

INTERNATIONAL MONETARY FUND

Review of Access Policy in the Credit Tranches and under the Extended Fund Facility

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

In consultation with other departments

Approved by Jack Boorman and Eduard Brau

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I. INTRODUCTION

1. **The purpose of this paper is to review the Fund's access policy.**

those policies of the Fund that affect the amount of Fund support granted to members—is a complement to those policies that determine the terms and modalities of Fund financing, and, like the latter, requires review in light of the evolution of the world economy in recent years. The Fund conducted a comprehensive review of the *terms and modalities* of its facilities in the General Resources Account (GRA) (the “review of Fund facilities”) during 2000, and adopted a package of measures designed to adapt these better to the evolving world environment. At the same time, many of the changes in the world economy that motivated that review will also affect the *amount* of financing the Fund should be providing, and many fundamental questions have arisen in this regard over the course of the last few years. The paper examines the main components of access policy: the criteria for access in individual cases, the structure of access limits, and the limits themselves. While the paper is primarily concerned with access in the credit tranches and under the Extended Fund Facility, access to GRA resources through other facilities and policies (SRF, CCL, CFF and Emergency Assistance) are also touched upon. The paper does not, however, examine access policy under the Poverty Reduction and Growth (PRGF) facility, except peripherally.

2. **The scope of the current review goes beyond that of the usual annual review of access limits, but it focuses mainly on “normal access” cases—those arrangements for which access has been within the limits.** The paper brings new information to bear on the existing practice and discusses the appropriateness of the access criteria and access limits. It tries to answer the following questions. Do the criteria for access in individual cases set down by the Board in 1983 remain valid and are they being followed? Does the system of access limits continue to serve the Fund's needs, and are the considerations used in setting the limits the right ones? Are the current access limits appropriate or should they be changed?

3. **Consideration of issues relating to access for the large, capital-account crisis cases will need to be taken up in a later discussion.** While access considerably beyond the limits has been provided in these cases, the modality for future decisions is likely to depend heavily on what contribution can, and should, be expected from the private sector. Bearing in mind the continuing discussions in the Board on Private Sector Involvement (PSI), the staff believes that an effort to provide a full treatment of these issues at this stage would result in a further delay of the review of access policy. This paper therefore considers narrower issues where the ground is better prepared, with the aim of completing the required access review and making progress in policy discussions on the access limits and on the criteria for access in individual cases within the limits. However, access policy in the capital account crisis cases raises critical questions, some of which could, potentially at least, impinge on decisions on access in cases subject to the system of access limits. Staff therefore proposes that the decisions reached at this stage remain relatively narrow and tentative pending the later discussions on the high-access policy.

4. **The structure of the paper is as follows.** *Chapter II* examines the criteria for access in individual cases which were agreed by the Board in 1983: the member's need for Fund resources, the member's capacity to service its indebtedness to the Fund, its outstanding use of Fund resources and its record in using Fund resources in the past. It concludes that these criteria remain broadly appropriate. *Chapter III* examines the system of annual and cumulative access limits and makes a case for supplementing the limits with an explicit annual access norm, while encouraging variance around this norm based on the criteria for access in individual cases. The chapter also makes some suggestions on the methodology for considering future changes in the access limits and norm. *Chapter IV* makes proposals on the access limits and norm, proposing that for the remainder of 2001 and 2002 the annual limit be left unchanged at 100 percent of quota, the cumulative limit remain at 300 percent of quota and the proposed annual access norm be set at 50 percent of quota.

5. **Additional material and analysis is contained in the accompanying background paper.** After a brief introduction, Chapter II of the background paper describes the history of and rationale for access limits, to provide context for the current review. Chapter III describes the application of access policy in 2000 (since the last Board review of the access limits) and during the period since 1994 (when the current access limits were set), and uses simple econometric analysis to assess how the criteria for access have been followed in practice in recent years. Chapter IV addresses the question of whether the financing from the Fund and other creditors projected in Fund arrangements has materialized and if it has been sufficient to finance adjustment programs. Chapter V sets out the latest WEO projections of gross financing need for borrowing members and describes the current and prospective liquidity position of the Fund. Chapter VI gives an account of access in the recent capital account cases. Annex 1 assesses the impact of higher oil prices on potential financing needs under different scenarios.

II. THE CRITERIA FOR ACCESS IN INDIVIDUAL CASES

6. **The current criteria governing the choice of access amounts in individual cases in the credit tranches and under the EFF were agreed by the Board in 1983 (see Box 1).** Prior to 1983 the only formal guidelines on access in individual cases were the statement in the Articles that the Fund could waive at its discretion the limit of 200 percent of quota on the Fund's holdings of a member's currency (which implied a limit of 100 percent of quota on cumulative access unless a waiver of that limitation was approved) "especially in the case of members with a record of avoiding large or continuous use of the Fund's general resources", and the provisions of the enlarged access policy, which identified the member's need and the strength of the adjustment program as the "major guiding factors" in setting individual

amounts.¹ The 1983 guidelines were therefore a major step forward in formalizing the criteria for access in individual cases.

Box 1. The 1983 Guidelines on Access in Individual Cases

The current guidelines on access in individual cases are summarized in the following excerpt from EBS/83/233 (Selected Decisions, twenty-fifth issue, page 214).

“The considerations that need to be taken into account in determining the amount of access in individual arrangements and current practice on access have been discussed in recent staff papers, in particular in EBS/83/132 (6/27/83), and may be briefly recapitulated here. **The first important consideration is the member’s actual or potential need for resources from the Fund**, taking into account other sources of financing and the desirability of maintaining a reasonable level of reserves; in no circumstances can access be greater than this need. **The second important consideration** stems from the need to preserve the revolving character of the resources that the Fund provides, i.e., **the ability of the member to service its indebtedness to the Fund**. In determining the case for Fund support and the amount involved, the timing and extent of the expected improvement in the member’s balance of payments are relevant factors. It follows that adjustment policies in support of which the Fund’s resources are to be used must be designed and implemented in such a manner as to lead to a strengthening of the balance of payments by the time the repurchases begin to fall due and of a sufficient extent to allow the member to make the repurchases without strain. ...**the amount of the member’s outstanding use of Fund credit and its record in using Fund resources in the past must enter into the judgment on the appropriate scale of further use of the Fund.**”

A. The Criteria

7. **The first criterion is the member's actual or potential need for resources from the Fund, taking into account other sources of financing, and the desirability of maintaining a reasonable level of reserves.** This criterion serves to ensure that the Fund’s resources are directed to where they are most needed. When a member makes a request for a purchase of

¹ The 200 percent limit applies to the *total* Fund holdings of a member’s currency, and thus include amounts in the credit tranches, EFF, and other facilities and policies.

the Fund's general resources it must represent that it has a need to make the purchase "because of its balance of payments or its reserve position or developments in its reserves."²

8. **This criterion helps to ensure that the amount of Fund resources made available is related to the overall balance of payments need and takes into account other sources of financing.** The judgment about whether there is a need arising from a member's balance of payments position after appropriate adjustment is determined by reference to the sum of "autonomous transactions" in the balance of payments, i.e. those transactions that are undertaken for their own sake, plus any required increase in reserves. Since autonomous transactions exclude financing for balance of payments purposes, a member may therefore have a balance of payments need and be entitled to use Fund resources even if it has access to other sources of financing which could meet part of this need. However, in setting the *amount* of access to Fund resources in individual cases, the Fund may take into account the member's ability to finance that need from other sources—including its ability to access other official financing and private capital markets.³ Projections of balance of payments need also incorporate the effects on autonomous transactions of adjustment measures which the member is taking, which are generally necessary to secure medium-term viability, and to bring the member to the point where it can repay the Fund without strain. Such measures tend to reduce the immediate need.

