INTERNATIONAL MONETARY FUND

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

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

August 9, 2001

Boxes

Figures

Tables

I. Introduction

1. **Since 1994, when access limits were last changed, the global economy has undergone tumultuous changes with potentially significant consequences for access decisions.** This period began with the large use of Fund resources by new members embarking on the transition process. Beginning with the Mexican crisis of 1995, bouts of loss of market confidence in emerging market economies led to demand for Fund resources on an historically unprecedented scale. The resources available to the Fund in support of members' balance of payments difficulties were also increased by some 45 percent during this period with the approval of new quotas following the 11th Quota Review. This background paper for the review of the Fund's access policy brings together five chapters on past considerations and practice on the one hand and future prospects for the global economy and the resources available to the Fund on the other. Like the foreground paper, this paper is primarily concerned with access in the credit tranches and under the Extended Fund Facility.

2. **Chapter II discusses the history of access limits from the beginnings of the Fund to the present day.** Annual and cumulative limits on members' access to the Fund's general resources have existed in one form or another since the Fund began operations. The changes that have been made in the access limits over the last 50 years reflect the changing needs of members and changing availability of Fund resources. The chapter also discusses the implications of the historical experience with access limits for the recent capital account crisis cases.

3. **Chapter III contains a discussion of recent experience in the application of access policy and an analysis of how the criteria for access in individual cases within the access limits have been followed in recent arrangements.** The chapter begins with a discussion of access under Fund arrangements in 2000 and more generally over the period since 1994, when the access limits were last increased. Based on this description, and on an econometric analysis of access decisions, the chapter attempts to establish how the criteria for access in individual cases which were endorsed by the Board in 1983 have been followed in access decisions in individual cases since 1994. The conclusion of the chapter is that, while access criteria had a statistically measurable impact on chosen levels of access, an implicit norm also played a large part in determining access in individual cases.

4. **Chapter IV considers the question of whether access under Fund arrangements, and financing more broadly, has been sufficient in the sense of meeting program targets.** The chapter thus compares program projections of financing with program outturns. It concludes that, in most programs, shortfalls of financing have not caused excessive

adjustment.[1] In the small share of cases where shortfalls in financing have occurred, they usually were attributable to programs going off track and delays in adjustment measures.

5. **Chapter V discusses the global environment and the likely balance of payments needs of members, and the implications of this for the Fund's liquidity.** The recent deterioration of the external environment points to a projected increase, over the medium term, in the gross financing needs of past users of Fund resources. On the basis of current projections, however, the recent quota increase should enable the Fund to meet these needs within existing access limits. Nevertheless, the nature of the demand for Fund resources has changed in recent years and the difficulty in predicting the needs of members experiencing capital account crises introduces a large element of uncertainty about future prospects.

6. **Chapter VI discusses access in the recent capital account crisis cases.** It notes that lending beyond the access limits has long been possible under the exceptional circumstances clause, but that the high access approved for Mexico in 1995 and in the Asian crisis cases led to the codification, through the SRF and CCL, of some of the circumstances under which high access can be provided. It discusses the access approved in each of the capital account crisis cases, and the explanations given in the Board papers for why high access was necessary in these cases. The chapter notes some common themes which emerge, in particular the centrality of balance of payments need in determining access in these cases and the perceived need to grant high access to Fund resources to restore market confidence.

7. **Annex 1 provides an example of how a significant shock might affect potential financing needs, looking at oil price shocks.** It concludes 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.

II. The History of Access Limits

8. **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.** This chapter describes their history, and considers the light that this sheds on the current discussion of the limits.

[1] This chapter does not cover arrangements financed through an SRF or with SRF-type access. Shortfalls in financing in these arrangement are discussed in *"IMF-Supported Programs in Capital Account Crises: Design and Expenditure"* (forthcoming).

A. The Beginnings of Access Limits: The Original Articles of Agreement

9. **The Fund's original Articles of Agreement established an annual limit on drawings of 25 percent of quota, and a cumulative limit of 100 percent of quota.**[2] The limits were to be waivable, "especially in the case of members with a record of avoiding large or continuous use of the Fund's resources," but also taking into account "periodic or exceptional requirements of the member requesting the waiver." The intentions of the founders of the Fund in setting these limits are suggested in several parts of the published history of the Fund. Particularly useful is the United States Treasury commentary on the Fund, which was prepared before the Bretton Woods discussions in 1944 and is one of the few sources in which the thinking behind the Bretton Woods agreement was recorded.[3] The chapters in the official history by Sir Joseph Gold on constitutional development and change in the Fund also provide useful background information. The following analysis is based on these documents.

10. **The founders' first priority in establishing access limits appears to have been to ensure that the Fund had adequate resources to cover the needs of all potential borrowers.** This consideration influenced not only the levels at which the limits were set but also the size of the Fund itself. Thus, the proposed size of the Fund was defended in the U.S. commentary as being sufficient to meet "…without difficulty the calls that would have been made upon it by member countries for the sale of foreign currency to meet their adverse balance on current account in the period 1936 to 1938."[4] Total proposed quotas were, in fact, intended to be more than *twice* the size of these balances, so that with a cumulative limit of

---

[2] "Articles of Agreement of the International Monetary Fund," July 1944 (hereinafter original Articles of Agreement), Article V, Section 3(iii). The original articles are reproduced in "The International Monetary Fund, 1945-65CTwenty Years of International Monetary Cooperation," International Monetary Fund, 1969, Volume III (hereinafter "*History I-III*)," page 185. Because the Articles use the concept of Fund holdings of currencies, the cumulative limit was specified as a limit of 200 percent of quota on holdings of the member=s currency. Interestingly, the annual limit was explicitly backward-looking, as it was specified that holdings of the member=s currency were not to increase by more than 25 percent of quota "during the period of twelve months ending on the date of the pur

[3] "Questions and Answers on the International Monetary Fund," June 1944 (hereinafter Commentary"); *History I-III*, pages 136-182.

[4] Ibid, Reply to Question 4.

100 percent of quota, half of the membership could have current account deficits which could be fully financed from the Fund for a period of up to three years.[5]

11. **The founders also wanted to ensure that individual members did not borrow from the Fund more than they could reasonably be expected to repay.** Thus, the U.S. Commentary said on the cumulative limit:

> "A limitation on the Fund=s holdings of the local currency of a member country is established for each country because it is regarded as desirable to have an objective indication of a limit to the Fund=s acquisition of local currency to help a country to support its exchange rate. There is implicit in this provision the view that when the Fund=s holdings have reached 200 percent of the quota, it is generally an indication that there is a fundamental disequilibrium in a country=s international position that calls for remedial action." [6]

A similar justification was offered for the lower annual limit of 25 percent of quota:

> "The purpose of [the annual limit] is two-fold: It protects the member country from using up its privilege to acquire foreign exchange from the Fund before taking appropriate steps to adjust its balance of payments position; and it protects the Fund from a too rapid use of its resources. ... In general, the presumption is that a country that purchases foreign exchange for local currency at an annual rate in excess of 25 percent of its quota is making unwarranted use of the Fund. ... Such use of the Fund is an indication of an unbalanced position that should be corrected."[7]

12. **The limits in the Articles thus reflected a mixture of ambition and caution, but they were soon overtaken by events.** The limits were intended to permit very substantial use of Fund resources by many members simultaneously, but they were also designed to limit such use, both annually and cumulatively . In fact, use of Fund resources was lower than the founders appear to have expected. The larger members made relatively limited use of Fund resources, and there was never a massive simultaneous demand for Fund resources by a

---

[5] If half of the membership had current account deficits, the other half could be expected by definition, have current account surpluses, and would need no finance from the Fund. The US Commentary (Reply to Question 5) actually considered an even more extreme case, in which only four out of 45 members (the US, Canada, Mexico, and Brazil) had credit balances, commenting that even in this case the Fund would need to borrow only a relatively small amount in order to lend to the remaining 41 members up to the cumulative limit.

