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0404

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 89/112

3:00 p.m., August 28, 1989

M. Camdessus, Chairman

| Executive Directors | Alternate Executive Directors |
| --- | --- |
| | C. Enoch |
| | Shao Z., Temporary |
| | D. C. Templeman, Temporary |
| | J. Prader |
| E. T. El Kogali | L. B. Monyake |
| E. A. Evans | |
| E. V. Feldman | R. J. Lombardo |
| | M. A. Fernández Ordóñez |
| R. Filosa | |
| | M. B. Chatah, Temporary |
| M. Fogelholm | M. Pétursson |
| M. R. Ghasimi | |
| G. Grosche | |
| J. E. Ismael | E. Kiriwat |
| | L. E. N. Fernando |
| A. Kafka | |
| | D. McCormack |
| | J.-C. Obame, Temporary |
| Y. A. Nimatallah | |
| | J.-L. Menda, Temporary |
| G. A. Posthumus | G. P. J. Hogeweg |
| K. Yamazaki | S. Yoshikuni |

L. Van Houtven, Secretary and Counsellor
M. Primorac, Assistant

Also Present

Asian Department: A. K. McGuirk. European Department: M. Guitián, Deputy Director. Exchange and Trade Relations Department: J. T. Boorman, Deputy Director; T. Leddy, Deputy Director; S. Kanesa-Thasan, J. P. Pujol, M. Shadman-Valavi. External Relations Department: D. M. Cheney. Fiscal Affairs Department: W. R. Mahler. IMF Institute: O. B. Makalou. Legal Department: R. H. Munzberg, Deputy General Counsel; T. M. C. Asser, H. Elizalde. Middle Eastern Department: M. Zavadjil. Research Department: M. Goldstein, Deputy Director; P. Isard, N. M. Kaibni, D. J. Mathieson, B. E. Rourke. Secretary's Department: C. Brachet, Deputy Secretary. Treasurer's Department: G. Laske, Treasurer; D. Williams, Deputy Treasurer; D. S. Batten, P. B. Clarke, D. Gupta, K. M. Kenney, I.-S. Kim, B. B. Zavoico. Western Hemisphere Department: J. Fajgenbaum. Personal Assistant to the Managing Director: H. G. O. Simpson. Advisors to Executive Directors: M. Al-Jasser, A. Gronn, A. Raza, B. A. Sarr, N. Toé. Assistants to Executive Directors: S. Appetiti, G. Bindley-Taylor, H. Brohs, B. A. Christiansen, H. E. Codrington, E. C. Demaestri, S. K. Fayyad, J. Gold, A. Hashim, J. Heywood, C.-W. Hon, K. Ichikawa, M. E. F. Jones, K.-H. Kleine, C. Y. Legg, R. Marino, W. K. Parmena, A. Rieffel, C. C. A. van den Berg.

1. INTERNATIONAL LIQUIDITY, SYSTEMIC ROLE OF SDR, AND SDR ALLOCATIONS - FURTHER CONSIDERATIONS

The Executive Directors resumed from the previous meeting their consideration of a staff paper on international liquidity, the systemic role of the SDR, and the question of SDR allocation (SM/89/158, 8/2/89). They also had before them a paper on the use of SDRs in foreign exchange market intervention (SM/89/164, 8/9/89).

The Chairman made the following summing up:

> We have had an opportunity today to focus again on issues pertaining to international liquidity and the systemic role of the SDR, and to reconsider the question of an SDR allocation. Our discussion has been useful in indicating Directors' interest in examining some directions for enhancing the systemic role of the SDR. The discussion has also revealed that there is not sufficient support to resume allocations at this time.
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> In addressing the concept and functions of international liquidity, the staff argued that: (i) data limitations and conceptual ambiguities precludes the construction of a meaningful quantitative measure of international liquidity; (ii) the difficulties of measuring international liquidity directly imply that the adequacy of international liquidity can only be assessed indirectly; and (iii) indirect assessments of the adequacy of international liquidity can usefully focus on how well the functions of international liquidity are being performed. While these views were not specifically challenged, the discussion did not move us much toward a consensus on these points, and some Directors who were opposed to allocation continue to be interested in improving the quantitative measurement of international liquidity.
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> The staff's paper maintained that the functions of international liquidity are to promote monetary conditions that are conducive to a healthy world economy, and that these conditions are by and large the same as the objectives contained in the Fund's purposes. Accordingly, in considering whether and how the functioning of the international liquidity system could be improved--and whether and how the systemic role of the SDR could be strengthened--it is useful to focus the discussion on the problem areas that have been receiving much of our attention during recent years. Broadly stated, these are the issues of: (i) strengthening the surveillance and policy coordination process for the largest industrial countries, where problems can have major spillover effects on the performance of the world economy; and (ii) assisting developing countries to cope with balance of payments problems--including, in particular, those that stem from debt situation problems--which collectively are also of major consequence for the world economy.

In addressing approaches for strengthening the surveillance and policy coordination process, Directors expressed different views on the extent to which the use of national currencies as reserve assets may have weakened policy discipline in the major industrial countries, and on whether a larger role for the SDR would be desirable from this perspective. A number of Directors stressed that "rigid mechanisms," such as substitution accounts and asset settlement mechanisms, could only be effective if large industrial countries were willing to accept greater systemic discipline.

Directors discussed the use of SDRs in foreign exchange market intervention, emphasizing that while the official SDR cannot presently serve as a vehicle for intervention, it could play a larger role in financing intervention. In this context, a number of Directors expressed interest in pursuing Mr. de Groote's proposal for establishing a pool of SDR resources to finance exchange market intervention on a revolving basis, and the staff was requested to study the operational and legal implications of the proposal. Other Directors, however, questioned whether large-scale intervention was desirable. The proposal for a two-stage allocation process received some support. However, many Directors were opposed in principle to introducing any conditionality in the SDR system, and others expressed doubts that a two-stage process could be employed effectively as an incentive for stronger policy disciplines.

Many Directors voiced support for measures to promote gradually the use of SDR-denominated instruments by the private sector including, for example, studying the establishment of a clearinghouse for settlement of private SDR transactions. They favored the expansion of private holdings and use of SDR-denominated instruments so as to increase the attractiveness of the official SDR and as a way of contributing to the objective of making the SDR the principal reserve asset in the international monetary system. They noted the importance of establishing a critical mass for stimulating the private SDR. In this regard, they also referred to the role of official measures in promoting markets for the ECU. Some Directors also felt that the many nonreserve-center member countries could benefit from denominating some of their debt obligations in SDRs. Some other Directors, however, noted the current lack of demand for private SDRs and questioned how such demand could effectively be promoted.

In considering the potential role of the SDR in promoting growth-oriented adjustment, most Directors agreed that there had been large disparities in the terms and conditions under which different countries could obtain reserves. Some Directors argued that that disparity had resulted in a maldistribution of international liquidity, which constituted a systemic problem that could undermine efforts to achieve growth and adjustment. In their view, the SDR system provided a direct means of alleviating the maldistribution of reserves and liquidity. However, other Directors argued that the terms and conditions under which a country can obtain reserves depends fundamentally on its own policies. The establishment and maintenance of sound and prudent macroeconomic policies was seen by these Directors as the key to restoring creditworthiness, at least over the medium term, and reducing the disparities in the cost of obtaining reserves.

As in earlier Board discussions of post-allocation redistribution, some Directors indicated that such redistribution could be an effective means of helping those countries with the greatest need for reserves without weakening adjustment efforts. However, most Directors did not support these redistribution arrangements because they were viewed either as being incompatible with meeting the growing needs for reserves for all countries or as detracting from the objective of maintaining quotas as the primary source of Fund financing.

Many Directors saw the proposals concerning the use of SDR allocations in support of debt and debt-service reductions as an effective means of providing additional resources that could enhance the current strengthened debt strategy. A number of other Directors, however, indicated a number of objections to these proposals. These Directors questioned the rationale for creating conditional liquidity outside the Fund's general resources and felt that the use of the SDR system to support debt or debt-service reduction activities would undermine the monetary character of the SDR.

While a majority of Directors favored a resumption of SDR allocations, the broad support required for a proposal to the Board of Governors was not evident. As I see it, there were no changes in positions of individual Directors on this matter, nor have I noticed important changes, if any, in the arguments made by Directors for or against allocation.

In closing, let me just say as a personal note that I hope Directors will continue to consider whether it is prudent to let the SDR shrink further as a share of reserve portfolios. The period ahead is likely to remain very difficult. SDR allocation is a mechanism that the international community labored long and hard to create, and a mechanism that could potentially play an important role in the future. In this sense, I very much support the argument for an allocation at least to maintain the role of the SDR in the international monetary system. The staff will of course undertake further studies as required and requested. Having said that, I also was impressed by the argument that we avoid a fruitless repetition of studies on allocation and mute further discussions until the climate changes.

2. ENLARGED ACCESS POLICY - ACCESS LIMITS FOR 1990 - PRELIMINARY POLICY CONSIDERATIONS; BUFFER STOCK FINANCING FACILITY - REVIEW OF ACCESS LIMITS FOR 1990; AND LIQUIDITY POSITION AND FINANCING NEEDS

The Executive Directors considered staff papers on preliminary policy considerations of access limits for 1990 (EBS/89/152, 7/27/89; and Cor. 1, 8/24/89); on the review of access limits for the buffer stock financing facility for 1990 (EBS/89/151, 7/26/89); and on the Fund's liquidity position and the financing needs and financial considerations for access policy in 1990 (EBS/89/148, 7/25/89).