9. **The second criterion in the 1983 guidelines is the ability of the member to service its indebtedness to the Fund.** This criterion serves to protect the revolving character of Fund resources. In determining the amount of Fund support, the timing and extent of the expected

² Article V, Section 3 (b) (ii). The legal basis for determining whether a member has a balance of payments need is discussed in detail in "Need as a Condition for the Use of Fund Resources" (SM/94/299, 12/16/94).

³ The 1983 summing up says that "The first important consideration is the member's actual or potential need for resources from the Fund, taking into account other sources of financing...". The availability of other sources of financing is also sometimes taken into account in assessing whether a balance of payments need exists in the legal sense. Some borrowing from the capital markets (for example private sector borrowing and official borrowing undertaken for purposes other than balance of payments support) are autonomous transactions and go to reduce balance of payments need. Moreover, the ability of a member to access international capital markets can have implications for assessments of the adequacy of its reserve position (an alternative justification for use of Fund resources). The 1994 paper on "Need as a Condition for Use of Fund Resources" points out that ready access to capital markets can reduce the need for holding substantial reserves, but also that reliance on such access can increase vulnerability, as it might cease to be available in a crisis. (SM/94/229, pp29-30).

improvement in the member's balance of payments should be taken into account, and so adjustment policies need to be designed and implemented in such a manner as to lead to a strengthening of the balance of payments by the time repurchases begin to fall due of a sufficient extent as to allow the member to make repurchases without strain. The strength of the member's adjustment effort is thus given weight in access proposals because of its effect on capacity to repay (although in practice if there is more adjustment balance of payments need will be smaller, all else being equal). From this it also follows that, in cases where balance of payments problems are due to a short-term shock which is expected to be reversed quickly, the mix of adjustment and financing may lean more toward the latter, since only limited adjustment may be required to assure capacity to repay.

10. **There are also cases where the adjustment which is feasible under an arrangement is not sufficient to assure balance of payments viability,⁴ yet where the Fund can play a useful role in supporting adjustment and catalyzing financing from others.** The 1983 guidelines provide explicitly for moderate access in cases where a single arrangement was not expected to be sufficient, and where the adjustment period would have to stretch beyond three years. In these cases the requirement is to show a significant reduction in balance of payments pressures within a reasonable period, the achievement of balance of payments viability being left to an anticipated successor arrangement. The guidelines also consider cases where the weakness of a member's balance of payments may be such that it is questionable whether a sustainable position not requiring exceptional finance can be achieved over the medium term. In these circumstances, Fund financing on a limited scale was considered to be justified, but the great bulk of the external financing must be provided on appropriate—concessional—terms from sources other than the Fund. To a large extent, the Fund now provides support for such cases through the Poverty Reduction and Growth Facility (PRGF).

11. **The remaining criteria consider the member's outstanding use of Fund credit and the member's record in using Fund resources in the past.** These criteria help to discourage prolonged use by creating a presumption of lower access and stronger adjustment for members that have already used significant amounts of Fund resources. Since a continuing need for Fund resources may result from inadequate adjustment, the member's record in using Fund resources in the past forms part of the access decision. This would be especially the case if the member had experienced difficulty in repaying the Fund in the past. The criterion on outstanding use of Fund credit works together with the cumulative access limit, and is also complementary to the recently-introduced surcharges on the large use of Fund credit. However, track record may in some cases not be as meaningful (for example in cases where there has been a change in government or in the member's circumstances).

⁴ Balance of payments viability is achieved when the member no longer requires exceptional financing to support its balance of payments or reserves position.

Moreover, the risk of non-implementation is more directly dealt with through conditionality and phasing, and track record would also be considered in assessing capacity to repay; thus it is given only limited weight as an independent criterion.⁵

12. **Access under precautionary arrangements has typically been low, consistent with the criteria.**⁶ In the case of precautionary arrangements the balance of payments need is generally potential rather than actual. Its size is therefore unknown, and there is generally no reason to assume that it will be large so long as the policy program is implemented. In addition, if a balance of payments need materializes, it can be from any source, and the right mix of adjustment and financing in response cannot be determined *ex ante*. Moderate access under precautionary arrangements (cumulatively over the course of the arrangement) ensures that only a small shock can be fully financed; a member faced with a large shock would need to request an augmentation of its arrangement, thus affording an opportunity for discussion of the mix of adjustment and financing which is necessary in the member's changed situation. Recently, however, there have been some precautionary arrangements that have involved higher access, on the grounds that if a balance of payments need did arise it would probably be a large one, arising in particular from the drying up of other sources of financing on which the member may be strongly reliant.⁷

13. **There are additional criteria for access under other facilities and policies, but they are largely variations on the basic criteria that apply to the credit tranches and the EFF.**

- **Access under the CFF is primarily a function of the magnitude of the relevant shock** (export shortfall or cereal import excess), which serves as a measure of the need to use Fund resources. In addition, access may be limited on grounds of capacity to repay.
- **Access under the Emergency Assistance Policy seeks to strike a balance between the need to provide immediate relief with the expectation that additional support would be provided under a subsequent stand-by or extended arrangement.**

⁵ The rare cases where members have experienced arrears to the Fund--the most extreme instance of track record raising questions about a member's capacity to repay the Fund--would still need to be considered particularly carefully.

⁶ Precautionary arrangements are those where the member indicates that it does not intend to make a purchase.

⁷ Argentina's precautionary 3-year stand-by was approved in 2000 with access of 255 percent of quota. The Philippines' 1998 stand-by (116 percent of quota) and Argentina's 1998 EFF (150 percent of quota) were also precautionary.

Hence the policy of generally limiting emergency assistance to one outright purchase amounting to 25 percent of quota, with the actual amount of assistance to be taken into account in establishing access under a subsequent arrangement. In the case of emergency assistance for post-conflict situations, Fund support also needs to be part of a concerted international effort to address the aftermath of the conflict in a comprehensive way.

- **Access under the SRF is subject to the same criteria as in the credit tranches and under the EFF, but also depends on other factors.** Specifically, the member's record in cooperating with the Fund in surveillance and the effect on the Fund's liquidity are taken into account, the latter element reflecting the unpredictability of aggregate use. When approving SRF requests, the Fund also takes into account the financing provided by other creditors.
- **The criteria for access under the CCL are not explicitly defined, but in practice, access under the CCL would probably depend primarily on the potential size of the balance of payments need.** As in the case of the SRF, the Fund's liquidity position is relevant in setting access, and capacity to repay would also need to be considered. However, with regard to the latter, the facility has stringent eligibility criteria and, in the event that a drawing became necessary, the member's commitment to adjust policies as necessary gives some assurance that any significant economic impact that may follow from contagion would be short-lived, and the member would soon regain access to private capital markets.

B. The Record in Applying the Criteria

14. **To assess how the criteria for access in individual cases have been applied in practice, Chapter III of the background paper investigates the determinants of access levels by means of regression analysis.** Annual average access in a sample of arrangements in the credit tranches and under the EFF approved between October 1994 and December 1999 is regressed on a set of indicators quantifying access criteria and a set of control variables. The impact of each indicator or variable on access levels and its ability to explain their variation across arrangements is thus estimated.

15. **The analysis indicates that access decisions have been guided by the application of the existing criteria.** Balance of payments need, strength of program, extent of past use of Fund resources and track record in their use all help in explaining the variation of access levels across arrangements. The impact of the criteria on access decisions is often small, but this may partly be explained by the imperfect proxies used to represent the criteria. The findings show:

- Balance of payments need is given weight in access decisions, but analysis suggests the impact may be small. As proxied by the import coverage (in months) of gross

reserves at the beginning of the program, BOP need is clearly a significant factor in access decisions even after controlling for all other explanatory factors. Its impact on the level of access, however, is quite moderate.⁸ It is estimated that one month less of import coverage of gross reserves led to additional annual access of 2 percent of quota. However, this limited impact may simply mean that import coverage is a poor measure of need, and other measures of need—for example the projected duration of balance of payments need—are also associated with higher access.⁹

- Strength of program, as measured by the strength of programmed external adjustment, is positively associated with access, though again the effect is small. However, measurement problems are particularly severe in the case of strength of program. Strength of program seems to have been given more weight than financial indicators of capacity to repay: a low debt-to-exports ratio has not measurably affected access decisions.
- The presence of poor track record seems to have had a strong effect.¹⁰ Relatively higher Fund credit outstanding in relation to quota is also associated with lower annual access, but to a lesser extent, indicating that other factors contributed to keep annual access well within the limits.¹¹

⁸ Staff found similar results using, instead of the simple measure of reserve coverage, an alternative measure denoting import coverage at the start of the program *in relation to country-specific long-term averages*.