[6] US Commentary, Reply to Question 23.

[7] Ibid, Reply to Question 5.

majority of members. Moreover, as international trade and payments grew more rapidly than Fund quotas over succeeding years, the amount that the Fund could lend within the original limits in the Articles became less important to members. In their desire to avoid excessive use of Fund resources by individual members the founders were more successful.

13. **The development of conditionality also reinforced the means available to ensure that members did not become too reliant on Fund financing without taking the steps to correct underlying disequilibria.** Conditionality was not emphasized in the early years of the Fund. Rather, the view originally advanced by Keynes of access as a right, not a privilege, dominated the early operations of the Fund. However, in 1949, the Executive Board began to reconsider the principle of automaticity of drawings, and in 1952 the principles of conditionality were clarified in the Rooth Plan (in Joseph Gold's words, the "Mount Everest that towers over all other decisions on the use of the Fund's resources").[8]

B. From the Articles of Agreement to the Present Day

14. The combination of these trends: relatively infrequent use of Fund resources; the diminution of quotas compared to trade balances; and the advent of conditionality; made it possible for the Fund to lend more with comfort, using waivers of the limit set under the Articles to do so.

1945-1974

15. **The limits specified in the original Articles of Agreement remained in place until the Second Amendment of the Articles in 1978, but they became less relevant as experience with Fund lending grew.** This was possible because of the provisions for waivers in the Articles. While the first waiver of the annual limit was not granted until 1953, from the mid-1950s to the mid-1960s far more purchases were made with a waiver of the annual limit than without. Furthermore, as time went on, there was a natural tendency for members' cumulative access to rise, and the first waiver of the cumulative limit was granted

[8] The catalyst for the establishment of conditionality was the evident ineffectiveness of repurchase obligations, which in the original Articles were to follow the improvement in the member's reserve position, rather than proceed on any particular schedule. This problem was addressed through the imposition of conditionality, later complemented by the development of the stand-by arrangement (SBA) including a schedule of repurchase obligations.

in 1963.[9] In the meantime, with the introduction of the Compensatory Financing Facility in 1963 and of various other special facilities thereafter, the provisions in the Articles ceased to be synonymous with the limits in the credit tranches. While use of the special facilities typically resulted in Fund holdings of members’ currencies, and thus, fell within the limits in the Articles (which were specified in terms of holdings of currencies), the relevant facilities were also generally classified as “outside the credit tranches,” meaning that it was understood that—in practice by means of the granting of waivers—their use would not be constrained by the limits specified in the Articles.

1974-1980

16. **During the period 1974-1979 access limits were gradually raised.** In 1974, recognizing the need of some members for longer-term financing, the Fund established the Extended Fund Facility (EFF). Drawings under the EFF were not to exceed 140 percent of a member’s quota, or to be allowed to raise the Fund’s holdings of the member’s currency above 265 percent of quota, representing the first credit tranche, plus potential access under the EFF. Thus, the cumulative limit, which by virtue of the provision in the Articles remained at 100 percent of quota for members that had only stand-by arrangements, was implicitly raised to 165 percent of quota for members that had at least one extended arrangement.[10] The cumulative limit for the SBA was then raised temporarily to 145 percent of quota, and the cumulative limit (SBA/EFF) to 176.25 percent of quota in January 1976,[11] but reverted to their previous levels in March 1978 upon effectiveness of the Sixth Review of quotas. At the same time, the annual limit disappeared from the Articles of Agreement with the Second Amendment, and no substitute was introduced, so that the cumulative limits became the only

[9] In recognition of the fact that waivers of the annual limit had become routine, the provision of the Articles limiting annual access to 25 percent of quota was eliminated in the Second Amendment of the Articles in 1978. The clause limiting purchases to those that do not raise the Fund’s holdings of a member’s currency to more than 200 percent of quota, remains part of the Articles to this day, although waivers are routinely granted.

[10] Henceforth and until otherwise specified, the cumulative limit under the credit tranches is indicated as “cumulative limit (SBA)” and that under the credit tranches and the EFF, taken together, as “cumulative limit (SBA/EFF).”

[11] The modalities of this increase were an increase in the size of the “credit tranches,” from 25 percent to 36.25 percent of quota each. This was the first time the cumulative access limit (SBA) deviated from the limit specified in the Articles. Potential access under the EFF remained unchanged at 140 percent of quota.

quantitative limits on access. However, these were exceeded on a number of occasions, sometimes spectacularly.[12]

17. **The limits were raised further and were treated more flexibly in response to the strains which emerged in the world economy following the second oil price shock.** By 1979, many members with large payments imbalances were approaching their cumulative limits. Partly in response, the Supplementary Financing Facility (SFF), under which the Fund would on-lend borrowed resources, was introduced in early 1979, and effectively raised the cumulative limit (SBA) to 202.5 percent of quota, and the cumulative limit (SBA/EFF) to 305 percent of quota. The SFF also provided for higher access under either the credit tranches or the EFF "in special circumstances," thus, paving the way for the current exceptional circumstances clause,[13] and for an increasingly flexible interpretation by the Board of the cumulative limits during the next few months.[14] [15]

18. **Beginning in mid-1980, more binding limits were re-established, at higher levels.** In July 1980, the cumulative limits were abandoned. In their place, in an attempt to make aggregate demands on Fund resources more predictable at a time when back-to-back

---

[12] Between 1976 and 1983 (when the present "exceptional circumstanc
formulated), the cumulative access limit was exceeded by Egypt (1978 EFF, cumulative access (CA) of 263 percent of quota), Jamaica (1978 EFF, CA of 270 percent augmented to 351 percent), and Sri Lanka (1979 EFF, CA of 219 percent in anticipation of effectiveness of the SFF) (all of these at a time when the cumulative limit (SBA/EFF) was 165 percent), and Turkey (1980 SBA, CA of 785 percent) (at a time when the cumulative limit (SBA) was 465 percent. For most of this period, there was no effective annual access limit, but after it was reinstated in mid-1980 it was exceeded by Korea (SBA 1981, 225 percent of quota compared with a limit of 150 percent). See "Review of Enlarged Access Policy," EBS/83/79, April 20, 1983.

[13] Executive Board Decision No. 5508-(77/127), August 29, 1977. In *"The International Monetary Fund, 1972-78—Cooperation on Trial"*, International Monetary Fund, 1985, Volume III, page 512.

[14] In September 1979, it was agreed to allow members with "large" needs to exceed the cumulative limits, by recourse to the "special circumstances clause" of the SFF, but it was also indicated that in most cases cumulative access would be kept to 465 percent of quota. In March 1980, the Board relaxed the interpretation of the cumulative limit further, emphasizing its "readiness to go beyond the existing ceilings if and when special circumstances arise," and the cumulative limit was effectively abandoned in favor of a "flexible approach."

[15] Henceforth, references to the cumulative limit are to the cumulative limit under the credit tranches and the EFF, taken together.

arrangements were becoming increasingly prevalent, the Board instituted a combination of annual and triennial limits, set initially at 200 percent and 600 percent of quota respectively.