Mr. Yamazaki made the following statement:

I welcome this opportunity for preliminary discussion of access limits which, I hope, will help us pave the way for useful discussion by the Interim Committee.

First of all, let me clarify my position--that I broadly support the staff's conclusions in the papers on access limits and the Fund's liquidity. The policy of enlarged access was adopted in 1981 as a temporary measure to cope with the difficulties emerging from the large external imbalances after the oil crisis. Because of its temporary nature, there is a basic understanding that the enlarged access policy will be phased out as the external imbalances of member countries improve.

Unfortunately, we are still facing the debt problem, which now appears likely to persist longer than had been expected. Meanwhile, the magnitude of indebtedness has grown in some member countries. Also, I note that the staff projects that the external financing requirements of developing countries will remain relatively large in 1990. In these circumstances, we believe that the Fund should continue to play a key role in dealing with the debt issue, through appropriate and flexible assistance to those members that are engaged in strong adjustment programs. It is on these grounds that we can accept the staff's proposal to maintain the present levels of access limits for 1990, until reviewed in light of the outcome of the Ninth General Review of Quotas.

That being said, let me emphasize that I recognize that such a conclusion is basically a temporary one. The fundamental principle of the Fund is that quota subscriptions should remain the primary resource of this institution. In addition, the Interim Committee last year urged the Fund to reduce its reliance on borrowed resources. In this respect, the increasing need for Fund resources could be met most adequately through the quota increase that is now under discussion. I believe that we can discuss the desirable shape of the enlarged access policy in the 1990s more usefully after we know the results of the Ninth General Review of Quotas. In other words, while I can tentatively agree with the conclusion, I believe that a fundamental review of enlarged access policy must follow the completion of the Ninth General Review of Quotas without delay. In this respect, I would like to emphasize that the Ninth General Review must be completed as scheduled.

Since access limits under the buffer stock financing facility should be reviewed in conjunction with the review of access limits under the enlarged access policy, we support the staff's conclusion on this issue as well.

Turning to the paper on liquidity, I note that some important questions on liquidity projections were raised by other Executive Directors at the last Board discussion in the Committee of the Whole on the Ninth General Review of Quotas. With regard to the methodology used in the projection of the availability of, and demand for, Fund resources, I basically accept the staff's explanation of its appropriateness, and I do not have much doubt about the accuracy of the projection of the Fund's liquidity in 1990. The overall staff estimate of the Fund's liquidity position through end-1990 seems to be broadly reasonable, although the necessity for close monitoring is still clear.

The staff's comments have convinced me that there is little likelihood of urgent problems developing in the Fund's liquidity position in the very near future, but at the same time, however, I am somewhat concerned about the deterioration in that position, which is projected to accelerate over the next 18 months. The staff may wish to analyze the main causes of the projected reduction in usable ordinary resources through the end of 1990. Furthermore, I would appreciate it if the staff could prepare longer-term liquidity projections before the next review of the enlarged access policy.

Mr. Prader made the following statement:

According to the decision establishing the enlarged access policy, this policy is to be reviewed annually, a fact that emphasizes its temporary nature. A more unsuitable moment for such an exercise could hardly be found, however, and this for a number of reasons.

Reducing the limits on access to Fund resources would not only flatly contradict recent Fund policy, but would also have to be done in the face of the present increase in the use of the enlarged access policy. After touching bottom in 1987, when annual commitments averaged 38 percent, use of enlarged access has risen steadily to an average of 58 percent during the first half of 1989, with access in individual cases ranging between 40 and 90 percent. To sum up, in addition to the false signals that any reduction in the formal access limits would send, there have been no changes in economic conditions since the last review of the policy that could justify such a reduction.

On the premise that the Ninth Quota Review will be concluded by the end of this year, it seems a waste of time to begin any lengthy and contentious discussion concerning enlarged access policy prior to a final decision on the quota increase, because the enlarged access policy and all the other facilities of the Fund will have to be thoroughly reviewed in the light of that decision.

In the staff's view, the liquidity position of the Fund presents no obstacle to maintenance of the current access limits. This view seems right and wrong at the same time. It is correct, inasmuch as the Fund possesses sufficient ordinary resources to cover presently foreseen commitments while maintaining an acceptable liquidity ratio, although that ratio would decline from 104 percent as of June 30, 1989 to 63 percent as of December 30, 1990. But it is wrong, inasmuch as there has existed since June 30, 1989 a commitment gap for the component financed by borrowing. It is manifest from the fall in the liquidity ratio that a simple replacement of borrowed resources with ordinary resources is not a sustainable solution. But again the argument applies that it seems imprudent to commence a discussion whose outcome will be valid for only a brief interlude before conclusion of the Ninth General Review of Quotas. It goes without saying, however, that if the conclusion of the Ninth General Review of Quotas fails to materialize by the end of the current year, the next review of the enlarged access policy should not be delayed past June 1990.

Mr. Templeman made the following statement:

Since its inception, the enlarged access policy has been widely regarded as temporary and to be phased out. In recent years, however, my authorities have agreed to extend enlarged access in a spirit of compromise and taking into account the difficult external position of a number of member countries. Last year, we extended the existing limits in view of these considerations and pending further work on the Ninth General Review of Quotas.

My authorities are prepared again, temporarily, to extend enlarged access and buffer stock access at the existing limits, as suggested in the staff paper. The relationship between Fund access policies and the quota review is not the subject of today's meeting. But it is, nevertheless, an extremely important topic and one to which we will be returning in the future. Against this background, I would like to comment on the staff's analysis of the issues bearing on access policy.

Certainly, the global economic environment is one important factor bearing on countries' needs for external resources. However, we continue to believe that the staff argument on the need for large-scale Fund financing is founded on too pessimistic a view of the outlook for the global economy. Although growth may currently be moderating, we should not lose sight of the fact that we have been able to sustain a prolonged economic expansion with low inflation since the early 1980s. In the meantime, a number of countries using Fund resources have appropriately implemented market-oriented reforms, enhancing the ability of their economies to adapt with greater flexibility to changes in the global environment.

Moreover, industrial countries have not used Fund financing for a long time. In addition, many low-income countries are availing themselves of the structural and enhanced structural adjustment facilities, which are better suited to their needs, while others have made use of their access to Fund resources under the special facilities.

Let me turn now to the role of the Fund in assisting member countries with payments imbalances and to access in individual cases. The Fund has played a welcome and essential central role in the global economy since its establishment, and it has demonstrated an ability over the years to adapt to the changing needs of its members. Most recently, the Fund has again demonstrated this flexibility by enhancing its role in the strengthened debt strategy. This new responsibility does have implications for the demand for Fund resources. Nevertheless, the Fund's role must remain essentially that of a catalyst, by helping to provide assurances to other creditors that member countries are pursuing strong economic adjustment and reform programs, while providing temporary balance of payments assistance.

In the early 1980s, the Fund adopted its enlarged access policy as an exceptional response to the problems facing indebted countries, so as to provide temporary assistance to those members encountering balance of payments imbalances which are large in relation to their quotas and needing resources in larger amounts and for longer periods than available under ordinary access policies. Borrowed resources were raised in this connection. Subsequently, the Fund substantially increased its lending to meet the exceptional circumstances then prevailing. More recently, and consistent with the temporary nature of its balance of payments lending and the revolving character of its resources, the Fund has experienced some net reflows. Nonetheless, the increased Fund lending in the early 1980s has been associated with prolonged use of Fund resources and with the emergence of large-scale arrears. These arrears, which are now in excess of SDR 3 billion, are weakening the Fund's financial position, imposing significant costs on creditors and debtors, and undermining public support for the Fund. Prolonged use also raises questions about the role of the Fund and about the consistency of these activities with the Fund's traditional mandate and functions.

Of course, we have all agreed that the enlarged access limits are neither entitlements nor norms, but should be regarded as ceilings. And, the Fund has appropriately applied its guidelines on access within the enlarged access limits in a cautious manner. We urge management and the Board to continue to apply its policies on access within these limits with prudence and caution. We believe that this can be done in a manner consistent with the Fund's role in the strengthened debt strategy.

In this context, it is noteworthy, as evidenced by Table 2 of the staff paper on access limits (EBS/89/152, 7/27/89), that no country is approaching the 400 or 440 percent cumulative access ceiling. For example, the country with the highest level of Fund credit outstanding at present under the limits is projected to reach a level of only 320 percent of quota by the end of its current arrangement. Moreover, the average actual use of Fund resources by borrowing members in the period 1983-88 was only 138 percent of the quota of countries using Fund credit, excluding special facilities. At present, actual use is only about 113 percent of quota. These data, in our view, cast substantial doubt on the need to preserve the present amount of nominal absolute access. Also, the Fund's serious arrears problem at relatively moderate levels of actual use of Fund credit introduces a cautionary note to our considerations.