⁹ The duration of a balance of payments need is defined as the number of years until there is no longer a need for exceptional financing to achieve programmed reserves targets. This definition was also used in the papers on the review of Fund facilities. See in particular, “*Review of Facilities—Further Considerations*” (EBS/00/131, 7/10/00). While there would not appear to be a strong reason for the duration of need to directly affect *annual* access, and indeed an expectation of a protracted need for Fund resources could justify lower annual access, the projected level of need in the program papers and the duration of need are highly, and statistically significantly, correlated. The duration may, therefore, be a proxy measure of annual need.

¹⁰ A dummy variable marks cases where, during the predecessor arrangement, there was a period of at least nine months when no purchase could be made. Precautionary arrangements were not included in these figures.

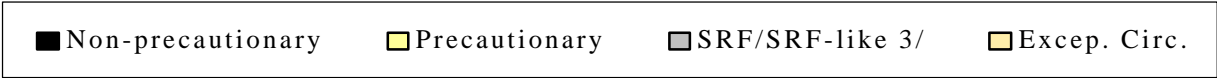
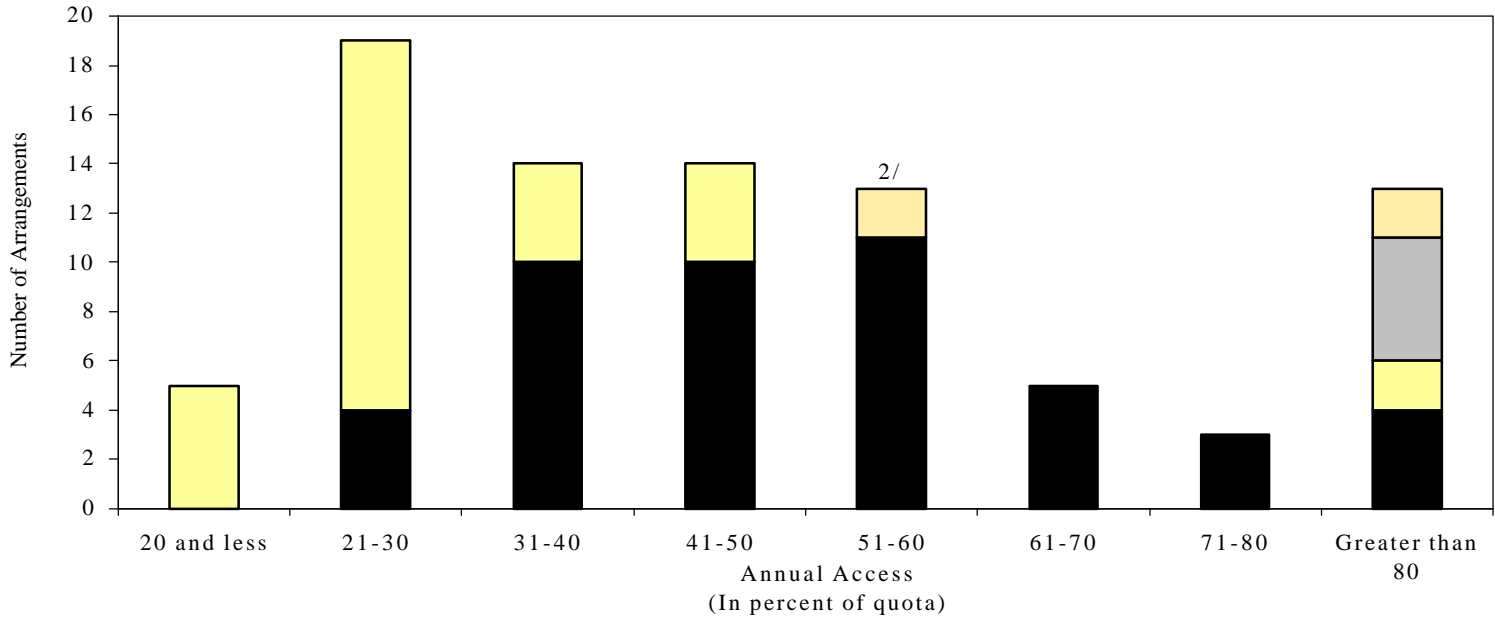
¹¹ On the other hand, surprisingly, Fund credit outstanding in percent of exports appears to have had a modest *positive* effect on access.

16. **The empirical analysis also shows that access levels across arrangements have tended to bunch, indicating the presence of an implicit norm for annual access.** Access levels frequently remain in a narrow range, at least within types of arrangement, and an implicit norm around average annual access for each type of arrangement seems to have been the main reference point in setting access.¹² Figure 1, which shows recent average access levels and ranges, reinforces this point. The implications of this for the system of access limits are discussed in Chapter III, below.

17. **In summary, while there appears to be an implicit norm, access decisions have been guided by the criteria, which explain a significant part of the residual variation around the norm.** Balance of payments need is clearly a significant factor in access decisions. Strength of program, as measured by the strength of programmed external adjustment, is positively associated with access, and appears to have been given more weight than financial indicators of capacity to repay. The presence of poor track record seems to have had a strong effect, while outstanding use of Fund resources has a weaker but still significant effect. However, it is also worth noting that applying the criteria has produced only limited variance around the implicit norm. This underlines the importance of careful and explicit consideration of the criteria by the staff in formulating access proposals.

¹² A constant and three dummy variables for precautionary arrangements, extended arrangements, and arrangements which involve a blend of resources under different facilities, respectively, are statistically significant and have a strong effect on the access proposed.

Figure 1. Annual Access under SBAs and EFFs 1/
(October 1994-December 2000)



Source: Executive Board documents (MONA Database)

1/ Excluding arrangements blended with concessional resources, augmentations, reductions, and purchases under special facilities.
 2/ Exceptional circumstances because of a breach of the cumulative limit.
 3/ Including arrangements that would likely have qualified for the SRF had the facility existed at the time.

C. The Fund's Catalytic Role and the Adequacy of Total Financing

The Catalytic Role

18. **Access decisions also need to take into account financing from others, and in particular financing that may be catalyzed by the Fund's involvement.** This has most recently found expression in the framework for private sector involvement (PSI), which distinguishes concerted PSI from the Fund's traditional catalytic role. The expectation that some resources from other creditors will be catalyzed by the Fund is also reflected indirectly in the 1983 summing up of the discussion on the access criteria, which states that when a member's balance of payments position is such that it is questionable whether a sustainable position can be achieved over the medium term, the Fund's role is expected to be primarily that of a catalyst.

19. **Consistent with the catalytic role of Fund financing, the *share* of total financing provided by the Fund has been given some weight as an additional factor in access decisions, although it is not formally a criterion.** The share of financing provided by the Fund was not examined as part of the regression analysis in the background paper because of the difficulty in identifying the causal relationship between access and share of financing (if financing from other sources is fixed, higher access will automatically increase the share of financing provided by the Fund). However, this indicator has moved within a very narrow range. Over the period 1994-2000, Fund support as a share of gross financing need (GFN) has on average been about 11 percent, and has not exceeded 24 percent in non-transition, non SRF-type cases. Table 1 describes access under all "ordinary" arrangements during the period 1994-2000, and also gives figures for Fund financing as a percentage of GFN in recent years.