1980-1992

19. **During the period 1980-1992, the Fund tried a system of annual, triennial, and cumulative limits and also dual limits.** In December 1980, following quota increases under the Seventh Review, the annual limit was reduced from 200 percent to 150 percent of quota, and the triennial limit from 600 percent to 450 percent (both, however, still implying a 12.5 percent increase in absolute access). In addition, the cumulative limit was reintroduced and set at 600 percent of quota. It was envisaged that this limit would be reviewed periodically, in light of "the world economic outlook, the Fund's financial position, the sustainability of the scale of assistance and the effectiveness of the adjustment efforts supported by Fund resources."[16] The system of triennial limits survived the replacement of the SFF with the Enlarged Access Policy (EAP) in 1981. However, when the quota increases under the Eighth Review became effective in 1983, it was decided that access limits that maintained average absolute access would penalize members that had received below-average quota increases. To ameliorate this effect, dual access limits were established, such that the lower and upper limits were consistent with unchanged absolute access for the average member and the member with the smallest quota increase, respectively. As a result, the annual limit was set at 102-125 percent, the triennial limit at 306-375 percent, and the cumulative limit at 408-500 percent. It was not envisaged, however, that members would in fact be subject to different limits depending on the size of their last quota increase, since this would violate the principle of uniformity of treatment. Instead, access between the dual limits would require "very large need" and an especially strong program. At the same time as these limits were established, the "exceptional circumstances clause" was enshrined in its current
und may approve stand-by or extended arrangements that provide for amounts in excess of these access limits in exceptional circumstances," and which thereby covers the cumulative as well as the annual (and, when applicable, triennial) limits.[17] [18]

---

[16] "Chairman's Summing Up Enlarged Access to Fund Resources", EBM/80/188, December 19, 1980.

[17] Decision No. 7600-(84/3), January 6, 1984.

[18] Paradoxically, the Criteria for the Amount of Access in Individual Cases, which were adopted only a month earlier, mention the exceptional circumstances clause only in connection with the annual limit (see Chairman's Summing Up, December 2, 1983), and the staff paper for that Board discussion states explicitly, in its discussion of exceptional circumstances, that "it would be the intention to ensure that the cumulative access under the tranche policies not exceed the cumulative access limit" (EBS/83/233, October 31, 1983).

Following a vigorous recovery in developing countries= economiesCand despite the onset of the debt crisisCmembers= financial positions had improved sufficiently by 1984-85 to warrant two successive reductions in access limits in those years. After the second of these, and up to late 1992, the annual limit was 90-110 percent, the triennial limit 270-300 percent, and the cumulative limit 400-440 percent.

1992 to present

20. **In November 1992, when the quota increases under the Ninth Review became effective, the complex structure of limits was replaced by one annual limit and one cumulative limit.** The annual limit was set at 68 percent of quota and the cumulative limit at 300 percent of quota. These limits were made subject to annual review, and in October 1994, reflecting the increased needs of transition economies, the annual limit was raised to 100 percent of quota for a period of three years; the cumulative limit was retained unchanged. In 1997, and at subsequent annual reviews of access policy in 1998 and 1999, the annual limit was confirmed at 100 percent of quota, and the cumulative limit at 300 percent of quota. The 1999 decision reflected an increase in access in absolute terms of about 45 percent, since the 11th review of quotas had by this time come into effect.

C. The Access Limits in Perspective

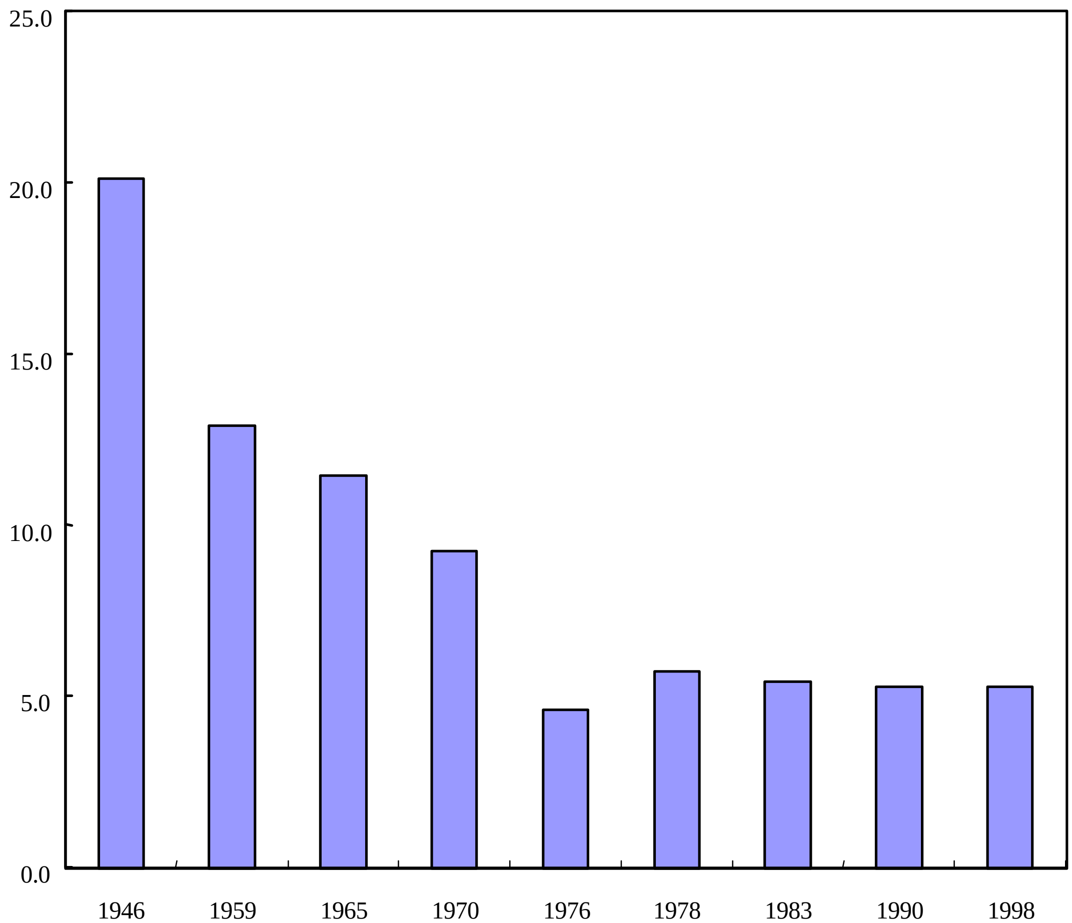
21. **The changes in the access limits since the Fund began operations reflect the changing needs of members and the availability of Fund resources.** In the first thirty years of its existence, the expansion of the Fund's resources did not keep pace with the growth of world trade or GDP or the demands of its members (Figure 1). IMF quotas as a percentage of world trade fell steadily from about 20 percent in 1946 to about 4 percent in 1976. After a quota increase in 1978 quotas rose to about 5 percent of world trade, and have remained at around this level since then. During the same period, reflecting increasing needs of members, access limits steadily increased. By 1981, access limits in percent of quota were six times higher than the levels incorporated in the original articles, there being in 1981 an annual access limit of 150 percent of quota and a cumulative limit of 600 percent of quota. Through a realization that initial projections of demand for resources had been too conservative, and then through borrowing, the Fund gradually became more comfortable with higher access limits.

22. **During the last twenty years the pattern has been different: the growth of Fund resources has kept pace with that of the world economy and the access limits have tended to fall in percent of quota, while remaining broadly constant or increasing slightly in absolute terms.** The most recent increase in quotas, which with access limits remaining unchanged has caused the indices of annual and cumulative access to increase significantly (Table 1). In terms of absolute access, therefore, the current quota limits of 100 percent of quota for annual access and 300 percent of quota for cumulative access are

higher than the levels that have generally prevailed during the last 20 years, and are probably close (as a percentage of world trade) to the levels approved in 1945.

Figure 1. IMF Quotas Relative to World Trade 1/

(In percent)



Source: IMF Annual Report 2000.

1/ World trade is defined as the average of exports and imports. Data for 1946 refer to the IMF quotas set in 1945 and world trade data for 1946. The other data points refer to years in which resolutions for increases in quotas were adopted by the Board of Governors under general quota reviews. A resolution for a general increase in quotas for all members, along with special increases for some members, was first adopted in 1959.