Against this background, we take strong exception to the view suggested on page 5 of EBS/89/152 that a case can be made for relaxing existing limits. If anything, there would appear to be a stronger case for a reduction in current enlarged access limits.

On the question of the unification of dual limits and of the need for three-year limits, we believe that consideration of these possibilities should be postponed to a later date, depending on the outcome of the Ninth General Review of Quotas.

Regarding the Fund's liquidity, let me simply state that we are pleased that the Fund's liquidity position remains extremely comfortable and that the projected drain on liquidity over the next 18 months is not expected to be large. Indeed, we note that the liquidity ratio remains well above the long-term historic average and well above the levels that prevailed before the last three quota increases.

In conclusion, we are prepared, temporarily, to extend the enlarged access limits, pending the quota review. However, if a favorable decision is made on a quota increase, we will need to give careful and prudent consideration to any related decision on access policy.

Mr. Kiriwat said that the staff had made convincing arguments for the current access under the enlarged access policy and under the buffer stock financing facility to be maintained in 1990. He could, therefore, support the maintenance of the present access limits for both operations.

The need for balance of payments support was likely to remain large for many members, Mr. Kiriwat agreed. The maintenance of the current access limits for 1990 would reaffirm and strengthen the Fund's willingness to encourage and support members that adopted and continue to implement strong adjustment programs. In addition, the Fund's involvement to support debt or debt-service reduction operations would necessitate the maintenance of present access limits. Last but not least, it was premature to consider a possible reduction in access limits at the current juncture, as the Ninth General Review of Quotas had not been successfully completed.

He was pleased to note that his stance was amply corroborated by the Fund's liquidity situation, Mr. Kiriwat added. Based on current projections, the Fund's liquidity position would not, in any way, inhibit the continuation of the current access limits in 1990. Given the cautious application of the guidelines on access in individual cases, he was convinced that the present limits would not adversely affect the objective of safeguarding Fund resources and ensuring their revolving nature.

Mr. Enoch made the following statement:

I can go along with the proposal that the Fund's enlarged access policy and the current access limits should be maintained, pending completion of the Ninth Quota Review. However, as soon as the outcome of the Quota Review is known, and well before the new quotas become effective, there will clearly need to be a thorough review of the existing access limits including the 40 percent limit on additional resources for interest support.

Although I support maintaining the current access limits in place for the time being, I do have a number of comments on the staff paper on access limits for 1990 (EBS/89/152). First, I was somewhat puzzled by the section on the outlook for the payments imbalances of member countries. It is not clear to me that any particular level of access to Fund resources can be justified with reference to data or projections on the aggregate position of developing countries or non-oil exporters as a whole. The fact that the gross financing requirement for developing countries is expected to remain in substantial aggregate deficit in 1990 does not in itself imply that current access limits must be maintained. In addition, I found the evidence presented by the staff on this issue to be somewhat one-sided. For example, the paper notes with concern that the aggregate deficit of developing countries is projected to rise to $29 billion in 1990, which is indeed a substantial deficit. However, the staff should perhaps have mentioned that this deficit is considerably smaller than the deficits seen throughout the first half of the 1980s, including in 1985 and 1986 when access limits were actually reduced.

A second issue touched on in the paper is the sharp increase in average access in the first eight months of 1989. I was surprised that this development received little attention, in what is, after all, the Board's annual review of access policies. In particular, I would have been interested in more staff comment on how the 1983 guidelines on access policy have been interpreted over recent months in cases where Fund support for debt reduction operations has been involved. For example, in the case of Mexico it is perhaps not entirely clear that access of 80 percent of quota was fully consistent with a strict reading of the 1983 guidelines, since Mexico's outstanding use of Fund resources at the beginning of the program at 294 percent of quota was very large by any standards. Venezuela's access of 115 percent of quota, including the 25 percent first credit tranche drawing, might seem more justifiable in view of the fact that Venezuela previously had no outstanding Fund credit. However, even in this case, there would appear to be questions about whether, as the guidelines require, Venezuela's balance of payments improvement is expected to be "quick, sufficient, and durable."

I think it is important that there be clear demonstrations that the access levels proposed in these and future debt reduction cases are fully consistent with the general access guidelines. This should help to dispel concerns that access has been raised to unusually high levels in order to accommodate set-aside funds to be used for debt reduction. Set-aside resources are, of course, intended to be part of normal access rather than additional to this access.

A third issue raised in the paper is the operational significance of the current system of dual access limits. As I understand it, the system was originally designed to ensure that potential absolute access for members with the smallest percentage increase in quota remained unchanged after the Eighth Quota Review. This, in turn, implies that for members that had above average quota increases under the Eighth Review, it is the lower rather than the upper access limit that should be viewed as the operationally relevant constraint. Had the Board at the time viewed all members as subject only to the higher limit, then presumably it would not have decided to maintain the lower limit at all. If this interpretation is correct, it tends to cast some doubt on the assertion in the staff paper that the exceptional circumstances clause need only be invoked if the upper limit is exceeded. This is clearly an issue that will need to be resolved fairly soon.

In addition, I agree with the staff that it would be useful to re-examine the usefulness of the whole system of dual limits. At first sight, it seems odd and unnecessary that we have both an upper limit to protect members that enjoyed below average quota increases in 1984 and an exceptional circumstances clause.

Turning now to the Fund's liquidity position, I fully share the staff's conclusion that the Fund's resources are adequate to accommodate the very substantial projected demands expected through end-1990. Moreover, as this chair noted in last week's quota discussion, previous experience suggests that the staff's projections may in any event turn out to be somewhat on the high side. In each of the last five years, gross new commitments have been significantly overestimated. Indeed, on average, actual commitments have turned out to be roughly 30 percent lower than the staff projected.

Similarly, there has been a clear tendency for the staff to take an overpessimistic view on the likely future level of the Fund's liquidity ratio, particularly over the last two years. For example, the end-1988 liquidity ratio turned out to be fully 18 percentage points higher than the staff had predicted as late as March of the same year. This experience, too, suggests that the Fund's liquidity position may turn out to be even healthier at the end of 1990 than the staff is currently projecting.

The one policy issue raised in the staff paper on liquidity (EBS/89/148, 7/25/89) relates to the emerging commitment gap on borrowed resources. The emergence of this commitment gap is of course a not unexpected development, given the Interim Committee's desire to reduce the Fund's reliance on borrowing.

Nevertheless, as the staff notes, it does raise some specific issues that will need to be addressed before the corresponding disbursement gap is upon us.

I was not sure from the paper whether the staff is expecting the Board to agree now to the terms and conditions under which ordinary resources could be substituted for borrowed resources. I think not, as no formal decisions are presented in the paper. While my provisional view is that the staff's proposals on the rate of charge and the repurchase period seem reasonable, I think it would be unwise to take a decision on this issue until we have seen a rather fuller staff discussion.

Finally, I have no difficulty in endorsing for 1990 the 45 percent access limit under the buffer stock financing facility. I look forward with interest to reading the staff's forthcoming paper on the 1987 International Natural Rubber Agreement, which should give us a better idea of how reasonable this 45 percent access limit is.

Mr. Menda made the following statement:

As I am in broad agreement with the staff papers, I will be brief. We can go along with the proposal to maintain the existing access limits, established in 1986 and renewed each year since then, for 1990, or at least until the Ninth General Review of Quotas takes effect. We fully subscribe to the reasoning underlying this proposal, which hinges on the following considerations. First, the developing countries' financing needs will not decline in 1990, despite the adjustment efforts to which these countries are committed. Hence, the Fund cannot appear to be disengaging by reducing the limits of access to its resources. Second, the Fund must not only come to the assistance of members whose economies are experiencing profound imbalances, but it must also play its full role in the new debt strategy by supporting operations to reduce debt and debt service. Finally, the Fund's liquidity position is satisfactory on the whole and does not call for any reduction in the access limits.

We therefore believe that the present access limits give the Fund the leeway it requires to meet its members' needs. Of course, we agree to review these limits and the Fund's liquidity position after the completion of the Review of Quotas. Indeed, we are of the view that a major overhaul of access policy should coincide with the Ninth General Review of Quotas.

The rules on individual access must continue to be applied flexibly, on a case-by-case basis. In this regard, we note with satisfaction that the average effective access in the upper credit tranches of stand-by and extended arrangements increased in 1988--from 38 percent of quota in 1987 to 41 percent--and more significantly in the first half of 1989--to 58 percent.

We are pleased to note that the staff has revised upward its forecasts of net transfers of Fund resources to its members in 1989. This favorable trend would be due largely to the implementation of the guidelines, established in May, on the Fund's participation in the debt strategy. However, I find somewhat optimistic the degree of use of Fund resources in connection with interest support which is projected for 1989 and I would appreciate further clarifications from the staff on this point. The return to a net positive transfer of Fund resources is of the utmost importance if we want the Fund to retain a credible role in the evolving debt strategy. I will not dwell on this issue since we already expressed our thoughts on this question at the last debate on quotas.

I would also like to emphasize that the place of Africa, the continent relatively most dependent on financing by official lenders, must be preserved in the distribution of the expected increase in outstanding Fund claims financed from the General Resources Account.