20. **Although the share of Fund financing is not—and in the view of the staff should not be—one of the access criteria, it is appropriate for the Fund to pay close attention to the resources that are provided by others.** If support from other creditors is not available, Fund support should not be denied or limited on the grounds that the Fund would be financing more than a given share of GFN. Higher-than-usual shares might emerge if other sources of financing are limited and the adjustment effort is judged to be strong, as in the case of some arrangements for members in transition. Higher shares of Fund financing have been used in some of the capital account crisis cases for the same reasons, and also because the Fund is able to mobilize resources in a crisis more quickly than many other creditors. However, given the Fund's catalytic role, if it appears that others are doing too little in relation to the Fund, as evidenced by the Fund's meeting an unusually large share of GFN, it would be appropriate for the Fund to work with the member to secure additional support from other sources, and in such circumstances the implications for the member's capacity to repay the Fund without strain should also be considered carefully.

The Adequacy of Program Financing

21. **Given the centrality of balance of payments need in access decisions, it is important to ask whether the financial support from the Fund and other creditors has been adequate to meet members' balance of payments needs**, in the sense that the programmed mix of adjustment and financing is not undermined by shortfalls in financing. A logically prior question is whether programmed adjustment is itself appropriate. However, this question raises issues of what is the appropriate pace of adjustment and mix of adjustment and financing which go beyond the scope of the current review. Thus the current analysis takes programmed financing (and, by implication, adjustment) as a given.

22. **The analysis in the background paper (Chapter IV) compares the financing and adjustment mix that emerged to that expected at the time the program was agreed.** The analysis focuses on adjustment as defined by changes in the current account of the balance of payments. However, since the current account could be affected by exogenous shocks not related to shortfalls in financing (e.g. lower export prices), only those countries which have had both greater-than-programmed current account adjustment and smaller-than-programmed imports are scored as indicating greater adjustment. The sample covers 90 stand-by- and EFF-supported programs over the period 1993-99.¹³

23. **The results show that, in most programs, there was no evidence of greater-than-programmed adjustment caused by a shortfall in financing.**¹⁴ This was the case in 78 percent of the programs considered. It is consistent with the finding in the Review of Facilities papers that the duration of balance of payments needs was often shorter than projected, and with conservative program design aimed at protecting members' programs from small shocks.¹⁵

24. **In the small share of programs where problems were found, lower-than-projected financing (and additional needed adjustment) was usually related to lack of**

¹³ It would be desirable to exclude programs that went immediately off track, since there would be no presumption that such programs would be fully financed. However, since it is difficult to pin down precisely what is meant by off-track, the approach here is to include the wider group and then to consider program status for those members where financing problems emerged.

¹⁴ It should be noted that this analysis excludes arrangements financed through an SRF or with SRF-type access levels. A quite different conclusion on the adequacy of financing in these arrangements has been arrived at in the recent staff paper "*IMF-Supported Programs in Capital Account Crises: Design and Experience*" (forthcoming).

¹⁵ "*Review of Fund Facilities—Further Considerations*" (EBS/00/131)

program implementation. About 22 percent of recent Fund programs (20 countries in the sample examined) show evidence of greater-than-programmed external adjustment as defined above where external financing constraints may have been a factor. In most cases, the shortfalls were in respect to official rather than private financing. In about half of the cases where there were shortfalls in financing, programs had gone off-track, and thus lower support from official creditors may have been attributable to delays in adjustment measures. In some cases, projections of official financing may have been overoptimistic to begin with. Since the number of problems is a small proportion of the total sample, the implications of this are also uncertain, but it does point to a need to be conservative in making program assumptions, which would, in a few cases, imply a need for a mixture of stronger adjustment supported by additional access to Fund resources.

25. **To sum up, it appears that the incidence of additional adjustment driven by financing shortfalls in the traditional cases is relatively rare, and that financing shortfalls are in most such cases the result of slippages in policy implementation.** The policy implications would seem to be that programs should strive to make appropriately conservative projections of financing, and protect where possible against small shortfalls with adjusters, and that stronger policy implementation to secure the disbursement of programmed official external financing is the most effective means of reducing the risk of additional external adjustment being forced by financing shortfalls.

Table 1. Access Under "Ordinary" Fund Arrangements By Year of Approval, 1994-2000 1/ 2/
(In percent of quota unless otherwise indicated)

	1994	1995	1996	1997	1998	1999	2000
Average annual access							
SBA and EFF	35	50	40	36	46	42	46
<i>of which precautionary at start</i>	35	30	28	27	43	24	40
<i>of which non-precautionary</i>	36	56	50	43	49	51	62
Range of annual access							
SBA	11-68	24-100	18-80	24-69	20-81	20-85	18-85
EFF	17-43	33-43	19-55	27-45	45-55	21-84	...
Average use of Fund credit at beginning of arrangement, excluding special facilities 3/							
SBA	22	18	50	38	37	64	39
EFF	59	51	119	35	178	88	...
Average use of Fund credit at beginning of arrangement, including special facilities 3/							
SBA	64	53	71	67	49	90	52
EFF	101	66	151	60	207	94	...
Average projected use of Fund credit at end of arrangement, excluding special facilities 3/ 4/							
SBA	57	68	85	72	67	78	93
EFF	106	139	201	119	157	175	...
Average projected use of Fund credit at end of arrangement, including special facilities 3/ 4/							
SBA	104	111	103	102	103	99	103
EFF	149	147	221	141	238	181	...
Gross Fund Financing as percent of broad gross financing need							
SBA and EFF	9	14	12	10	10	11	9
Commitments, excluding augmentations (in SDR bn.)							
	3.5	8.1	4.4	1.8	5.6	9.8	7.4
Number of arrangements approved							
SBA	18	20	13	7	5	6	10
EFF	4	2	4	2	3	4	0
SBA and EFF	22	22	17	9	8	10	10
<i>of which precautionary at start</i>	1	4	8	4	4	3	7
<i>of which non-precautionary</i>	21	18	9	5	4	7	3

Source: Staff estimates based on data from Executive Board documents.

1/ Excludes arrangements blended with concessional resources, arrangements with financing under the SRF and those where access exceeded the annual limit through use of exceptional circumstances. Reflects amounts approved and duration at the time arrangements were initially approved; excludes potential access under external contingency mechanisms and other augmentation.

2/ Access expressed in terms of Ninth General Review of Quotas until 1998, and in terms of the Eleventh General Review of Quotas thereafter.

3/ Special facilities include CCF/CFF, PRGF, SAF, ESAF and STF.

4/ At the time of approval, assuming full disbursement of committed amounts and repurchases made as scheduled during the arrangement.

III. THE SYSTEM OF ACCESS LIMITS

26. **Annual and cumulative limits on members= access to the Fund=s general resources have existed, in one form or another, since the founding of the Fund.** The original Articles of Agreement established an annual limit on drawings of 25 percent of quota, and a cumulative limit of 100 percent of quota. However, these limits were waived with increasing frequency as the combination of relatively infrequent use of Fund resources, the diminution of quotas compared to trade, and the advent of conditionality made it both desirable for the Fund to lend more, and possible for it to lend more with comfort. In 1978 the second amendment removed the annual limit from the Articles. However, from this point on, annual, cumulative and sometimes triennial limits were established by the Board, at higher levels than the original limits. The history of the access limits is set out in detail in the background paper. Box 2 describes the current framework for access policy under the different facilities.