Table 1. Access Limits, 1981-2001

Period	Annual Access Limit (In percent of quota)	Annual Absolute Access Index (1981-83 - 100)	Cumulative Access Limit (In percent of quota)	Cumulative Absolute Access Index (1981-83 - 100)
1981-83 1/	150	100.0	600	100.0
1984	125	122.1	500	122.1
1985	115	112.4	450	109.9
1986-91	110	107.5	440	107.5
1992-93 2/	68	98.9	300	109.1
1994-95 3/	100	145.4	300	109.1
1998-2001 4/	100	210.8	300	158.2

Source: EB/CQUOTA/96/1 and staff estimates

1/ The access figures for 1981-83 are in percent of the quotas that were in place before the Eighth Review of Quotas became effective.
2/ Access Limits were revised at end-October 1992 in anticipation of the effectiveness of the Ninth Review quotas in November 1992.
3/ The annual access limit was raised at end-October 1994.
4/ Access limits in percent of quota were maintained following an increase in average quota of approximately 45 percent in the Eleventh Review of Quotas.

23. **There is a pattern going back 50 years of access limits being set, then exceeded, then amended, and also a pattern of trying different forms of limits.** The original limits held through the early 1950's, but were thereafter regularly waived. They were formally increased during the 1970's but were quickly exceeded again, as the concept of exceptional circumstances developed. During the 1980s they were adhered to more rigorously, with only occasional, mostly technical exceptions. However, during this latter period the limits also took some baroque forms, which are more suggestive of compromise than the consistent application of underlying principles. It is difficult to believe that the complexity of the system of limits in the 1980s served the Fund's members well, though it may have served them better than open conflict over the limits.

24. **The exceeding of the limits that has recently been done in the capital account crisis cases has many precedents, but there are also some important differences from the past.** The history of the access limits demonstrates that the access limits being exceeded in the capital account crisis cases and the excesses then being formalized through the introduction of the SRF have many precedents. However, the recent capital account cases are different in kind from previous "exceptional circumstances" cases in that the circumstances which lead to the access limits being exceeded are seen as applying to only a few members. They are also seen as (mostly) having a balance of payments need of a shorter duration than in the past, and as meriting a higher interest rate on the use of Fund resources.

III. Application of Access Policy

25. **Within the system of access limits, access in individual cases is guided by the criteria spelled out in 1983 – the member's need for Fund resources, its ability to service indebtedness to the Fund, and its outstanding use of Fund credit and record of past use of Fund resources.** This chapter provides a broad overview of the access decisions taken in individual arrangements during recent years (Section A) and seeks to establish, through the use of econometric analysis, how the criteria have been followed in practice (Section B).

A. Access in Recent Years

26. **Since October 1994 the annual access limit has been set at 100 percent of quota and the cumulative access limit at 300 percent of quota.** The criteria for access in individual cases have been unchanged since 1983. This section first discusses access in arrangements approved during 2000 and then access over the longer period since the access limits were last changed.

Access during 2000

27. **Access under the GRA remained relatively steady during 2000**.[19] World growth was higher than in 1999, while capital flows to emerging markets and other developing and transition countries generally continued to recover from the 1998 slump. Reflecting these developments, and notwithstanding a surge in oil prices, the number of new stand-by and extended arrangements approved during 2000 declined marginally to 12, while average annual access under these arrangements (at the time of approval) increased, relative to 1999, by one percentage point to 48 percent of quota (Tables 2 and 3).[20] Access for eleven of these

---

[19] This chapter focuses on access decisions made during 2000, and detailed consideration of arrangements and augmentations approved in 2001 will be the subject of future reviews of access policy. In summary, during January 1, 2001 to end-June, 2001 five new SBAs were approved: Croatia, Latvia, Peru, Sri Lanka, and Federal Republic of Yugoslavia with annualized access levels of 47, 16, 20, 41 and 43 percent of quota, respectively; two programs were augmented (Argentina's SBA on January 12 by 245 percent of quota, including 100 percent of quota under the SRF, and Turkey's SBA on May 12 by 660 percent of quota); and there was one arrangement (Yemen's EFF/PRGF blend), where the GRA component was reduced by 14 percent of quota.

[20] Unless otherwise indicated, figures for access levels reflect the amounts at time of approval of new arrangements. Thus, mid-term augmentations or extensions (including through the provision of SRF resources) are not considered.

Table 2. Access Under Standy-by and Extended Arrangements Approved During 1999-2000
(In percent of 11th review quota unless otherwise indicated)

	Effective Date of Arrangement	Duration *(months)*	Average Annual Access 1/	Use of Fund Credit Outstanding: Excluding Special Facilities 2/: Beginning of arrangement	Use of Fund Credit Outstanding: Excluding Special Facilities 2/: End of arrangement 11th review quotas	Use of Fund Credit Outstanding: Including Special Facilities 2/: Beginning of arrangement	Use of Fund Credit Outstanding: Including Special Facilities 2/: End of arrangement 11th review quotas	Associated Purchases Under: CFF 3/	Associated Purchases Under: PRGF 4/	Gross Fund Financing/ Gross Financing Requirement 5/ *(In percent)*
1999										
Upper credit tranche SBA										
Latvia 6/	12/10/99	16	20	0	26	29	46	...	...	4
Mexico	07/07/99	17	85	167	128	167	128	...	...	10
Romania	08/05/99	8	58	16	52	31	66	...	...	15
Russia	07/28/99	17	39	125	131	201	200	...	...	9
Turkey 7/	12/22/99	36	100	46	338	46	338	...	...	6
Uruguay 6/ 8/	03/29/99	12	23	37	60	37	60	...	...	18
Zimbabwe	08/02/99	14	34	38	69	74	95	...	...	18
Average, SBA 9/		17	51	61	115	84	133	...	...	12
Average for "ordinary" cases 10/		14	43	64	78	90	99	...	...	12
EFF arrangements										
Colombia	12/20/99	36	84	0	253	0	253	...	...	10
Jordan	04/15/99	36	25	194	216	194	236	20	...	6
Kazakhstan	12/13/99	36	30	68	132	92	139	...	...	13
Peru 6/	06/24/99	35	21	92	98	92	98	...	...	4
Average, EFF 9/		36	40	88	175	94	181	...	...	8
Average for "ordinary" cases 10/		36	40	88	175	94	181	...	...	8
Average, SBA and EFF 9/		24	47	71	136	88	151	...	...	10
Average for "ordinary" cases 10/		23	42	74	116	92	132	...	...	11
2000										
Upper credit tranche SBAs										
Argentina 6/	03/10/00	36	85	147	290	147	290	...	...	7
Ecuador	04/19/00	12	75	0	75	0	75	...	...	14
Estonia 6/	03/01/00	18	30	0	45	27	63	...	...	6
Gabon 6/	10/23/00	18	40	38	90	38	90	...	...	9
Lithuania 6/	03/08/00	15	34	89	122	115	138	...	...	3
Nigeria 6/	08/04/00	12	45	0	45	0	45	...	...	7
Pakistan	11/29/00	10	54	28	63	104	133	...	...	15
Panama 6/	06/30/00	21	18	44	50	44	50	...	...	4
Papua New Guinea	03/29/00	14	56	10	66	10	66	...	...	15
Uruguay 6/	05/31/00	22	27	37	82	37	82	...	...	9
Average, SBA 9/		18	46	39	93	52	103	...	...	9
Average for "ordinary" cases 10/		18	46	39	93	52	103	...	...	9
Extended arrangements										
Indonesia 11/	02/04/00	36	60	359	375	359	375	...	...	8
Macedonia, FYR 12/	11/29/00	36	12	4	35	90	98	...	5	3
Average, EFF 9/		36	36	182	205	225	237	...	...	6
Average, SBA and EFF 9/		19	48	68	118	80	128	...	...	9
Average for "ordinary" cases 10/		18	46	39	93	52	103	...	...	9
All arrangements										
Average, SBA and EFF 9/		22	47	70	127	84	139			10
Average for "ordinary" cases 10/		20	44	56	105	72	118			10

Sources: Executive Board documents and information provided by the Treasurer's Department.