We also note that, taking into account loan disbursements under the structural and enhanced structural adjustment facilities, it is projected that the total amount of credit provided by the Fund would increase by approximately SDR 1 billion in 1989 and by about SDR 4 billion in 1990. However, I can only reiterate my authorities' strong views that countries eligible to use the resources of the enhanced structural adjustment facility must continue to have access to the Fund's general resources. We are therefore pleased to read in the staff paper on access limits (EBS/89/152) that "some members eligible for SAF/ESAF might also show a greater interest in requesting stand-by and extended arrangements, owing in part to the decision to provide support for debt and debt-service reduction operations."

The Fund's liquidity situation seems satisfactory to us, as demonstrated by the fact that the assets and immediate liquidity ratios continue to be far in excess of 100 percent. In addition, the ratio of usable currency to total quotas is at the high level of 69 percent. However, the staff foresees a deterioration in these ratios, in particular after 1990. This can only reinforce the need for a substantial quota increase, which would have a positive effect on the Fund's medium-term liquidity situation.

We should be very cautious about the possibility of further borrowing by the Fund. We would like to stress our support for the statement in the Interim Committee communiqué of September 1988 on the usefulness of reducing the Fund's recourse to borrowing, in connection with the results of the Ninth Review of Quotas.

We are also open to the possibility of substituting ordinary resources for borrowed resources under the enlarged access policy, and even of modifying that policy. However, we think that it is appropriate that this matter not be taken up by the Board before the discussion of the Ninth Review of Quotas is completed.

Mr. Grosche made the following statement:

We recognize that the policy on enlarged access needs to be maintained for another limited period of time since the financing needs of several developing member countries are likely to remain large in relation to those countries' current quotas. In addition, the Fund has recently undertaken to support a strengthened debt strategy within the limits set by the guidelines approved in this Board, which presupposes enlarged access to the Fund's resources.

But as long as the future size of the Fund is not decided upon, my authorities are not in a position to express a view on the precise modalities for a further extension of the enlarged access policy, and we doubt that the Board can formulate today any precise recommendations for the Interim Committee. Without an idea of the future size of the Fund, it is difficult to determine whether the current absolute access limits can be maintained or need to be reduced, and whether the policy on enlarged access can be maintained until the end of 1990 or can only be extended for a shorter period of time.

In determining the precise modalities for a further extension of the policy on enlarged access, we will have to start from the overriding goal of maintaining the financial balance of the Fund. The liquidity of members' claims on the Fund should never be put in doubt.

In our view, management and staff are downplaying the risks that the maintenance of current absolute access limits until the end of 1990 could entail for the liquidity position of the Fund. Today already, commitments of borrowed resources exceed total available borrowed resources; and contrary to what the staff paper on the Fund's liquidity suggests, it may well be that available borrowed resources are not sufficient to meet disbursements until the end of 1990. Heavier front-loading requested in some large programs might also affect disbursements.

The Fund cannot count on being able to borrow additional resources. Therefore, it must be prepared to fill the gaps with its own resources, as suggested by the staff. We doubt that the Fund will be able to do so without compromising a lot, if not too much, on the liquidity ratio. In addition, we have to bear in mind that the liquidity ratio is not only determined by the demand on the Fund's resources. The supply of Fund resources is as important a factor in the equation. The staff is right in pointing to the possibilities that members with weak external positions, whose currencies represent a significant proportion of the Fund's stock of usable currencies, can be dropped from the list of sufficiently strong members quite suddenly. We would encourage the staff--as it has suggested--to monitor closely developments in the Fund's liquidity position and to report to the Executive Board if there are any significant changes.

To sum up, we believe that the quota issue has to be tackled before we can deal with the policy on enlarged access. We need a substantial increase in quotas in order to make the Fund more independent from borrowing. In normal circumstances the Fund should be able, as a matter of principle, to base its lending operations primarily--if not completely--on its own resources. These resources are readily available and secure--provided that the liquidity ratio remains sufficiently high. And it must not be forgotten that the use of ordinary resources provides for a broad sharing of the financing burden among the stronger members of the Fund.

We are thus in favor of using more of the Fund's own resources for its lending operations. But let me be very clear: given the risks that currently exist for the liquidity ratio, we are not prepared at this stage to consider the staff's suggestion of establishing a new access policy that would be based uniquely on the Fund's own resources.

We hope that we can come to a solution on the quota issue during the Annual Meetings. In light of the outcome, we will be able to continue our discussion on the policy of enlarged access. Let me only add one word on the determination of the future maximum absolute access. We have to bear in mind that the enlarged access policy is temporary and that it should be phased out. Some reduction in cumulative access limits should be possible. On the basis of current programs in place, only one major debtor of the Fund may even begin to approach its cumulative access ceiling in the coming years.

We should not overemphasize the financing role of the Fund. The staff papers suggest that it is the role of the Fund to close the gaps stemming from any balance of payments need, including the management of the debt situation. Such suggestions encourage the banks to leave the solution of the debt problem to the official institutions. We are of the view, however, that there are clear limits to what the official sector can and should do. Let me reiterate our position that the role of the Fund is primarily one of a catalyst, one of supporting strong policies that lead the country back to creditworthiness. We adhere to what the Interim Committee, the Fund management, and also the Group of Ten in its report on the role of the Fund and the World Bank, have said on the respective roles of the institutions.

Finally, let me state that we can support the staff suggestion to maintain the current absolute access in the buffer stock financing facility.

The Chairman remarked that the Fund's role was indeed catalytic and not to fill any financing gaps.

Mr. Monyake made the following statement:

We welcome the review of access limits for 1990 in the light of the projected Fund's liquidity position and on the eve of the completion of the Ninth General Review of Quotas. The staff papers have provided very helpful insight into this matter. In sum, they prove the case, in our view, that enlarged access policy can and should be continued into 1990, although the liquidity position will be somewhat strained as borrowed resources are phased out.

With regard to the need for the enlarged access policy in 1990, it is clear from the preliminary world economic outlook projections and from our own knowledge of the debt situation that the financial needs of many countries will remain very large relative to their quotas. Indeed, the accelerating demand for Fund resources, and, hence, the enhanced role of the Fund, have been accentuated by the new facilities--the contingency financing element of compensatory and contingency financing facility and the debt facility. We note that "adjusted and uncommitted" ordinary resources are projected to fall to SDR 18.8 billion by the end of 1990. Consequently, the Fund's liquidity ratio falls from 104.4 percent to 62.7 percent. We share the staff's view that this liquidity position is low but acceptable, subject to close monitoring. We have also noted that potential purchases under the buffer stock financing facility, which could reach SDR 165 million, can be accommodated under the current access limit of 45 percent of quota. However, we would appreciate some comments from the staff on whether in the medium term the buffer stock financing facility could strain Fund liquidity in the absence of an adequate increase in quotas.

We are pleased to see that the staff is not recommending renewed borrowing, although by June 30, 1989, commitments of borrowed resources slightly exceeded available uncommitted credit lines. It has always been the view of this chair that the Fund should aim at becoming a fully quota-based institution. We have noticed, however, that the staff is recommending that in continuing the policy of enlarged access, the required mix of ordinary and borrowed resources will also continue until all borrowed resources are fully disbursed. At that stage, the staff proposes that the Board will be called upon to enact a new access policy so that the ordinary resources that will take over the role of borrowed resources under the enlarged access policy, carry the same rate of charge and repurchase period as if they were borrowed. Since the objective of doing away with borrowed resources is to lower the cost to Fund borrowers, the staff should propose a mechanism for lowering the cost to members that continue to use borrowed resources to bring their burden in line with that of members using ordinary resources rather than the other way round. Staff comments would be appreciated in this connection, as well as on the probability that this situation will be reached before the completion of the Ninth General Review of Quotas, expected by the end of 1989, which might obviate the need for such an access policy.

Mr. McCormack made the following statement:

In the three papers before us, the staff has provided a useful summary of the projections of future Fund commitments and access policy for 1990. We agree that the Fund will probably experience continued heavy demands by members for new arrangements in 1990, which will cause the Fund's liquidity position to deteriorate, though not unduly. As a result, Fund resources appear adequate to accommodate projected demands, including those under the strengthened debt strategy. We therefore support the staff's recommendation that the current access limits under the policy of enlarged access be maintained for 1990, until reviewed in light of the outcome of the Ninth General Review of Quotas. We would also have no difficulty with maintaining the existing access limit for the buffer stock financing facility. We would add, however, that although the Fund has the resources necessary to meet expected demands over the coming year, we would hope that this situation does not delay a resolution of the quota review.

As noted in the paper on liquidity (EBS/89/148) commitments of borrowed resources exceed total available borrowed resources. Therefore, in the absence of new borrowing, the Fund will be obliged to use ordinary resources for those purchases that were expected to be financed with borrowed resources. In such circumstances, we find some merit in the staff's proposal that the same rate of charge and the same repurchase period should apply to purchases with ordinary resources substituted for borrowed resources as would have been applied to purchases financed by borrowing. On this basis, all Fund members would be treated equally under the existing enlarged access policy. We note that should such a policy be adopted, it would likely have a favorable impact on the Fund's income position. However, we are not being asked to decide formally on this issue today, so our views are purely preliminary.