27. **This chapter considers the purposes of the access limits, how access limits and norms might develop in the future and what considerations should be taken into account in future reviews of access policy.**

A. The Purposes of the Access Limits

28. **The limit on annual access has two main purposes and several subordinate functions:**

- It should ensure that members do not rely excessively on Fund financing, but also adopt appropriate adjustment measures. As such, it is built on experience of the size and nature of balance of payments needs of members, after taking into account other sources of financing available to them.
- It should provide confidence to members that they can secure significant support from the Fund to enable them to weather shocks without having to resort to excessive adjustment.
- In addition, the annual limit has a role in ensuring that members do not exhaust their total potential access to the Fund (that is, the cumulative limit) more rapidly than would be warranted by the typical frequency and size of shocks.
- The annual limit now also serves as the typical threshold beyond which SRF and CCL resources may be provided in relevant cases.

Box 2. The Framework for Access Policy Under the Different Facilities

- \$** The **credit tranches** and the **Extended Fund Facility (EFF)** are subject to a combined limit, consisting of an annual limit currently set at 100 percent of quota, and a cumulative limit currently at 300 percent of quota. The annual limit applies to gross purchases in the credit tranches and the EFF in any 12-month period. The cumulative limit applies to credit outstanding, less scheduled repurchases, plus scheduled purchases, over the period of commitment of resources. These limits may be exceeded in “exceptional circumstances.” Average annual access has been fairly stable well below the limits, at around 40-50 percent of quota for more than a decade.
- \$** The **Supplemental Reserve Facility (SRF)** is not subject to access limits. Five countries—Korea (1998), Russia (1998), Brazil (1998), Turkey (2000), and Argentina (2001)—have used SRF resources in arrangements with total access of 425-1938 percent of quota. SRF resources are provided under stand-by or extended arrangements, in combination with credit tranche or EFF resources up to the annual or cumulative limit, whichever binds first (although larger amounts of credit tranche or EFF resources can still be made available in such a case using the exceptional circumstances clause, as has been the case with recent augmentations for Argentina and Turkey).
- The **Contingent Credit Lines (CCL)** are not subject to access limits under the credit tranches and the EFF, nor to their own limits, but total commitments under the CCL are expected to be in the range of 300-500 percent of quota. CCL resources are to be provided under stand-by arrangements, in combination with credit tranche resources up to the annual or the cumulative limit, whichever binds first.
- \$** The amount of financial assistance under **emergency assistance for natural disasters and for post conflict cases** is limited, in any one instance, to an amount equivalent to 25 percent of quota, though larger amounts could be made exceptionally available. Access under emergency assistance is not part of the credit tranches and thus does not count toward those access limits. This reflects a change made in November 2000, pending further review.
- \$** Access under the **Compensatory Financing Facility (CFF)** does not count toward the access limits in the credit tranches and the EFF, and is subject to its own limits. These limits are cumulative, and comprise limits of 45 percent of quota each for export shortfalls and for excess cereal imports, and a combined limit of 55 percent of quota. These limits cannot be exceeded.

29. **The main objective of the cumulative limit is to ensure that the Fund’s resources are not exhausted, so that borrowers are never treated on a “first-come-first-served” basis.** The cumulative limit therefore reflects the size of the Fund, and should be affected by the amount of quotas, any borrowing arrangements the Fund has, and the relative shares in the Fund of likely debtors and creditors. The “self-financing access ratio”—the amount of cumulative access every debtor member could use, given the typical share in the membership of debtors and creditors, without the Fund’s having to resort to borrowing—has long been used as a reference point for the cumulative limit.¹⁶ However, large Fund financing for capital account-driven crises diminishes the significance of the self-financing access ratio as a benchmark for the cumulative limits, as increasing, and unpredictable, amounts of resources have been required under facilities to which the limits do not apply, or under the exceptional circumstances clause.¹⁷ The cumulative limit also serves to some extent as a backstop to the annual limit and as a rule of thumb to ensure that members do not become unduly indebted to the Fund—although it must be supplemented in this task by analysis of capacity to repay in individual cases.

B. The Case for an Explicit Access Norm

30. **The annual limit provides a “maximum” criterion for access (other than in exceptional circumstances), but experience shows there is also a need for an operational benchmark against which the access criteria can be applied.** Access decisions are reached through an iterative process: access is set at levels which fill financing gaps, but gaps which were initially large may already have been partly filled by some combination of additional adjustment and balance of payments support from other creditors. Given the considerable uncertainties involved in identifying balance of payments need and assessing capacity to repay, it has been operationally useful to take as a starting point for access decisions a measure of access in percent of quota in recent arrangements.¹⁸

31. **This has developed into an implicit access norm, and staff proposes to make the norm explicit to improve the transparency of access decisions.** In recent years, members’

¹⁶ The self-financing ratio is discussed further in Chapter V of the background paper.

¹⁷ The presence of other facilities outside the cumulative access limit under the credit tranches and under the EFF has long created complications in the relationship between the self-financing access ratio and the cumulative limit, but in the past use of Fund resources under these other facilities has generally been small.

¹⁸ While in theory the annual access limit could be taken as such a starting point, this would be contrary to the spirit of the views expressed by Directors on access limits, which have consistently stressed that access limits should not be seen as targets.

average annual access in the credit tranches and the EFF—which has been in the range 40 to 50 percent of quota throughout the 1990s—has been taken as a typical starting point. The disadvantages of this implicit norm are two-fold: first, it is not transparent and second, because the norm is not explicit, there has been only limited discussion of variance from the norm. The adoption of an explicit norm, based on experience from previous access decisions, would provide a more transparent starting point for the analysis and would better frame the discussion of access in individual cases.¹⁹ The norm would apply to purchases in the credit tranches and under the EFF and would be calculated in the same manner as the annual limit.

32. **Variance around the norm would be encouraged, and would be based on the access criteria:** balance of payments need, capacity to repay the Fund including strength of program, outstanding use of Fund resources, and track record in use of Fund resources. Staff reports would be more explicit in identifying how such considerations have played a part in the staff's recommendations about the appropriate level of access in individual cases. For instance, the nature of the balance of payments shock has implications for both capacity to repay and balance of payments need. If a shock is expected to be temporary, there would tend to be less concern about capacity to repay and hence, other things being equal, would merit higher access. If the shock is expected to be permanent but requires measures that take a long time to implement or be effective in addressing balance of payments problems, proposals on access would need to explicitly address not only the likely greater balance of payments need but also the relatively larger concern about capacity to repay the Fund. Similarly, programs with the characteristics of precautionary arrangements (generally low or potential balance of payments need, and an economic position which does not require strong adjustment measures) would be expected to have access well below the norm. On the other hand, arrangements where balance of payments need is large and capacity to repay assured by strong adjustment would merit higher access. Framing the discussion in terms of deviations from a tangible starting point would thus better ensure that the criteria are being appropriately and consistently applied across cases.

33. **Staff is aware that there is a risk, though small, that a norm could lead to bunching of access levels, and proposes to review the policy in light of experience during access reviews.** By requiring staff reports to justify divergence from the norm, there might be a fear that divergence would be discouraged. However, since an implicit norm already exists, making it explicit is unlikely to lead to a major change in access decisions. Also, by better enabling the tailoring, relative to an explicit benchmark, of access decisions to individual circumstances in a transparent fashion, the appropriateness of (and need for) greater variance

¹⁹ An expected average access to the ESAF (now PRGF) has been in use since the facility was approved in 1987. The most recent norms are described in Buff/99/1 (1/5/99).

would become more pronounced. Relatedly, it would need to be emphasized that the norm is simply an operational starting point for the analysis and not an entitlement, in the sense that there would be any presumption that members are automatically entitled to any particular level of access. In light of these considerations, it will be important to consider experience with access norms, and consider whether changes are appropriate, during the next review of access.