1/ Reflects amounts and duration agreed at the time arrangements were initially approved; excludes potential access under external contingency mechanisms and other augmentation. Total access divided by length of arrangement (in years), except where otherwise specified.
2/ Special facilities include CCFF/CFF, PRGF, SAF, ESAF and STF; end position assumes full disbursement of committed amounts: in the case of phased drawing under CCFF, the entire eligible amount is estimated.
3/ Purchases anticipated at the time of Executive Board approval of associated SBAs or extended arrangements, including further purchases under the CCFF, if applicable.
4/ Average annual access under the PRGF.
5/ Gross Fund financing includes all use of Fund resources during the period under arrangement and associated purchases that were anticipated at the time of approval. Gross financing need is defined as the sum of the current account deficit (excluding grants), amortization of maturities in excess of one year including Fund repurchases, the targeted reduction in arrears (in cash and through rescheduling) and the targeted buildup in gross reserves. Figures may be estimated based for the period most closely corresponding to the program period.
6/ Precautionary on approval.
7/ Annual access limit exceeded and exceptional circumstances used to accommodate outstanding purchase equivalent to 37.5 percent of quota under the emergency assistance policy.
8/ 9th review quota in effect at the time of Board approval of Uruguay SBA.
9/ Simple arithmetic average.
10/ Excludes SRF and SRF-type cases, blends, and and all cases where exceptional circumstances clause was invoked. There were no new arrangements involving use of SRF resources on approval in 1999 and 2000.
11/ Cumulative access limit exceeded using exceptional circumstances.
12/ PRGF/EFF blend case.

Table 3. 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
of which precautionary at start	35	30	28	27	43	24	40
of which non-precautionary	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
of which precautionary at start	1	4	8	4	4	3	7
of which non-precautionary	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 CCFF/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.

arrangements was within the annual and cumulative limits,[21] one EFF (Macedonia's) was blended with PRGF resources, no arrangement involved use of the Supplemental Reserve Facility (SRF), and seven arrangements (all stand-bys) were precautionary on approval (i.e., the member indicated its intention not to make purchases).

28. **There has been a marked shift in the type and duration of arrangements, compared to recent trends**. The number of new extended arrangements halved in 2000, consistent with the tightening of eligibility agreed during the Review of Facilities in 2000. No extended arrangements were approved on a precautionary basis in 2000 but the number of precautionary stand-by arrangements increased sharply compared to 1999. Despite a small increase in 2000, the average length of new stand-by arrangements – at 18 months – is also considerably lower than the average of 21 months during 1997-98.

29. **Reflecting individual circumstance and the type of arrangement, the annual average access of 48 percent of quota in 2000 masks some variation.** Annual access ranged from 12 percent for Macedonia (which was a blend EFF-PRGF arrangement) to 85 percent for Argentina. Of the twelve arrangements approved in 2000, four had relatively low access (below 30 percent of quota), two had relatively high access and six were close to average. At the low end, Estonia, Panama, and Uruguay were precautionary on approval. However, potentially large balance of payments needs underpinned the decision to provide above average access for the precautionary arrangement with Argentina, while Gabon and Nigeria had access nearer average levels.[22] [23] Among non-precautionary arrangements, relatively high access was approved for Ecuador in light of the severity of the crisis.

30. **Gross Fund financing of new arrangements as a share of individual members' broad gross financing needs was 9 percent, on average, in 2000 - lower than at any point during the 1990s**. It ranged from 3-4 percent in precautionary arrangements if drawings took place (Lithuania, Panama, and Macedonia) to 14-15 percent in the higher access non-precautionary arrangements (Ecuador, Pakistan, and Papua New Guinea). [24]

31. **The number of outstanding arrangements declined to 25 at end-2000**. There had been 28 outstanding arrangements at end-1999 and 27 at the end of each of the two previous

---

[21] Indonesia's 2000 extended arrangement exceeded the limits because outstanding use of Fund resources already stood above the cumulative limit of 300 percent.

[22] For Argentina, this need eventually materialized towards end-year, leading to the augmentation on January 12, 2001.

[23] Nigeria was also eligible to draw its first credit tranche.

[24] Including PRGF resources provided in the case of the blend arrangements.

years. The decline reflects mainly the low number of new arrangements approved during 1997-99. Of the 25 arrangements in effect at end-2000, 16 were stand-by arrangements and the remainder were extended arrangements.

Access during 1994-2000

32. **Over the period October 1994 to December 2000, 90 new arrangements were approved under the credit tranches and the EFF (Table 4)**. Of these, five arrangements either included SRF resources from the start, or supported programs that would probably have qualified for the SRF had the facility existed at the time. An additional four arrangements, while requiring use of the exceptional circumstances clause, were approved in the absence of "the significant changes in market sentiment" required for consideration of the SRF.[25] Of the remainder, four were blend arrangements involving the concessional PRGF/ESAF trust and 30 were arrangements that were precautionary on approval, leaving 47 "ordinary" stand-by and extended arrangements.[26] [27]

33. **The average annual access across all arrangements (including SRF resources) was 61 percent of quota at the time of approval.** This average reflects a wide range, encompassing 12 percent of quota in the case of Macedonia's 2000 blend arrangement, to 646 percent of quota in the case of Korea's 1997 arrangement.[28] The variation, however, largely reflects type of arrangement, with access within each type remaining within narrower ranges:

- **For blend arrangements, annual access to GRA resources averaged 17 percent of quota.** Under these arrangements, GRA resources complemented PRGF/ESAF resources in cases in which the member's incomes were at the upper end of

---

[25] Indonesia's 1997 SBA was augmented in 1998 (exceeding the cumulative limit). In addition, the limits were waived at approval for Russia's 1996 EFF (annual limit), Indonesia's 1998 EFF (cumulative limit) and Turkey's 1999 SBA (annual and cumulative limits because of the earlier emergency purchase for a natural disaster).

[26] The blend arrangements were: Azerbaijan (1996), Pakistan (1997), Yemen (1997) and Macedonia (2000).

[27] All figures are for arrangements at the time of approval; thus, extensions, augmentations (including through SRF resources) are not included. The 47 "ordinary" arrangements include two that turned precautionary immediately after approval as well as one first credit tranche purchase. The figures cited use quotas in effect at the time of approval.

[28] This is average annual access. Because of frontloading, actual annual access for the first year of Korea's 1997 arrangement was 1,757 percent of quota.

Table 4. Annual Access by Type of Arrangement, October 1994-December 2000 1/
(In percent of quota unless otherwise specified)

	Number	Mean	Median	Standard Deviation	Minimum	Maximum
SRF and SRF-type arrangements 2/	5	329	200	215	163	646
Exceptional circumstances, but not SRF	4	89	80	42	53	144
PRGF/EFF Blends	4	17	18	4	12	20
Arrangements precautionary on approval	30	32	28	16	18	85
Excluding large precautionary arrangements	28	28	27	8	18	45
Non-precautionary arrangements	47	52	50	18	25	100
Of which: Extended arrangements	11	45	45	17	25	84
Entire sample	90	61	42	83	12	646

Source: Executive Board documents and MONA Database.

1/ Excluding augmentations, reductions, and purchases under special facilities.
2/ Including arrangements that would probably have qualified for the SRF had the facility been in existence at the time.