In conclusion, we would point out that the enlarged access policy is supposed to be temporary and it will be reviewed along with the associated access limits, in light of the outcome of the Ninth Review of Quotas. Among the options available at that time could be a decision to scale back access limits as a percentage of quota, though not necessarily in absolute terms, to reflect the increase in members' quotas. It may, therefore, be possible to discontinue the enlarged access policy, returning to a situation in which the Fund's resources are derived solely from quota subscriptions and all purchases are subject to the same terms. However, at this stage, one can only speculate about the content of this review, given the uncertainties surrounding the Ninth General Review of Quotas, notably, the size of the Fund.

Mr. Chatah said that he could go along with the staff's recommendation of maintaining the existing limits under the enlarged access policy pending completion of the Ninth Review of Quotas, as they did not seem to be a constraining factor, at least in the coming year. Indeed, as the staff indicated, an argument could even be made for increasing the current limits. In any event, to the extent that a larger level of actual access was judged to be appropriate, one would expect average access to continue to increase from its low level of recent years. However, while the very wide differences in actual access of different members could be justified on the basis of current policy on individual access, they nevertheless raised questions on the minds of some of his authorities about the application of the policy on access within the limits.

It might well be useful to reconsider the need for dual and triennial limits, Mr. Chatah agreed with the staff. As he recalled, dual limits were products of the compromise in 1984 when agreement on access limits had proved difficult to achieve. To the extent that dual limits made access policy less transparent, it was open to question whether they had not outlived their usefulness. As for the triennial limits, as long as they were proportional to the annual limits, they were redundant and could be done away with without any loss.

In the paper on Fund liquidity, the staff raised the possibility of substituting ordinary resources for borrowed resources after credit lines were fully drawn upon, Mr. Chatah recalled; he had an open mind on that matter. However, before considering the issue, including possible amendments to existing decisions in order to allow the rate of charge and repurchase periods to be set as suggested by the staff, he would like to see a fuller analysis of the implications of alternative courses of action.

Finally, he could go along with the staff's recommendations regarding access to the buffer stock financing facility, Mr. Chatah concluded.

Mr. Ghasimi made the following statement:

> The external position of many developing countries remains difficult and very sensitive to the volatility of the external environment. These countries continue to face heavy debt-service burdens, rising interest rates, reduced capital inflows, and persistence of protectionist pressures in industrial countries. Furthermore, it is now well recognized that resumption of normal and voluntary financial relations between creditors and debtors will take a long time to restore, even for those countries pursuing strong adjustment programs.
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> In these circumstances, it is all the more important that the Fund go beyond its traditional catalytic function and play a more leading financial role. This transition will allow the Fund to discharge its responsibilities in facilitating external adjustment among members facing large external imbalances, and in fostering a cooperative solution to the debt problem. If the Fund continues to act as a catalyst as it has done in the past, it would expect commercial banks and other private institutions to provide resources for the balance of payments of developing countries, but past trends reveal a reluctance of the private sector to provide the necessary resources for developing countries. It therefore remains a question whether the Fund should continue to serve only a catalytic role or begin to enhance its role in providing the necessary resources for adjustment.
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> It is against this background that we should assess the prospects for the external position of developing countries, as well as the need and size of the Fund's support, particularly for members vigorously pursuing strong adjustment programs.
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> We continue to believe that in conducting its financial operations, the Fund should reply primarily on quotas, and that recourse to borrowed resources should be the exception rather than the rule. On the other hand, and in order to reinforce the Fund's role in the financing of adjustment programs of developing countries facing large external imbalances and financing requirements, it is critical to maintain the enlarged access policy and effectively implement the current access limits for 1990, including where warranted recourse to the exceptional circumstances clause.

In supporting the continuation of the enlarged access policy, we were guided by the emphasis that the staff has put on the need for resources and liquidity considerations. These considerations remain, since both external imbalances and financing requirements are large relative to quotas. We, therefore, believe that reliance on ordinary resources alone would not be sufficient and that the enlarged access policy needs to be renewed.

In the meantime, we hope that the Board will act promptly in agreeing on a substantial increase in quotas so as to enable the Fund to perform its required role properly and effectively. However, if quotas are not raised significantly, use of borrowed resources would need to continue even after the Ninth Review.

It goes without saying that any reduction in access limits, even as a symbolic gesture to emphasize the temporary character of the enlarged access policy, would send a wrong signal to the international financial community about the Fund's ability to play a leading role in the revitalization of the debt strategy. In this regard, it is evident that the success of the Fund's involvement in the debt strategy will be critically dependent on the size of its support to countries engaging in debt and debt-service reduction operations. This is another argument in favor of maintaining present access limits.

As far as the Fund's liquidity is concerned, it remains satisfactory and sufficiently strong to accommodate the potential use of resources, including those under the revitalized debt strategy, through 1990.

Finally, we can support the staff's proposal to maintain the current access limit for the buffer stock financing facility.

Mr. Fernando made the following statement:

We agree with those Directors and the staff who propose that we recommend to the Interim Committee that the access limits for 1990 should be at least maintained at the current levels, and that access limits could be reviewed in the light of the outcome of the Ninth General Review of Quotas.

At this stage, we dare not prejudge the outcome of the quota review--not the overall increase, not its distribution, and not even its timing. But it would not be premature to mention some concerns. In general, if the overall increase is inadequate to meet the evolving role of the Fund, or if the equiproportional element is too small, we may have to seek an enhancement of the limits at the time of the next review of access limits. Most Directors have already indicated the need for a substantial quota increase, while this chair and some others have drawn attention to the particular inequities in the quota formulas that justify a large equiproportional element in the distribution.

It is pertinent to mention that whatever the final outcome of the Ninth Review of Quotas, if it appears likely that it will be delayed beyond this year, we would need to consider the adequacy of the present limits. These limits have been held constant for well over three years and thus their real value has declined. The staff papers on the SDR question considered at the previous meeting (EBM/89/111, 8/28/89) have clearly shown that the vulnerability of developing countries with balance of payments problems has increased.

At the behest of the Interim Committee, we have further developed many policies, such as the revitalization of the extended Fund facility, Fund support for debt and debt-service reduction, and contingency financing, which have all sought to meet the balance of payments needs arising from stronger adjustment and structural reform policies. If the economic rationale and the spirit behind these developments are reflected in actual policy implementation, one could expect actual access levels to increase over the coming months. Indeed, if this is not the case, then other partners that are expected to cooperate in the adjustment programs, such as the commercial banks, are not likely to take up their share of the burden.

Actual average access data leave no doubt as to the cautious approach of the staff in implementing the guidelines. We do not need to elaborate on the multifaceted criteria for actual access as the recent data are quite revealing in themselves. As to the argument that the exceptional circumstances clause in the guidelines on access limit can take care of those instances in which an unusually large access level is called for, this would provide for a much greater subjective element in the policy than under a quantitatively expressed clear policy. In any event, we have yet to codify the "exceptional circumstances." Hence, we are not persuaded by the wisdom or even the practicality of this argument.

Finally, our views on the maintenance of access limits for 1990 include the buffer stock financing policy. In supporting those proposals we have noted that the Fund's present and prospective liquidity position remains supportable.

Mr. Pétursson made the following statement:

The economic background as well as other circumstances relevant to the topics for review today have remained practically unchanged since our last discussion on the subject. Furthermore, some of the issues with a close bearing on the enlarged access policy have recently been extensively discussed. As we basically endorse the staff's views, I will make only a few points.

My authorities can support the maintenance of the enlarged access policy, including present access limits, for 1990 or until the conclusion of the Ninth General Review of Quotas. The size of the quota increase and the quota distribution to be agreed upon will determine the extent to which the enlarged access policy can in fact be phased out.

A gradual reduction of the access limits before the conclusion of the quota review could negatively signal to the financial community hesitation on the part of the Fund to participate in the implementation of the revised debt strategy. Moreover, this could be perceived as an indication of a withdrawal from the Fund's present role as a provider of resources on its own account. Conversely, maintaining the limits would not imply willingness to increase the Fund's own exposure as compensation for the shortfall from other, commercial or noncommercial, sources, but rather would allow the Fund to be flexible in its lending policy.

We are also of the opinion that the present access limits are wide enough to enable the Fund, in normal circumstances, to participate in debt and debt-service reduction schemes--in accordance with the agreed guidelines on Fund involvement in the debt strategy--without having to resort to the exceptional circumstances clause.

We can, furthermore, agree that the access limits under the buffer stock financing facility should remain unchanged.

Since the early 1980s, access--in absolute terms--has remained roughly unchanged, thanks to the enlarged access policy. During this decade, the Fund has pursued a flexible and cautious lending policy that has left average access--in terms of quota--substantially lower than the access limits would permit. We concur with the present guidelines on access, which state that the limits should not be regarded as targets but rather that actual access could, and should--perhaps even more than at present--vary with the circumstances of individual member countries. The main criteria for differentiation in access between countries should continue to be that strong programs warrant larger access than do weak ones.

Finally, with regard to the idea of reviewing the operational usefulness of the system of dual access limits and changing the present decisions on charges and repurchase periods on ordinary versus borrowed resources, we believe that these issues will require comprehensive consideration of the principles involved after the outcome of the quota review is known.