C. Emergency Assistance and the CFF

34. **Emergency assistance and the Compensatory Financing Facility (CFF) are subject to their own separate access limits, and are not subject to access limits for the credit tranches and EFF.** Access under the emergency assistance policy was previously included in the access limits in part because it has generally been a precursor to a request for use of other facilities. However, the Board decided in November 2000 to exempt such support from surcharges and time-based repurchase expectations. This necessitated converting emergency assistance to a special policy outside of the credit tranches, and consequently no longer subject to the access limits. Emergency assistance is designed to provide only limited foreign exchange required to meet a country's immediate financing needs arising from a major disaster (or essential payments needs in post conflict cases) without serious depletion of its external reserves; humanitarian considerations weigh in the balance too. All members are eligible for emergency assistance, and while there are notable exceptions (including emergency assistance to Turkey in 1999 following the earthquake), most users of emergency assistance have been eligible for concessional assistance from the Fund. For post-conflict cases for PRGF-eligible countries, an account has been established for bilateral contributions to subsidize interest payments on purchases under the emergency assistance policy.²⁰ A policy could be established to consider emergency assistance purchases as part of the combined access limits applying to the credit tranches and EFF purchases while retaining a separate status for all other purposes. However, on the grounds that emergency assistance is intended to catalyze financing from other sources, and is provided on a limited basis, staff does not propose to bring emergency assistance within the access limits.

35. **The CFF is a special facility and has been outside of the access limits for the credit tranches and EFF from its inception in 1963.** The CFF was long seen as an alternative to Fund support under other facilities and, like emergency assistance, was designed to address needs arising from circumstances beyond the control of members. However, with the amendments to the CFF in 2000, access under the CFF will be accompanied by a request for an SBA or EFF arrangement except where the member's balance of payments position, apart from the temporary export shortfall and/or cereal import

²⁰ *Establishment of an Administered Account to Subsidize the Fund's Post-conflict Emergency Assistance to PRGF-Eligible Members* (EBS/01/63, 4/27/01).

excess, is satisfactory. Except in the latter case, then, access under the CFF is provided only in parallel to an arrangement, and is phased and subject to the same conditionality as the parallel arrangement.²¹

36. **Bringing the CFF within the access limits applying to the credit tranches and EFF would have advantages and disadvantages.** In many respects, the shocks the CFF is designed for can be addressed through other facilities. Given that there are other exogenous shocks for which there is no special facility or policy, it would be logical to apply the same limits for all shocks. (The same argument would also apply to emergency assistance). Broadening the types of access to which the limits apply would make the limits more effective, while still allowing for exceptional circumstances to be invoked when necessary.²² On the other hand, the additionality of access under the CFF has been a part of this facility since its inception, and remains one of the key distinguishing features of the CFF. Given that the changes to the CFF have only been recently agreed during the Review of Fund Facilities in 2000, staff proposes at this stage not to change the limits on access for the CFF, or to bring such access as part of combined access with the credit tranches and EFF.

D. How Should Access Limits and Norms Develop in the Future?

37. **Decisions on the structure and level of the access limits necessarily involve judgments about the likely availability of and demand for Fund resources.** These judgments have been based on economic trends, recent patterns in use of Fund resources and the potential for strains that may emerge in the balance between members' potential need for Fund financing, and the available amount of resources.

38. **Changes in the limits on account of changes in the supply of Fund resources would be associated with changes in Fund quotas or liquidity.** The size of the Fund as reflected in quotas, together with the Fund's policies on use of borrowed resources, constrain policies on use of Fund resources and on the access limits. However, in recent years the limits have been set below the maximum levels consistent with the self-financing access ratio. This has indeed been prudent, as the granting of access above the limits in the capital account crisis cases took the Fund's liquidity down to very low levels in the period before the most

²¹ Details on the operation of the CFF can be found in "*Review of the Compensatory and Contingency Financing Facility and Buffer Stock Financing Facility—Preliminary Considerations*" (EBS/99/222, 12/9/99).

²² The inclusion of the CFF within the access limits would not mean that access under the CFF would be subject to or count toward the calculation of surcharges on use of Fund resources. The Board agreed in November 2000 that the structure of surcharges would not be changed for four years.

recent quota increase, and the Fund had to make recourse to borrowing under the GAB and NAB. The need to have some cushion to deal with unforeseen events reinforces the need to pay attention to the supply constraint when decisions on access limits are taken, and the analysis in Section IV, below, includes a discussion of the Fund's liquidity position with this in mind.

39. **Members' need for Fund financing arising from balance of payments strains has also been considered in setting access limits.** Two aspects of need for Fund resources are considered below: (i) members' remaining need for financing in combination with their own adjustment efforts sufficient to place them on a path consistent with external viability (which will depend in part on the nature and size of shocks); and (ii) the availability to members of other sources of exceptional financing. The discussion focuses on the methodology for considering changes in the access limits, but in most cases changes in the access norm, if one is agreed, would also need to be considered.

40. **The main vehicle for estimating members' prospective balance of payments strains in recent access reviews has been Gross Financing Needs (GFN) based on WEO projections.** The potential size of balance of payments needs before adjustment can generally be expected to increase with the growth of the world economy and the level of integration of members in the world economy as measured by trade and capital flows. The projected GFN of past users in billions of SDRs and in percent of quota is reported in Tables 2 and 3 and discussed later.

41. **The GFN concept is a useful tool, but it has some important limitations.** Gross financing need (GFN) consists of the projected sum of the current account excluding grants, amortization of medium- and long-term debt and repurchases due to the Fund, repayments of arrears, and gross reserve accumulation. More recently, the concept of Augmented GFN (AGFN), which also includes the stock of short-term debt, has been used to reflect a further potential source of financing need. Projected AGFN of past users is also reported in Tables 2 and 3. However, the use of GFN concepts remains subject to a number of limitations. First, changes in GFN may reflect shifts in the supply of financing rather than in demand. For example, if the Asian crisis countries had had additional private or official financing in 1998, they would have been able to reduce the very large current account adjustment they experienced. But measured gross financing need for these countries *contracted* sharply during this period, precisely because such financing was not available. Of course, a large GFN could still reflect greater vulnerability to changes in sentiment. Second, WEO projections for individual countries are based on policies currently in place, and in some cases, the need for financing may be overestimated because a program would require additional adjustment measures. Finally, GFN as reported in the tables, is an aggregate concept, and there may be developments in the world economy which would increase the GFN of some members but reduce that of others. This could leave the aggregate figure unchanged, and fail to reflect changes in the needs of members which could result in an increased (or reduced) demand for Fund resources depending on the overall circumstances of the members affected.

Nevertheless, and despite these limitations, analysis of GFN and AGFN remains a useful starting point for the analysis of the BOP needs of the membership.

Table 2. Gross Financing Need of Past Users, 1996 - 2003 1/
(in SDR billions)

	1996-99 Annual Average	2000	2001	2002	2003
With capital market access (39) 2/ 3/					
Current account deficits (excl. official transfers)	39.5	-6.7	19.6	41.5	58.1
Amortization (incl. Fund repurchases)	155.0	190.8	165.3	169.3	176.1
Narrow gross financing need	194.5	184.1	184.9	210.9	234.3
Reserve accumulation and arrears clearance	32.7	66.6	47.9	59.1	53.1
Broad gross financing need	227.2	250.7	232.8	269.9	287.3
Short-term debt stock	224.3	226.5	209.5	214.9	221.7
Augmented gross financing need	451.5	477.2	442.3	484.8	509.1
Dependent on official financing (55) 2/ 4/					
Current account deficits (excl. official transfers)	13.6	3.1	7.1	10.0	12.5
Amortization (incl. Fund repurchases)	11.3	11.4	11.7	11.7	11.2
Narrow gross financing need	25.0	14.4	18.8	21.7	23.7
Reserve accumulation and arrears clearance	2.4	14.4	15.8	13.4	10.3
Broad gross financing need	27.4	28.9	34.6	35.1	34.0
Short-term debt stock	11.9	14.0	15.0	15.9	16.6
Augmented gross financing need	39.2	42.9	49.6	51.0	50.6

Source: Staff estimates based on data from the Winter 2001 World Economic Outlook database.

1/ Past users are defined as those members who have made use of Fund resources through arrangements in the GRA (Stand-by or EFF) since 1985.