PRGF/ESAF eligibility levels, or the members had capacity to service some nonconcessional debt, or in cases where the concessional resources available from the PRGF Trust accounts were insufficient. Combined annual access under the two facilities, at 45 percent of quota on average, was, however, much closer to the average level for ordinary stand-by and extended arrangements (see below).

- **Annual access under precautionary arrangements was also relatively low – both in terms of the average and the range.** If one were to exclude the Philippines' 1998 arrangement and Argentina's 2000 SBA (with annual access of 81 and 85 percent, respectively), annual access under precautionary arrangements was only 28 percent of quota on average and all remained below 45 percent of quota.[29] There were four precautionary extended arrangements during this period, and the rest were stand-bys.

- **At the other extreme, annual access under new SRF and SRF-type arrangements was about 330 percent of quota, on average.[30]** Within this category, annual access was exceptionally high in the case of Korea, but remained below 200 percent of quota in three fifths of the cases. Annual access for other arrangements that required use of the exceptional circumstances clause averaged 89 percent of quota.

---

[29] The Philippines' SBA was approved in the midst of the Asian crisis. As in the case of Argentina's 2000 SBA, annual access approved under this arrangement reflected the expectation of a potentially large balance of payments need.

[30] Including arrangements that would likely have qualified for the SRF had the facility existed at the time.

- **Annual access under ordinary non-precautionary stand-by and extended arrangements was 52 percent of quota on average.** Despite spanning a range from 25 percent of quota to 100 percent of quota, the distribution of access levels is, however, fairly concentrated around its mean value, as evidenced by the small standard deviation. Annual access under the 11 extended arrangements approved during the period appears to be distributed in broadly the same way as under stand-by arrangements, except for a slightly lower mean and a lower maximum.

34. **The bunching around the mean appears quite evident from the overall distribution of access levels**: about 85 percent of ordinary stand-by and extended arrangements fall in the range of 30 to 70 percent of quota, 80 percent of the arrangements that were precautionary on approval fall in the range of 20 to 40 percent of quota (Figure 2). All blend arrangements had access to GRA resources below 20 percent of quota.

B. The Determinants of Access Levels in Individual Cases

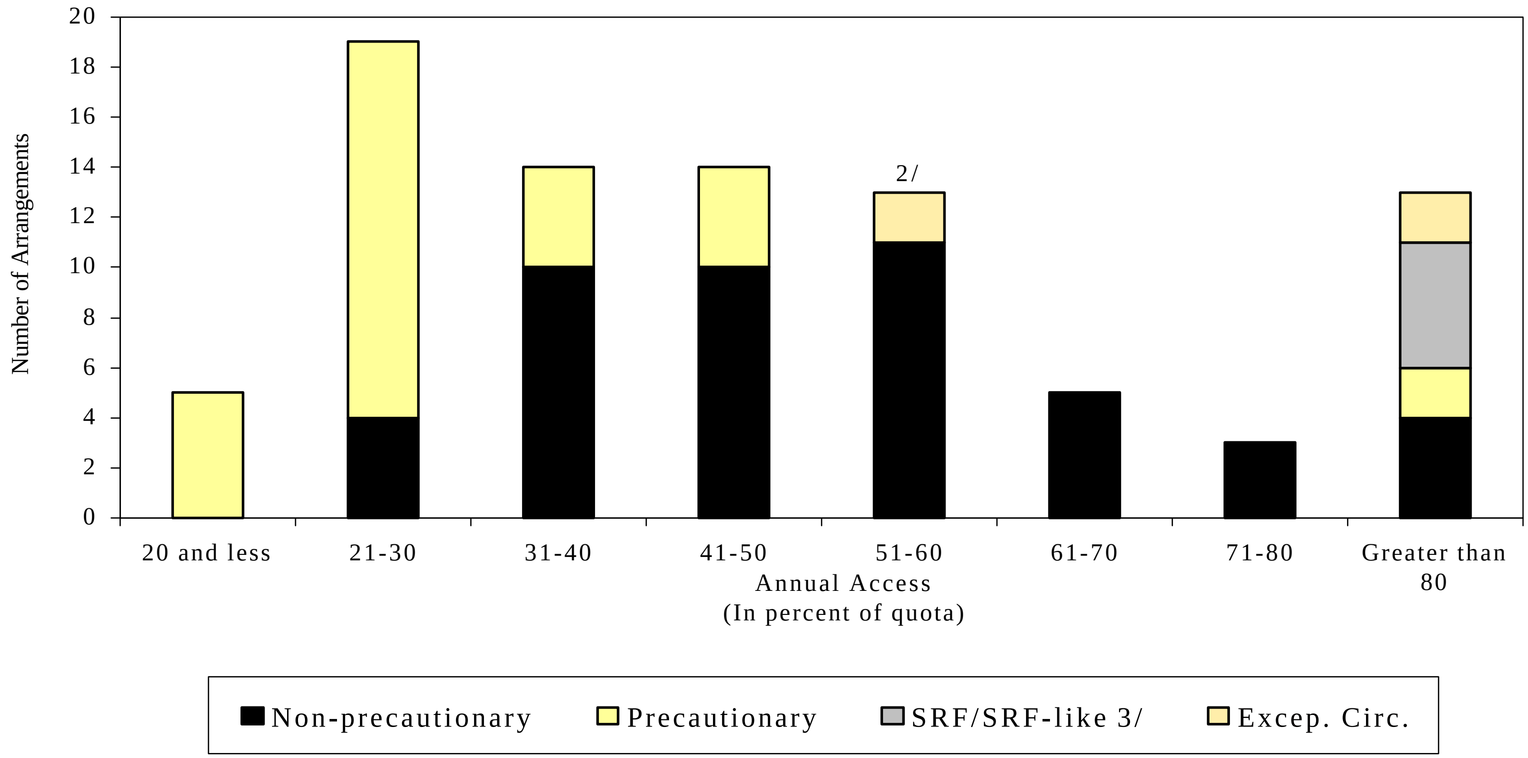
35. **The limited variation in access levels, once type of arrangement is taken into account, raises a question about how much weight is being given to the criteria governing access in individual cases.** This section explores, through the use of simple regression analysis, how the criteria have been applied in practice. The method is to regress annual access in percent of quota against a set of explanatory variables related to the access criteria.

Quantifying the criteria

36. **Quantifying the access criteria—the independent variables in the regression equation—poses some difficult measurement problems.** For some variables, the main issue is one of possible measurement errors. In other cases, the variables theoretically underpinning access decisions are not observable and must be quantified by indicators only broadly related to them. The full descriptions of the variables included in the analysis is provided in Table 5 and the rationale governing their choice is described below.

37. **The first and most important criterion for access, the need for Fund resources, is unobservable and endogenous to access.** Once a fully financed program has been approved, the need for Fund resources, after taking into account the availability of other sources of financing and the desirability of maintaining a reasonable level of reserves is, in principle, exactly equal to access. Access decisions are, however, reached through an iterative process whereby ‘access’ depends on ‘need’, and ‘need’ depends on ‘access’, including financing catalyzed from other sources. The *ex ante* need for Fund resources, therefore, cannot be determined from the relevant program documents, which show the remaining need for Fund resources after other factors are taken into account.

Figure 2. 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 arragements that would have qualified for the SRF had the facility existed at the time.