Mr. Evans made the following statement:

I will begin with some comments on the liquidity projections. We are not in a position to second guess the staff's liquidity projections, but some aspects give us concern as to the factors that might be involved in their formulation.

We note that the projection of the end-1990 liquidity ratio has fallen from 93.9 percent as estimated in March of this year to 70.1 percent in May and 62.7 percent now. Yet the March projection was accompanied by a very pessimistic tone and the staff concluded that such a liquidity outlook could raise the need to consider a reduction in access limits. Now the staff believes that by end-1990 a liquidity ratio some 30 percent lower would be broadly satisfactory and would not present a problem for the maintenance of access limits. We accept that latest conclusion; but perhaps the staff would indicate why its assessment of what constitutes inadequate liquidity has changed so much in the past five months.

Given the current impasse on the Ninth General Review of Quotas, we are encouraged that the staff has not ruled out the possibility of further borrowing. Borrowing should continue to be relied upon to deal with eventualities, such as those referred to on page 13 of the paper, to which the staff currently attaches a "very low probability."

Turning to the access limits, given the intended temporary nature of the enlarged access policy, we continue to feel that access limits should be reduced when circumstances permit. We accept that it would be expedient to leave access limits unchanged for the time being until the policy is reviewed in the wake of the quota review outcome.

With a view to giving the staff some guidance for that subsequent review, I would like to make the following preliminary comments regarding the possibility of dispensing with the two-tier system. There is something to be said, in principle, for the current arrangement insofar as it provides some greater guidance to both staff and the Board in determining the appropriate level of access in specific cases. But I doubt whether the criteria for application of the upper limit has ever been met in practice: I note, in particular, the requirement that the Fund be convinced that a "quick and durable" improvement in the member's external position can be expected.

I suspect therefore that a unified access limit set at a lower level (e.g., 75-80 percent of quota per annum) and involving clear and workable criteria for the application of the "exceptional circumstances" clause would better preserve the integrity of these guidelines.

Mr. Obame made the following statement:

The considerations that led to the adoption of the enlarged access policy eight years ago still prevail. Indeed, as indicated in the staff paper on access limits, the world economic environment is not expected to improve significantly in 1990. As a result, many members, and in particular developing countries, are likely to continue to experience payments imbalances that are large relative to their quotas. Moreover, their access to capital markets remains uncertain as commercial banks are becoming more and more reluctant to increase their exposure in these countries.

In such circumstances, not only should the enlarged access policy continue, but also, the Fund has to be more prepared to play a meaningful catalytic role in assisting its member countries to overcome their economic and financial problems. In this context, we agree with the staff that member countries, in particular those implementing comprehensive growth-oriented structural reforms and making every effort to reduce their debt overhang, need to have access to adequate financing from the Fund in support of their adjustment efforts.

Regarding the level of access to Fund resources, there is a clear justification from the staff analysis for increasing the present access limits. But, like other Directors, we can go along with the staff's recommendations to maintain the present access limits as a transitional step until the completion of the Ninth Review of Quotas. It is also our strong view that any scaling down of access limits at the present time could send a wrong message to the international community and undermine the Fund's role in the context of the debt strategy currently under way.

As to access in individual cases, we agree with the staff that flexibility in the application of the guidelines should be preserved. In the same vein, we also support the conclusions of the staff paper on access limits for the buffer stock financing facility.

Turning to the staff paper on the Fund's liquidity position, the staff estimates of the Fund's liquidity position through end-1990 seems to be broadly appropriate, but problems could arise in the medium term. Therefore, and considering the persistence of large external imbalances and the financial requirements of developing countries as well as the necessity of strengthening the Fund's own resources, we see an urgent need for a substantial increase under the Ninth General Review of Quotas. My authorities are very much concerned about the delay in reaching a consensus on this issue and they hope that such a consensus will soon emerge among us to enable the Managing Director to make a concrete recommendation to the Interim Committee.

Mr. Filosa made the following statement:

Let me say at the outset that I find it appropriate to maintain access limits until the review of quotas is concluded. From the staff paper, I conclude that in view of the present and prospective circumstances of the world economy, we should not reduce access if the Fund is to continue to play a central role in the adjustment process and to provide access in adequate amounts to members with balance of payments difficulties.

The relevant information is, in the first place, that average access as a percentage of quota has substantially increased from 38 percent in 1987 to 58 percent in the first half of this year.

Second, the aggregate deficit on goods and services and private transfers is projected to increase in 1990. This increase is particularly pronounced for non-fuel exporters, for whom the deficit is expected to quadruple from the 1988 figure.

Third, new commitments of Fund resources have decidedly increased this year to a figure that is 3.5 times the figure for 1988.

Fourth, it could be reasonably expected that as a consequence of the role that the Fund is supposed--and I would say is requested--to play in the debt strategy, access in the first year of arrangements would tend to increase. The reference here is also to the possibility of an acceleration of disbursement to permit the prompt and satisfactory conclusion of debt and debt-service reduction negotiations.

Therefore, looking at the demand side of the problem, I cannot but conclude that members will continue to need resources that will be larger than their present quotas, particularly in the first year of arrangements with the Fund.

However, this neither implies that access limits should remain at the present level, nor that a decision should be taken today. It seems to me that we should not take a decision today because we have not yet reached a decision on any of the elements of the supply side of the determination of access limits--namely, the size of the quota increase, its distribution among members, the reduction in borrowing, and the appropriate liquidity of the Fund. I therefore believe that a decision on access limits should be taken immediately after the conclusion of the review of the Ninth General Review or at the time of a decision on the quota increase. In the meantime, obviously, current access limits should be maintained.

Finally, I support the staff proposal to maintain the buffer stock financing facility's access limits.

On the liquidity issue, the staff paper projects that for this year and the next, liquidity will be satisfactory. However, I note that the liquidity ratio is projected to be almost halved from the level reached in the early months of 1989. This is not a positive development; a large share of the Fund's liquidity might disappear because of the balance of payments situation of some countries. Therefore, I am a bit less optimistic than the staff. It seems that the situation should be carefully monitored, particularly if, as was alluded to some days ago, the figure for commitments underestimated the most recent developments. In this respect, I would like to hear from the staff whether a further deterioration of liquidity over and above the one projected in the paper is expected.

Mr. Fernández Ordóñez noted that the review of the enlarged access policy for 1990 was directly linked to ongoing discussions of the role of the Fund in the 1990s and of the Ninth Review of Quotas, which still remained unsettled. Until there was a definitive outcome of the quota review the only way for the Fund to continue playing a central role in the international monetary system was by maintaining current access limits or even increasing them. The objective of phasing out the enlarged access policy could only be attained when Fund quotas were realigned with the actual size of payments imbalances.

The outlook for payments imbalances in some member countries was as grim as it had been in 1989, Mr. Fernández Ordóñez noted, particularly for non-fuel exporting developing countries. The Fund's emphasis on the adoption of structural reform measures in adjustment programs required support in larger amounts and over longer periods, and the design of growth-oriented adjustment programs required sufficient flexibility, which only an adequate amount of financial support could provide. The Fund's involvement in the debt strategy and debt reduction operations warranted the greatest possible use of access. External financing from commercial sources remained difficult for some countries and the prospects for the near future were no better than they had been at the time of the previous review of access limits.

An adequate amount of access provided member countries that had undertaken intensive adjustment programs and had foregone many years of growth an incentive to persevere in their efforts, Mr. Fernández Ordóñez said, and it also gave private creditors, who were being asked to share the burden of adjustment with debtor countries, the signal that the international financial community was participating actively. Finally, the overall uncertainties that remained in the external environment required an augmentation of the precautionary balances that countries could count on, as well as the prudent application by management and the Board of the criteria by which the Fund determined the effective access of member countries.

For the above reasons, as well as those put forth by the staff in its paper, his chair supported maintaining the current access limits, Mr. Fernández Ordóñez concluded.

Mr. Nimatallah said that he, too, agreed that access limits should be maintained, for two reasons--on the demand side, and on the supply side of liquidity.

Turning to the paper on liquidity, Mr. Nimatallah remarked that the paper tended to exaggerate the demands on the resources of the Fund, which over the years the staff had exaggerated by about 40 percent. While there was nothing wrong with being cautious, he found the staff excessively so. For example, the staff wrote that: "total Fund liabilities are projected to rise to SDR 30.0 billion by end-1990 due to an increase of SDR 3.3 billion in total reserve tranche positions...." It was not clear to him why that was expected to happen, but he presumed that when it did happen, the Fund's liquidity would increase. If that was so, why did the staff plan to set aside for the little time left of 1989 and for 1990 SDR 1.5 billion to meet reserve tranche purchases? At the same time, the staff indicated that for 1987, 1988, and 1989 only SDR 0.5 billion worth of reserve tranche purchases had been made. There appeared to be a lack of consistency in the calculations. As for the commitment of resources, which he also considered to be overestimated, half of those commitments would come from ordinary resources. If he added all the exaggerations together, more than the SDR 18.8 billion predicted by the staff would be available in uncommitted usable resources. With that abundance of liquidity, access limits could be left safely where they were, to be reviewed again when the quota increase was in place.

