursuant to paragraph 2 above are not to be understood, at any time, as targets for borrowing by the Fund.

Decision No. 9862-(91/156), adopted
November 15, 1991

2. U.S.S.R. - TECHNICAL ASSISTANCE AND TRAINING FOR UNION REPUBLICS

The Managing Director proposed that Executive Directors authorize him, on behalf of the Fund, to agree to requests for technical assistance or training from Union Republics, under paragraph A6 of the Special Association Agreement with the U.S.S.R.

The Executive Board took the following decision:

The Executive Board decides that, for the application of paragraph A6 of the Special Association Agreement with the U.S.S.R., the Managing Director is authorized to agree, on behalf of the Fund, to requests from Union Republics for technical assistance or training.

Adopted November 15, 1991

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/91/155 (11/15/91) and EBM/91/156 (11/15/91).

3. STRUCTURAL ADJUSTMENT FACILITY WITHIN SPECIAL DISBURSEMENT ACCOUNT - REGULATIONS FOR ADMINISTRATION - AMENDMENT

Current paragraph 14(1) of the Regulations for the Administration of the Structural Adjustment Facility annexed to Decision No. 8238-(86/56) SAF, adopted March 26, 1986, as amended, shall become subparagraph 14(1)(a), and a new subparagraph (b) shall be added as follows:

(b) If the full amount of resources committed to an eligible member under a three-year arrangement under the Structural Adjustment Facility has not been disbursed and a subsequent three-year commitment is made under the Enhanced Structural Adjustment Facility for that member, the undisbursed amounts under the previous arrangement may be made available to the member under the three-year arrangement under the Enhanced Structural Adjustment Facility.

Decision No. 9863-(91/156), adopted
November 15, 1991

APPROVED: May 18, 1992

LEO VAN HOUTVEN
Secretary