Table 5. Regression Variables and Definitions 1/

Average Annual Access (in percent of quota)	Total access on approval in percent of quota excluding special facilities, times 12, divided by length of arrangement in months on approval.
Precautionary arrangement	Dummy variable equal to 1 for all arrangements in which the LOI explicitly mentions that the authorities did not intend to make any purchases under the arrangement.
EFF arrangement	Dummy variable equal to 1 for all EFF arrangements.
EFF/PRGF blend	Dummy variable equal to 1 for all EFF arrangements with an associated ESAF/PRGF arrangement.
Transition country	Dummy variable equal to 1 for all arrangements with transition countries as per WEO (Fall 2000 Vintage) definition.
Import coverage of gross reserves (in months of imports)	Stock of gross reserves at the end of the month in which the program was approved, times 12, divided by imports of goods and services in the year before the beginning of the arrangement.
Projected BOP need duration (in years)	Equal to the number of years (including the year in which the arrangement is approved) in which the BOP need is positive. The counting is stopped as soon as the BOP projected need becomes negative (i.e., no need), even if the need is projected to resume in a later year. BOP need is defined as (1) increase in gross reserves (including valuation change), minus (2) the autonomous component of the overall balance of payments. Thus, balance of payments need is equal to projected exceptional financing (including from the Fund) under the program.
Market access	Dummy variable equal to 1 for all arrangements in which two-thirds of external financing is from private sources as per WEO (Fall 2000 Vintage) definition.
Gross Fund financing as a percent of gross financing need	Cumulative access divided by cumulative gross financing need under the arrangement, where gross financing need is defined as (1) current account deficit excluding gross official transfers, plus (2) amortization, plus (3) Fund repurchases, plus (4) reduction of arrears and overdue obligations, plus (5) increase in gross reserves, as reported in the staff report requesting the arrangement.
Outstanding Fund credit at beginning of arrangement (in percent of exports)	Outstanding Fund credit at the beginning of the arrangement (excluding special facilities), divided by average annual exports of goods and services during the three years before the year in which the arrangement began.
Debt to export ratio at the beginning of arrangement (in percent of exports)	Total external debt (including to the Fund) during the year before the beginning of the arrangement, divided by average annual exports of goods and services during the three years before the year in which the arrangement began.
Annual average projected current account adjustment (in percent of quota)	For cases in which the planned duration of the arrangement is more than 24 months (between 12 and 24 months), this is the difference between the projected current account balance two years after approval and the year before the beginning of the program, divided by the quota times three (two). For cases in which the planned duration is less than 12 months, this is the difference between the current account balance in the year of approval and the year before the beginning of the program.
Annual average projected fiscal account adjustment (in percent of quota)	For cases in which the planned duration of the arrangement is more than 24 months between 12 and 24 months), this is the difference between the projected fiscal balance two years after approval and the year before the beginning of the program, divided by the quota times three (two). For cases in which the planned duration is less than 12 months, this is the difference between the fiscal balance in the year of approval and the year before the beginning of the program.
Total number of structural measures per month of program	Total number of structural performance criteria and benchmarks, divided by length of arrangement on approval (as per Review of Fund Facilities work definition).
Outstanding Fund credit at the beginning of arrangement (in percent of quota)	Fund credit outstanding at the beginning of the arrangement (excluding special facilities), divided by quota.
Poor track record in predecessor arrangement	Dummy variable equal to 1 for all arrangements whose predecessor arrangement had at least one nine-month period when no purchase was made, and for which that arrangement was not precautionary on approval or had turned precautionary.
Expectation of a successor arrangement	Dummy variable equal to 1 for all arrangements which had another arrangement of any type within 3 months of the actual expiration/termination of this arrangement.

1/ Data are taken from Executive Board Documents, the MONA Database, IFS, and WEO. Missing observations filled with mean value in the sample of available observations.

38. **Several variables were, therefore, considered to capture the concept of need for Fund resources:**

- **Import coverage of gross reserves just before the start of the arrangement.** The desirability of maintaining a reasonable level of reserves can in itself constitute a bona-fide case of need. In addition, the lower the reserves at the start of a program, the higher the likely balance of payments need during the program period – especially as members often approach the Fund after a loss in reserves.[31]

- **The duration of the balance of payments need**. While there would not appear to be a strong reason for the duration of need to directly affect *annual* access, the projected level of need in the program papers and the duration of need are highly, and statistically significantly, correlated – the coefficient stands at 0.65. The duration can, therefore, be considered a proxy measure of annual need for the purposes of this statistical analysis.

- **The availability of financing from the private sector.** A dummy variable to indicate the presence of market access, prepared on the basis of the classification in the Fall 2000 WEO, was included in the regression equation.

39. **As regards capacity to repay—the second criterion—both financial and "strength of program" variables were included.** The ratios of external debt to exports and of Fund credit outstanding at the beginning of the arrangement to exports were used as direct financial measures. The rationale for including the first follows from the Board summing-up establishing the criteria - members should be able to repay the Fund without strain. All else equal, a larger overall debt burden would likely require greater effort to service Fund debt. Fund credit outstanding at the beginning of the program is used instead of a forward looking measure. While projected debt service to the Fund, including on account of new access, would at first appear to be a better predictor of capacity to repay, the issue of simultaneity arises again – in individual cases, low debt service in the sample may reflect low access provided on grounds of capacity to repay.

40. **The strength of the program is not a separate criterion, but enters into access decisions through its effect on capacity to repay**. In the empirical analysis, the member's adjustment effort is measured through the use of projected improvements in the current account and in the fiscal balance and through the use of an indicator variable denoting the

[31] Reserve cover can be expressed in other ways, including in percent of short term debt. The latter has been an important consideration in recent large access cases, but these programs are not included for this analysis and the information is not readily available over the entire sample.

intensity of the structural reform effort, based on a count of the structural measures expected at time of program approval.

41. **The regression equation also includes measures for the remaining criteria and a number of control variables**. The stock of outstanding Fund credit in relation to quota is measured directly, and a dummy variable representing the member's track record was constructed to indicate programs where purchases had not been made during any nine month period during the previous (non-precautionary) arrangement. The control variables used included, in addition to the size of quota in relation to GDP, a set of dummy variables indicating: (i) the type of arrangement; (ii) the expectation of a successor arrangement; and, (iii) whether the member was a transition economy or not.

42. **The dependent variable is taken to be the annual average access at the time of approval (expressed in percent of quota)**. Any subsequent augmentations, reductions and extensions are excluded, as is access under special facilities.[32] The database used thus covers all new arrangements in the GRA approved between October 1994 and December 1999, except for SRF and SRF-type arrangements, and arrangements in which the exceptional circumstances clause was used.[33]

Results

43. **The results show evidence that the existing access criteria have a measurable impact in determining access, although the impact is small and there is further evidence of an implicit norm.** Indicators of balance of payments need, strength of program, extent of and track record in past use of Fund resources all help to explain some of the variation of access levels across arrangements, once controlled for the type of program and all other factors considered. The overall explanatory power of these variables is, however, relatively small. This, together with the importance of the constant term, suggests the existence of an implicit norm for access (Table 6).

---

[32] In principle, augmentations or reductions of access are separate decisions, subject to the same framework of limits and criteria as the original decisions. These "later" decisions are, however, not included in the analysis given the absence of data readily available in the required format, and the availability of an already large sample.

[33] SRF and SRF-type of arrangements, and arrangements involving use of the exceptional circumstances clause, are excluded because average access levels in these cases is not only much higher than in traditional cases, but also more volatile. A dummy variable controlling for their different mean level, therefore, is not sufficient to prevent these few observations from distorting the overall results.