Mr. Shao indicated that his chair was of the view that the Fund should continue to play a central role in the adjustment efforts of its member countries. As outlined in the staff papers, the financial needs of many members were likely to remain large in relation to their quotas. At the same time, it was also acknowledged that the access of many members to commercial capital markets remained uncertain. The Fund had recently undertaken to support debt or debt-service reduction operations in the context of great adjustment efforts by some members, which would certainly increase the demand for Fund resources. Therefore, he considered that in the present circumstances, the policy on enlarged access and access limits for 1990 should be maintained until reviewed in the light of the outcome of the Ninth General Review of Quotas.

He also agreed with the staff's analysis that the Fund's liquidity position was expected to be satisfactory over the period immediately ahead, and that the Fund's resources were adequate to accommodate the present projected demand for resources through the end of 1990, including demand under the strengthened debt strategy. The Fund's liquidity could surely meet the proposed maintenance of the enlarged access limits.

Mr. Posthumus made the following statement:

> The last sentence of the staff paper on access limits for 1990 ends as follows: "...and thus the Fund's liquidity does not present a problem for the proposed maintenance of access limits." The last sentence of the paper on the Fund's liquidity adds: "In view of the uncertainties in the projections, the staff intends to monitor closely developments in the Fund's liquidity position and would report to the Executive Board if there were any significant changes."
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> Such changes might put the Board in an awkward position. If the demand for resources proves substantially greater than projected, and if we continue to approve arrangements with very high access in response to that demand, then an unexpected deterioration of the supply of usable resources might precipitate a much sharper drop in liquidity than the 62 percent now estimated by the end of 1990. Not only external causes may lead to such a drop, but also the Fund's own policies, approved or to be approved by the Board. Of course, the Board may hope that governments will decide on a quota increase and that it will be substantial; or we may decide to borrow again if it is not; or we may count on industrial countries not drawing in their reserve tranches; but none of this is certain. We may then allow liquidity to drop further. But we should have reasonable certainty that we can improve it again, which, if a large part of the coming increase of lending is in the form of extended credits, may be an illusion.
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> The intended policies mean that we take an advance on the quota increase, which takes two forms. One is that we take an advance on the quota subscriptions that we hope will be made and/or on loans that still have to be concluded. The other form that the advance takes is that we assume high access, in particular through allowing a commitment gap to arise and to increase further from now on. Here again, the staff paper on liquidity is quite clear--in certain circumstances the Fund

would need to consider the establishment of a new policy regarding access. This might happen early in 1991, unless some developments occur in terms of quota increases or new borrowing.

It certainly would have been prudent to prevent a commitment gap from arising at all, at least until the Executive Board knows what Governors will decide on the Ninth Review of Quotas. I propose that we discuss the situation again as soon as we know what the quota increase may be, or before the end of the year. In the meantime, I would urge caution in forthcoming decisions on new programs, and would suggest that we limit access or limit the number of extended facility programs; this is the one and only factor in the list of significant changes that I cited in the beginning of my intervention that is subject to decision by the Board; all the others are outside our competence.

In addition, if the intention is to take a decision today--which I would rather not do--it should be possible to limit overall maximum access under the enlarged access policy, for example, to 400 percent, the lower of the current two limits, thus abolishing the two-tier system. I do not really buy the argument that a reduction in access limits might undermine the Fund's flexibility, in particular in view of its role in support of debt and debt-service reduction operations, as the staff writes. Such arguments deny the temporary character of the decision. Also, the flexibility that is being sought strengthens the negotiating position of the banks.

Suggestions that we decide already on using ordinary resources for purchases that are expected to be financed with borrowed resources imply that we decide already on access policies for the period after the Ninth Quota Review has been concluded. Such a decision, however, can and should be taken after the Ninth Quota Review, and in light of that review.

Finally, I support the proposal to maintain access limits under the buffer stock facility, if such a decision has to be taken today.

Mr. Feldman made the following statement:

We agree with the staff analysis and are in favor of maintaining the current access limits for 1990, or until these policies are reviewed in light of the outcome of the Ninth Review of Quotas. We also support the maintenance of the access limits for the buffer stock financing facility. As we have indicated in the context of the quota discussions, it is of crucial importance for the countries of my constituency to at least maintain existing access levels. In this regard, once a decision on the quota increase and on borrowing is adopted, we see the need to reconsider access policy, in order to avoid any deterioration of access levels for the potential and real users of Fund resources. This could also be an opportunity to reassess the operational usefulness of the system of dual limits.

In relation to the review of the Fund's liquidity, we have noted that the current and prospective situation remains satisfactory, and should not inhibit the continuation of the enlarged access policy.

Regarding the policy on borrowed resources, I have two brief comments. First, the staff paper mentions that there does not seem to be an immediate prospect of further borrowing by the Fund to cover the emerging "commitment gap." But then it states that the eventual arrangement of further lines of credit is not precluded; perhaps the staff can clarify how this can be reconciled with the intention to reduce the Fund's reliance on borrowing.

Second, we concur with the idea of disbursing borrowed resources until the credit lines are fully utilized, and using thereafter ordinary resources for the proportion of the purchases expected to be financed with borrowed resources. On the other hand, and though we are not facing a decision today, we think that the terms for use of ordinary resources should continue to apply also to disbursements of ordinary resources substituting for borrowed resources, since there is no cost of borrowed resources involved. We feel that this alternative would provide for a more reasonable transition until the increase in quotas takes place. The multiple effects that the decision on quotas will have on the different aspects of the Fund's operations are, in our view, a further reason to have a prompt decision on this matter.

Finally, let me express my disappointment at the extremely low degree of utilization projected for the contingency element of the compensatory and contingency financing facility. I suspect this is more related to the intricacies of the facility than to the fact that developing countries were recently less subject to adverse external shocks.

The Deputy Treasurer said that while the staff did not regard its calculations on liquidity as being overly conservative, it had presented the background to those calculations to the Board so that Directors could draw their own conclusions. The liquidity ratio was currently higher than it had been during the Eighth Review, and most likely also for the Sixth and Seventh Reviews, although the staff had not checked those figures. Traditionally, a deterioration in the liquidity ratio could be expected toward the end of a quota review, and while that deterioration had been delayed somewhat, it was currently taking place. The high liquidity ratio should be interpreted as reflecting not the size of the upcoming quota increase, but rather the high variability of such a ratio. Mr. Enoch had correctly stressed the uncertainty of the liquidity ratio, and the staff would be very concerned if there were a radical departure from the long-run average for an extended period of time.

On the estimated demand for interest support operations, the Deputy Treasurer indicated that while the staff paper had set a figure of $1 billion, on the basis of current data that figure should be $1.2 billion, reflecting the intentions of four countries to request interest support. There was also a somewhat longer list of countries expected to request use of Fund resources for interest support operations in 1990, which would increase the estimate in the staff paper of $600 million to $1.2 billion.

The point had been raised by Mr. Evans that while the staff had considered liquidity five months previously to be questionable, now that the liquidity ratio was 50 percent lower, the staff considered the level high enough to accommodate the enlarged access policy at current access limits, the Deputy Treasurer recalled. Mr. Evans had asked what constituted an acceptable level of liquidity. In March 1989, the staff had had clear indications that there would be a commitment gap, with the Fund running out of borrowed resources fairly soon. It was only after further assessment that it seemed reasonable to propose a substitution of borrowed resources with ordinary resources. That solution could be accommodated under the present liquidity situation.

Staff predictions of commitments were based on the probability of potential members drawing on resources in 1990, the Deputy Treasurer indicated. The paper had suggested that the aggregate amount of maximum possible requests from countries in support of adjustment programs would be $18 billion, with probable commitments being $7 billion. On present indications, the staff would currently increase that probable commitment level to $9 billion or $10 billion. That estimate would be more accurate after the Annual Meetings had taken place, at which time extensive discussions with various authorities would have taken place. In addition, as he had mentioned, the expected disbursements for interest support had increased, which meant that Mr. Filosa's suggestion that total commitments were somewhat underestimated was accurate.

The staff had estimated use of reserve tranches on the high side--at $0.5 billion for the balance of 1989 and at $1.0 billion for 1990--because 60 percent of the list of countries whose currencies were in the operational budget were in significant current account deficit. It was very possible that one or two of those countries could find themselves in need of using their reserve tranche, so that those assets had to be readily available. While it was true that reserve tranche drawings would not increase the total of reserve tranche positions, the staff did expect a rise in total reserve tranche positions, as noted by Mr. Nimatallah, and that for two reasons. First, the Fund would be making very large repayments of borrowing out of its ordinary resources later in 1989--$1.6 billion, of which $1.2 billion would be paid to the Saudi Arabian Monetary Authority. Second, the increase in demand for Fund credit meant that if all countries kept their programs on track, gross disbursements would increase. Accordingly, the expectations of an increase in reserve tranche drawings and of an increase in reserve tranche positions were not inconsistent.

Mr. Nimatallah remarked that he considered that the staff had exaggerated the estimates of the demand for Fund resources. In general, he did not feel that the staff's presentation clearly set out the various components of that demand.

The Chairman pointed out that the presentation as set out in the staff paper was the product of the procedures of the Treasurer's Department as developed over many years. While Mr. Nimatallah considered that the staff had been overly conservative, he would note that other Directors had in fact suggested the opposite.