2/ Number of members in parentheses.

3/ Members with capital market access defined as those included in the IFC/S&P Emerging Market Database, excluding IDA-eligible members included in the Frontier Markets classification by the IFC/S&P.

4/ All other past users.

Table 3. Gross Financing Need of Past Users, 1996-2003 1/
(GFN in percent of 11th review quota, averaged across members, unless otherwise noted) 2/

	1996-99 Annual Average		2000	2001	2002	2003
	9th Review Quota	11th Review Quota 3/				
<u>With capital market access (39) 4/ 5/</u>						
Current account deficits (excl. official transfers)	211.3	158.3	78.8	109.0	130.9	143.3
Amortization (incl. Fund repurchases)	418.7	287.4	360.5	300.9	298.4	301.0
Narrow gross financing need	630.0	445.7	439.4	409.9	429.3	444.3
Reserve accumulation and arrears clearance	96.6	65.6	91.3	91.6	88.1	81.7
Broad gross financing need	726.6	511.3	530.7	501.5	517.4	526.0
Short-term debt stock	794.4	509.6	480.7	485.5	505.4	505.4
Augmented gross financing need	1521.0	1020.9	1011.4	987.0	1022.8	1031.5
<u>Dependent on official financing (55) 4/ 6/</u>						
Current account deficits (excl. official transfers)	296.3	218.2	195.4	225.5	207.1	206.1
Amortization (incl. Fund repurchases)	115.2	85.6	90.6	91.4	91.2	87.6
Narrow gross financing need	411.6	303.8	286.0	316.9	298.2	293.7
Reserve accumulation and arrears clearance	21.1	21.3	88.1	114.6	105.7	102.3
Broad gross financing need	432.7	325.0	374.1	431.5	404.0	396.0
Short-term debt stock	153.7	112.6	113.7	121.8	132.6	132.6
Augmented gross financing need	586.4	437.6	487.8	553.3	536.6	528.6

Source: Staff estimates based on data from the Winter 2001 World Economic Outlook database.

- 1/ Past users are defined as those members who have made use of Fund resources through arrangements in the GRA (Stand-by or EFF) since 1985.
- 2/ Trends in GFN in percent of quota may differ from those measured in absolute levels because of the changing patterns of GFN across countries with different sized quotas.
- 3/ The Eleventh General Review of Quotas increased total Fund quotas by 45 percent and was adopted January 1998 and became effective January 1999.
- 4/ Number of members in parentheses.
- 5/ Members with capital market access defined as those included in the IFC/S&P Emerging Market Database, excluding IDA-eligible members included in the Frontier Markets classification by the IFC/S&P.
- 6/ All other past users.

42. **It may also be useful to supplement the GFN analysis with examination of other globally relevant indicators, especially indicators which could affect some members more than others.** Unpredictable shocks, sometimes emerging as cyclical developments in the global economy, could be sufficient to warrant a change in access limits if they had a significant effect on the membership, even if this was not captured in changes in GFN or AGFN figures. Potential factors are developments in commodity prices, private market sentiment regarding emerging markets, and cyclical developments in major economies, each of which could significantly affect the distribution of BOP needs across members. There would be a particularly strong case for increases in the limits if a large number of members experienced a large shock that was expected to be temporary.

43. **For example, the most recent change in the annual access limit, in 1994, reflected especially the needs of new members in transition.** The increase in the annual access limit from 68 percent of quota to 100 percent of quota was justified by the large financing needs of the transition countries, the lower availability of financing from other sources, and their very low levels of Fund credit outstanding. The higher annual limit was maintained in later reviews of access policy (including after the 11th quota review, with the effect of raising nominal access under the limits) in view of the uncertainties in global financial markets in the aftermath of the crisis in Asia and elsewhere.

44. **Another example would be significant changes in the price of a major primary commodity, such as oil.** Such changes would improve the balance of payments positions of some members, but worsen those of others, and the GFN analysis may not capture fully such distributional changes.²³ Annex 1 of the background paper assesses the impact of high oil prices on the current account balances of oil importing members, as a first approximation of the degree to which these countries' balance of payments needs (before adjustment) would increase. The results suggest that on current projections there would be no need to consider an increase in the access limits because of expected oil prices. However, a significant further increase in oil prices would indicate a need to re-examine the access limits.

45. **This analysis and others along the same lines would only represent a first step:** judgment would still need to be used on the appropriate broad degree of adjustment and the likely availability of other sources of financing, to determine how much the appropriate use of Fund resources might be expected to increase. Nevertheless, staff studies of this kind on the direct impact of expected movements in globally relevant factors on the balance of payments positions of affected members could inform Board decisions during reviews of access policy. Indeed, unexpectedly large movements in the factors could trigger such reviews, if warranted.

²³ Attention is paid in the GFN analysis to the number of members expected to have very high GFNs or AGFNs (over 1000 percent of quota), but the analysis may still fail to reflect the effects of commodity prices on members which do not reach this threshold.

46. **Particular members' balance of payments needs would also be affected by idiosyncratic factors, but these would not be expected to affect the limits.** Such cases would be handled case by case, if necessary with recourse to the exceptional circumstances clause.

47. **Finally, the appropriate amount of Fund financing, and the amount of adjustment required, depends on the role of other creditors, official or private, in financing the balance of payments gap.** This role could evolve due to factors that are exogenous to the Fund (such as changes in the terms under which the Paris Club operates or the amount of co-financing budgeted by major bilateral donors); changes in Fund policy (such as on PSI); or a change in the circumstances of the member with the BOP need itself, such as was the case for transition economies which initially did not have much access to other financing. Although it is unlikely that the Fund could compensate fully for the gaps left by withdrawal of other creditors, such factors could be partly reflected in the access limits.

IV. PROPOSED ACCESS LIMITS AND NORMS

48. **This section proposes access limits and norms for the period through 2002.** It is recognized that the appropriateness of these access policies may need to be reassessed once further progress is made concerning PSI, and thus policies relating to Fund access for countries affected by capital account crises. The section begins by examining gross financing need and liquidity, and then turns to specific proposals.

A. Gross Financing Need and Liquidity

49. **The gross financing needs (GFN) of past users of Fund resources are, starting in 2002, expected to resume its longer-term upward trend.**²⁴ The current account position of past users improved markedly over recent years, from a deficit of over SDR 96 billion in 1996 to a small surplus in 2000, reflecting the turn-around in the positions of the Asian crisis economies and strong import growth in the industrial countries during 1999-2000. With the recent weakening of the world economic situation, however, the current accounts are expected to deteriorate, and short-term debt stocks to increase, beginning in 2001. But this is offset for this year by other elements of GFN. The strength of members' positions over the recent past has led to amortization (including to the Fund) to fall this year along with the necessary reserve accumulation and arrears clearance targets. Therefore, on the whole, while broad GFN is expected to decrease marginally this year, compared to 2000, the expected

²⁴ Past users are defined as those members who have made use of Fund resources through arrangements in the GRA (Stand-by or EFF) since 1985. The GFN and AGFN measurements are based on the winter WEO.

further deterioration in current accounts and an increase in scheduled amortization will lead to an increase in broad GFN, by a total of SDR 55 billion, during 2002-03.

50. **Including expected changes in short-term debt stocks—Augmented Gross Financing Need—does not substantially alter the picture.** Augmented gross financing needs of past users would, unlike broad GFN, increase during 2001, but again only marginally. During 2002, although AGFN would still remain somewhat lower than during the peak year of 1997, there would be a sharp overall increase in tandem with movements in the narrower measure of GFN. Under current projections, the previous peak for AGFN will have been surpassed by 2003, again mainly on account of the projected deterioration of current accounts.