The Deputy Treasurer reiterated that the estimate of the demand for interest support was based on the fact that four countries intended to request resources for that purpose. While the staff could not judge whether the Board would agree to those requests, the estimates of the Treasurer's Department were based on close consultation with the area departments on the likely intentions of each member. In terms of the commitments, the staff had presented the total potential requests from countries' commitments for 1990, and had scaled down the $18 billion gross to $7 billion on a probability-weighted basis, with present probability indications increasing the latter figure somewhat. The staff could do no more than put forward the total figures to the Executive Board for it to make a judgment. In the past, discussions with some countries that had been expected to make a request for a new arrangement had stalled, at which point those countries were dropped from the potential list. A review of the potential drawings was made every six months, with additional updates being made when significant changes occurred. The staff was only putting forward very early predictions of what might develop; if the Board considered that those predictions were exaggerated, at least it had the data necessary on which to base that judgment.

The Chairman remarked that everyone had in mind the quota review exercise, and the positions of Directors on the accuracy of the liquidity estimates reflected their positions on the quota increase discussion. However, he would remind the Board that the Fund had to preserve its monetary character, which required a certain discipline in the calculation of the liquidity ratio. He would welcome precise suggestions on how to arrive at more accurate calculations, as long as the liquidity of central bank claims on the Fund was not adversely affected. The relationship of the Fund with central banks could not be placed at risk in exchange for a higher quota increase.

Mr. Posthumus said that in view of the monetary character of the Fund, the staff was well advised to err on the side of caution in making its estimates.

The Deputy Treasurer recalled Mr. Feldman's point that the Interim Committee's view that the Fund should reduce its reliance on borrowing appeared to be incompatible with the staff's statement that, although it did not currently foresee further borrowing, it could not be precluded. The Interim Committee had made the point to the Board of Governors in the form of a list of issues that should be taken into account when deciding on the Ninth General Review of Quotas. However, the staff paper had been written in the context of the requirement by the policy on enlarged access that the resources used to provide enlarged access be a mix of borrowed and ordinary resources. Since the Fund was running out of borrowed resources, the staff felt that there was little prospect of borrowing at the current time and had so raised for further consideration an alternative to financing the policy on enlarged access.

A number of Directors had wondered whether a decision was necessary at the current meeting on the substitution of ordinary for borrowed resources as suggested by the staff, the Deputy Treasurer noted. In fact, the staff had merely been presenting the idea to the Board; a decision would not have to be taken until the substitution was actually made, which was not expected until 1991. When the substitution took place, it would be possible to set the rate of charge for ordinary resources that were substituting for borrowed resources at the same level as that for ordinary resources in general. In due course, the Board would have to reach the decision, with a 70 percent majority. However, the staff had two reasons for suggesting the substitution on the same terms as for borrowed resources. First, there was already a precedent in the Fund for early repayment of borrowed resources with ordinary resources, in which case the substitution was made on the same terms as the borrowed resources that were being replaced. Second, as each of the commitments would include a fairly large amount of borrowed resources, it seemed only reasonable to continue the same balance of costs between borrowed and ordinary resources, purely on the basis of equity.

Mr. Enoch remarked that the liquidity projections seemed to be an aggregation of all possible requests, even those in an early stage, with each request being calculated at the maximum possible amount. There appeared to be several layers of prudence built into the calculations, which seemed somewhat excessive. The more transparent those layers were made in the staff papers, the better.

The Deputy Director of the Exchange and Trade Relations Department noted that estimating the demand side of commitments necessitated substantial judgment as to the probability of an arrangement being agreed. The estimates of requests for resources were done on a country-by-country basis through individual submissions and only then were they aggregated. The pattern of projected deficits among potential user countries did not suggest a change in the pattern of requests for resources among countries.

In the current exercise, two other uncertainties also were relevant, the Deputy Director indicated. First, the potential use of resources for interest support was difficult to estimate. The staff based its calculations on the set of guidelines for eligibility of countries for interest support, looking at individual countries' situations to decide on their eligibility, together with discussions with the authorities in certain cases. Before the views of the Board and the wishes of particular countries were clear, the staff tended toward prudence. Second, on the use of the contingency mechanism, the limited use of that element of the compensatory and contingency financing facility had led to a call for a review of the facility, for which the staff was in the process of preparing. The staff was developing ideas to make use of the facility more attractive to the user countries, but of course was not sure what conclusions the Board would reach or how the appeal of the facility might develop, thus leading the staff to exercise prudence once again.

He questioned whether the staff's goal should be that the projection of requests for resources be approximately equal to the actual outturn over the course of time, the Deputy Director continued. Such an aim could have negative implications for the operation of a monetary institution that had to stand ready to service uncertain needs.

The Board had originally resisted a firm definition as to which countries were to be bound by which limits under the dual access limit system, the Deputy Director recalled. The rationale for the system was clear--to ensure that small countries receiving lower than average quota increases did not have their access reduced. The Board had stressed that use of resources above the upper limit would be considered exceptional. Operationally, such exceptions had not become an issue until the 40 percent augmentation for interest payment support had been raised as a possibility in May 1989.

On the question of whether or not access was high in individual cases, the Deputy Director agreed that access had indeed been increasing, as certain Directors had suggested. Assessment of the access being proposed for a particular arrangement had been made based on the need of the country, the strength of the program, and the country's record, as reviewed in Appendix II to the staff paper on access limits for 1990 (EBS/89/152). Each arrangement seemed to have been approved by the Board without substantive challenge to the access being proposed, so that the staff had not investigated in any depth the factors determining access limits. There was a presumption that the Fund ought to continue to perform a catalytic function, as reflected in the fact that the ratio of Fund financing to the gross financing requirement of countries ranged from about 3 percent to a maximum of about 20 percent, while in most cases it was below 10 percent.

The possible claims by any one of the members in the International Natural Rubber Agreement, as referred to in the paper on the review of access limits under the buffer stock financing facility (EBS/89/151), could indeed be accommodated under the 40 percent access limit, the Deputy Director of the Exchange and Trade Relations Department confirmed.

The Chairman proposed that the staff prepare a brief paper setting out the working methods behind each table in calculating liquidity forecasts. The procedures used by the staff of the Treasurer's Department were the product of a long process of refinement over time, and their legitimacy should be made clear to Directors and national authorities.

The Chairman then made the following summing up:

In today's preliminary discussion, the Executive Board agreed to recommend to the Interim Committee that the policy on enlarged access and the existing access limits should be maintained for 1990. The Board would, of course, need to take a formal decision on these issues, as well as on the access limits for the buffer stock financing facility, before the end of this year.

Executive Directors noted that in spite of adjustment efforts, the aggregate current account deficit of developing countries was projected to deteriorate somewhat, and that their aggregate gross financing needs were expected to remain large in 1990. Many of those countries were unlikely to have adequate access to financing from the capital markets in 1990. Directors agreed that many members were likely to need the Fund's balance of payments assistance in support of growth-oriented adjustment efforts. Moreover, since the financing requirements of many members were expected to be large relative to their quotas, Directors were of the view that the maintenance of the existing access limits under this policy for 1990 would be necessary to enable the Fund to provide adequate financial support for members with strong adjustment efforts, including efforts to address their debt problems.

A number of Directors stressed the temporary nature of the policy on enlarged access, and emphasized that ordinary resources derived from quota subscriptions should provide the necessary resource base for the Fund's lending activities. Also, a number of Directors again emphasized that access limits should not be viewed as targets or entitlements. In this context, Directors endorsed the continuation of a flexible but prudent application of the guidelines on access in individual cases. Several Directors noted that the existing limits should generally provide sufficient scope for additional resources that might be made available by the Fund for interest support in connection with a member's debt and debt-service reduction operations, and that in exceptional circumstances, the Fund could decide to provide access to Fund resources over and above these limits. A few Directors believed that the cumulative limit could be reduced.

Directors agreed that the policy on enlarged access and the related issues, including the access limits, would need to be reviewed in light of the outcome of the Ninth Review of Quotas. Such a review would be completed in advance of the date on which the new quotas would become effective.

While a few Directors were more optimistic than the staff on the Fund's present and prospective liquidity position, some others expressed a clear note of caution on the prospects for liquidity. Nevertheless, the Board in its majority agreed that the Fund's present and prospective liquidity position was satisfactory for the continuation of the present access limits for 1990. The management and staff will, of course, monitor and report any significant changes in this area to the Executive Board.

Directors noted that all existing lines of credit arranged to finance purchases under the policy on enlarged access were currently fully committed, but that available borrowed resources were projected to be sufficient to meet disbursements of Board resources under the enlarged access policy through early 1991. Directors agreed that in the meantime the Fund would continue to make commitments under the present mix of resources. The staff will propose in due course for Board consideration the financial modalities regarding ordinary resources employed to finance the remaining commitments under the enlarged access policy once borrowed resources are no longer available. The issues arising after all borrowed resources have been disbursed should be considered in the context of the Fund's policy on access in light of the outcome of the Ninth Review of Quotas.

Finally, the Board agreed that the current access limits under the buffer stock financing facility could be maintained for 1990 until reviewed in light of the outcome of the Ninth Review of Quotas.

APPROVED: April 12, 1990

LEO VAN HOUTVEN
Secretary