51. **On the supply side, the Fund's liquidity position remains relatively strong and barring unexpected developments, the projected increase in GFN should not put excessive strains on liquidity in the period through end-2002.** The traditional indicator of Fund liquidity, the liquidity ratio, stood at 149 percent at end-June, despite unexpected lending to Argentina and Turkey. In contrast, the ratio stood at about 30 percent in late 1998. The strength of the present position is due to the increase in quotas in early 1999, the rapid repayment of large-scale credit extended during the Asian financial crisis (which, in turn, was made possible by the unexpectedly fast improvement in current accounts), and the recent decline in the number of outstanding arrangements and increase in the relative share of precautionary arrangements.²⁵

52. **The foregoing analysis of the Fund's liquidity is, nevertheless, subject to a substantial margin of uncertainty.** First, there is the difficulty in accurately predicting demand arising from future capital account crises. Second, available amounts accumulated under precautionary arrangements could be drawn suddenly. Third, the introduction of repurchase expectations alongside repurchase obligations introduces an element of uncertainty about expected flows, although it is too early to gauge the size of this effect. Table 4 contains illustrative scenarios showing the impact on the Fund's liquidity if members that have borrowed from the Fund since 1985 were to use Fund resources either at the level of the proposed norm, or at the maximum annual access limits. This analysis shows that access at the norm could be accommodated for a large number of countries. However, it also shows that access at the annual access limit over an extended period would not be feasible.

²⁵ All commitments under arrangements treated as precautionary are discounted by half for the purpose of measuring liquidity.

Table 4. Access, Fund Credit and Liquidity under Alternative Access Scenarios 1/

	End-June	50 percent access scenario 2/		100 percent access scenario 2/	
	2001	12 months	18 months	12 months	18 months
Net uncommitted usable resources (in SDR billion)	73	66	63	46	30
Liquid liabilities (in SDR billion)	49	69	73	90	111
Liquidity ratio	149	96	85	51	27
Memorandum item: Fund credit outstanding (in SDR billion)	46	66	70	87	108

Source: Treasurer's Department.

1/ The liquidity ratio is defined as the ratio of net uncommitted usable resources to liquid liabilities. See Background Paper for further discussion of the concepts.

2/ It was assumed that countries with existing arrangements would draw the maximum of the amounts scheduled or 50 (100) percent of quota on an annual basis. All amounts accumulated under arrangements treated as precautionary are assumed to be drawn immediately. The calculations for 18 months take into account the higher scheduled repurchases compared to the 12 month period. Thus outstanding credit grows by less than the increase in disbursements.

B. Frequency of Access Reviews

53. **Staff sees scope to move from annual access reviews to reviews which would take place every two years.** The approach outlined would be consistent with setting access norms and limits in advance for two years, taking into account projected balance of payments needs and potential shocks, and the level of Fund resources available. Scheduled reviews would be designed to reflect developments on the projected need for Fund resources and to inform and subsequently reflect the outcome of quota reviews. In between these reviews, major changes in projections of AGFN or movements in other globally relevant factors could serve as additional triggers for interim reviews of access policy. Recent experience, with the access limits having been maintained at their current levels for a number of years, also points to the feasibility of saving staff resources by extending the period between reviews.

54. **If the Board agrees with the suggested approach, the staff would propose that access limits for the remainder of 2001 and 2002 be set at the current review.** The Board could then decide by end-December 2002 when to hold an additional in-depth review of

access policy in the light of work on Fund quotas and also the frequency of future reviews. As noted, an earlier reexamination of access limits in the credit tranches and EFF would also be considered in light of progress on capital account crisis cases.

C. Proposed Access Limits

55. **The staff proposes that the current annual limit of 100 percent of quota be left unchanged**, taking account of the experience so far with the current limit and the projected evolution of AGFN. The current level of the access limit appears to have represented an appropriate dividing line between “exceptional” and “non-exceptional” cases. In all cases since 1994 where access has been set above the annual limit either large private capital outflows precipitated the balance of payments crises or there were other factors at work that can be characterized as having been exceptional in some manner—or both these elements were simultaneously at play. At the same time, experience suggests that a significant minority of users have required, and may continue to require, access approaching the present limits even while undertaking appropriate and timely adjustment.²⁶ Finally, while AGFN is expected to increase in SDR terms in 2002-03, the increase in quotas, which allows higher nominal access within unchanged limits, has left the Fund well-positioned to meet expected needs on current projections.

56. **The staff proposes that the cumulative limit of 300 percent of quota also be left unchanged through end-December 2002.** The level of the cumulative limit has been and remains consistent with the retention by the Fund of a cushion of resources for lending in exceptional circumstances and during bouts of capital account crises. Even after taking into account all existing commitments and allowing a representative share (drawn from past experience) of members to borrow up to the cumulative limit, there would still be resources within the overall envelope to meet the exceptional requirements of emerging market members subject to capital account crises. However, the Fund’s resources are not limitless: if a significant number of emerging market members requested support substantially beyond the access limits, or if average annual access approached the limit for a very large number of members the Fund would not be able to accommodate the demand for support within the existing resources.

D. Proposed Access Norm

57. **The staff proposes that an access norm of 50 percent of quota be adopted for the period to end-December 2002.** As was shown in Chart 1, average annual access under stand-by and extended arrangements (excluding those with exceptional access) in the period

²⁶ For example, access at or approaching the annual limit was approved for a number of transition economies in the period 1995-1997.

1994-2000 was 52 percent of quota, with most arrangements featuring annual access in the range of 40-60 percent of quota. The analysis in the background paper indicates that this was in general sufficient to meet balance of payments needs as reflected in program projections. Looking ahead, while the AGFN analysis indicates that financing needs are likely to be close to, or slightly higher than those experienced in the recent past (See Tables 2 and 3, above) the increase in quotas means that access which in percent of quota would be similar to past levels would translate into higher access in SDR terms, which should be sufficient to meet expected higher needs. Taking all of these factors together, the staff would propose that the annual access norm in the credit tranches and under the EFF be set at 50 percent of quota. This would be very close to the average annual access in arrangements in recent years, would provide for absolute access which on average would be about 50 percent higher than before the last quota increase, and could be comfortably accommodated on the basis of the Fund's current and projected liquidity position.

V. SUMMARY OF STAFF PROPOSALS

To summarize, the staff proposes the following conclusions for the current review of access policy:

1. The criteria for access in individual cases remain appropriate and should continue to be applied.
2. The current structure of access limits remains appropriate and should be retained.
3. The access limits should be supplemented by an explicit access norm. The Fund should encourage variance around this norm based on the access criteria, and the staff should be explicit in identifying factors which lead to divergences from the norm in reports to the Board.
4. Subject to an earlier reexamination of access limits which might be necessary in light of progress on capital account cases, the next review of access limits in the credit tranches and under the EFF should be held by end-2002 and that at that time consideration should be given to holding access reviews every two years instead of annually, with interim reviews if changed circumstances warrant.
5. For the period until end-December 2002 the annual access limit should be set at its current level of 100 percent of quota, the cumulative access limit should be set at its current level of 300 percent of quota, and an explicit access norm should be introduced at 50 percent of quota.

VI. PROPOSED DECISION

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. Pursuant to Decision No. 11876-(99/2), January 6, 1999, the Fund has reviewed the guidelines and the limits for access by members to the Fund's general resources in the credit tranches and under the Extended Fund Facility, and decides that they remain appropriate in the present circumstances. Accordingly, access by members to the Fund's general resources in the credit tranches and under the Extended Fund Facility shall be subject to an annual limit of 100 percent of quota and a cumulative limit of 300 percent of quota, net of scheduled repurchases. These limits shall not be regarded as targets. Within these limits, the amount of access in individual cases will vary according to the circumstances of the member in accordance with criteria established by the Executive Board. The Fund may approve stand-by or extended arrangements that provide for amounts in excess of these access limits in exceptional circumstances.
2. The guidelines and access limits set forth in this decision shall be reviewed not later than December 31, 2002, at which time the Fund shall decide on the frequency of future reviews of these guidelines and access limits.