Table 6. The Determinants of Access Decisions - Regression Results

	All factors considered	All significant factors	Type of Arrangements
Equation 1/	(1)	(2)	(3)
Constant	37.75	37.87	53.07
	3.96	5.86	19.04
Precautionary arrangement	-4.39		-22.28
	-0.64		-5.19
EFF arrangement	-10.50	-12.94	-5.88
	-1.81	-2.78	-1.20
EFF/PRGF blend	-26.38	-25.68	-28.30
	-2.65	-2.80	-2.68
Transition country	-6.20	-7.80	
	-1.08	-1.61	
Import coverage of gross reserves (in months of imports)	-1.60	-1.54	
	-1.46	-1.61	
Projected BOP need duration (in years)	3.29	4.21	
	2.06	3.87	
Market access	14.57	14.14	
	2.61	2.76	
Outstanding Fund credit at beginning of arrangement (in percent of exports)	0.04	0.03	
	1.69	3.39	
Debt to export ratio at the beginning of the arrangement (in percent of exports)	0.01		
	0.54		
Annual average projected current account adjustment (in percent of quota)	0.04	0.04	
	1.45	1.74	
Annual average projected fiscal account adjustment (in percent of quota)	0.03		
	0.58		
Total number of structural measures per month of program	0.23		
	0.09		
Outstanding Fund credit at the beginning of arrangement (in percent of quota)	-0.02		
	-0.47		
Poor track record in predecessor arrangement	-6.32	-8.11	
	-1.24	-1.89	
Expectation of a successor arrangement	-0.32		
	-0.08		
No. of Observations 2/	70	70	70
Adjusted R-Squared	0.46	0.51	0.31
R-Squared	0.58	0.57	0.34

Source: Staff estimates.

1/ The dependent variable is annual average access, excluding augmentations, reductions, and purchases under special facilities. For each independent variable included in the regression, the table reports the estimated coefficient and its t-statistic.
2/ All non-SRF, non-exceptional circumstances arrangements approved from October 1994 to December 1999.

44. **Three main regression equations are presented**. The first includes the entire set of independent variables and may be seen as a general specification to cover a broad set of indicators quantifying the criteria for access in individual cases. The second regression, which is the preferred specification, excludes all variables that are clearly statistically insignificant in the first equation so as to increase the efficiency of the remaining estimates. The last regression restricts to zero all factors measuring the members' individual circumstances except the dummy variables for the type of arrangement. This is undertaken in order to obtain a sense of the overall ability of factors measuring members' individual circumstances to explain variations in access levels around the sample average. For each of the three equations, the estimated coefficient and t-statistic for the independent variables are reported in Table 6.[34]

45. **The results indicate that need for Fund resources has affected access decisions**. The import coverage (in months) of gross reserves has the expected sign and the variable is (marginally) significant.[35] As measured by import coverage, the impact of higher need on access is, however, small – on average, a country with one month less of import coverage of reserves received additional annual access equivalent to only 1.5 percent of quota. In both equations, higher access is also positively and strongly associated with the projected duration of need. Members that normally get the bulk of their financing from the private sector have also in general received higher access to Fund resources. This strong positive relation probably reflects these members' increased vulnerability to capital account disturbances, and thus their higher need in periods when private sector financing is less readily available. It should not be taken to imply that the availability of financing from other sources is not taken into account in setting access to Fund resources.

46. **As regards financial measures of the capacity to repay, the evidence is somewhat mixed.** The overall debt-to-exports ratio appears not to have affected access decisions while Fund credit outstanding in percent of exports appears to have had a modest positive effect on access, suggesting it represents other factors beyond capacity to repay.

---

[34] Under standard assumptions, a variable is considered statistically significant with a confidence level of 10 (5) percent if its t-statistic is larger than 1.65 (1.95) in absolute value. A 10 (5) percent confidence level means that the probability that the *true value* of the coefficient is zero is smaller than 0.1 (0.05).

[35] 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*. Specifically, the coefficients of all the other variables in the regressions in Table 6 continue to have broadly the same magnitudes and statistical significance, and the impact of the reserve variable on access remains small while its statistical significance decreases slightly.

47. **Capacity to repay, as measured by the intermediary consideration of program strength, has affected access decisions.** The variable indicating strength of external adjustment is positively and significantly associated with access, even though the effect is small: an extra percentage point of projected annual current account adjustment in relation to quota brought about only an extra 0.04 percentage points of annual access according to equation 2.[36] This low correlation might reflect the difficulty in adequately measuring strength of program, and the fact that stronger programs tend to result in lower needs, and thus lower access. In the broader regression, the estimated coefficients on other indicators of strength of program (fiscal adjustment and structural measures) both had the expected positive sign but were not statistically significant.

48. **As regards the remaining criteria, poor track record appears to have been a significant factor determining access, while outstanding Fund credit appears to have been given less weight**. The presence of poor track record reduced access by about 8 percentage points of quota holding everything else constant (equation 2). The interpretation of the magnitude of its impact, however, remains an open issue given the difficulties in adequately measuring the main criteria of need and capacity to repay. Some of the impact of this variable might be reflecting concerns about capacity to repay. Relatively higher Fund credit outstanding in relation to quota is also associated with lower annual access (equation 1), but this correlation is weak.

49. **The regression results also point to the presence of an implicit access norm.** The estimated constant is the largest coefficient in the regressions (equations 1 and 2), suggesting that there is less variability in access levels compared to the variability of individual circumstances, as measured by the other independent variables.

50. **The evidence indicates that the implicit norm does not depend on the type of arrangement (i.e., SBA, EFF, blend, or precautionary)**. The results indicate that the apparent differences in resources made available in different types of arrangements appears to be due to the difference in countries' circumstances, rather than the type of arrangement per se. Although the type of arrangements appears highly significant when other factors measuring members' circumstances are excluded (equation 3), the significance disappears once they are included. The coefficient of the variable for precautionary arrangements decreases and becomes insignificantly different from zero when the criteria are taken into account (equation 1). Similarly, the dummy variables for blended and extended arrangements becomes insignificant once controlled for access concurrently provided under special facilities and the longer length of these arrangements (result not reported). The dummy for transition countries appears significant (equation 2) but this is also due to the fact that access under

---

[36] This is equivalent to approximately 1 percent of quota for every 1 percent in GDP of extra adjustment, based on the average quota to GDP ratio in the sample.

special facilities is not included in the analysis - once this is taken into account, the significance disappears.

IV. Financing and Adjustment Under Fund Supported Programs

51. **Fund programs are designed to ensure that a member reaches a viable external position over the medium term through a combination of financing, including from the Fund, and adjustment.** Any shortfall in financing could lead to excess adjustment. This chapter undertakes an empirical assessment of past Fund programs to assess how often this takes place. It compares the financing and adjustment outcomes with those expected at the time the program was agreed. Evidence of systematic financing shortfalls would suggest programs were taking an undue risk in their financing assumptions, indicating a need for programs with greater access to Fund resources, and/or more adjustment to reduce financing requirements.

52. **Not all cases of higher-than-programmed adjustment reflect exogenous shortfalls in the availability of financing.** The domestic private sector may contract its savings-investment balance more than projected even in the absence of external financing constraints, due to subsequent shocks or other projection errors. The macroeconomic policies implemented may have been somewhat tighter than targeted, which could also result in higher adjustment than programmed. Finally, policy slippages may be the cause of shortfalls in external financing rather than shocks that are outside the member's control.

53. **Based on a sample of 90 stand-by and EFF supported programs, the chapter concludes that in most cases there is no evidence of greater-than-programmed adjustment caused by a shortfall in financing.**[37] In the instances where such excess adjustment was found, it can usually be traced to shortfalls in other official financing (excluding Fund credit) relative to programmed amounts, rather than in private financing, and such shortfalls are often themselves a result of delays in structural reform measures or other policy implementation problems which delay the completion of reviews.

A. Additional External Adjustment in Fund Arrangements

54. **The method used is to explore the incidence of higher-than-programmed external adjustments, and then to examine the sources of lower levels of external financing.** The original financial program is used as the benchmark in assessing the incidence of undue

---

[37] The analysis excludes arrangements financed through an SRF or with SRF-type access levels. Shortfalls of financing in these arrangements are discussed in "*IMF—Supported Programs in Capital Account Crises: Design and Expenditures*"(forthcoming).

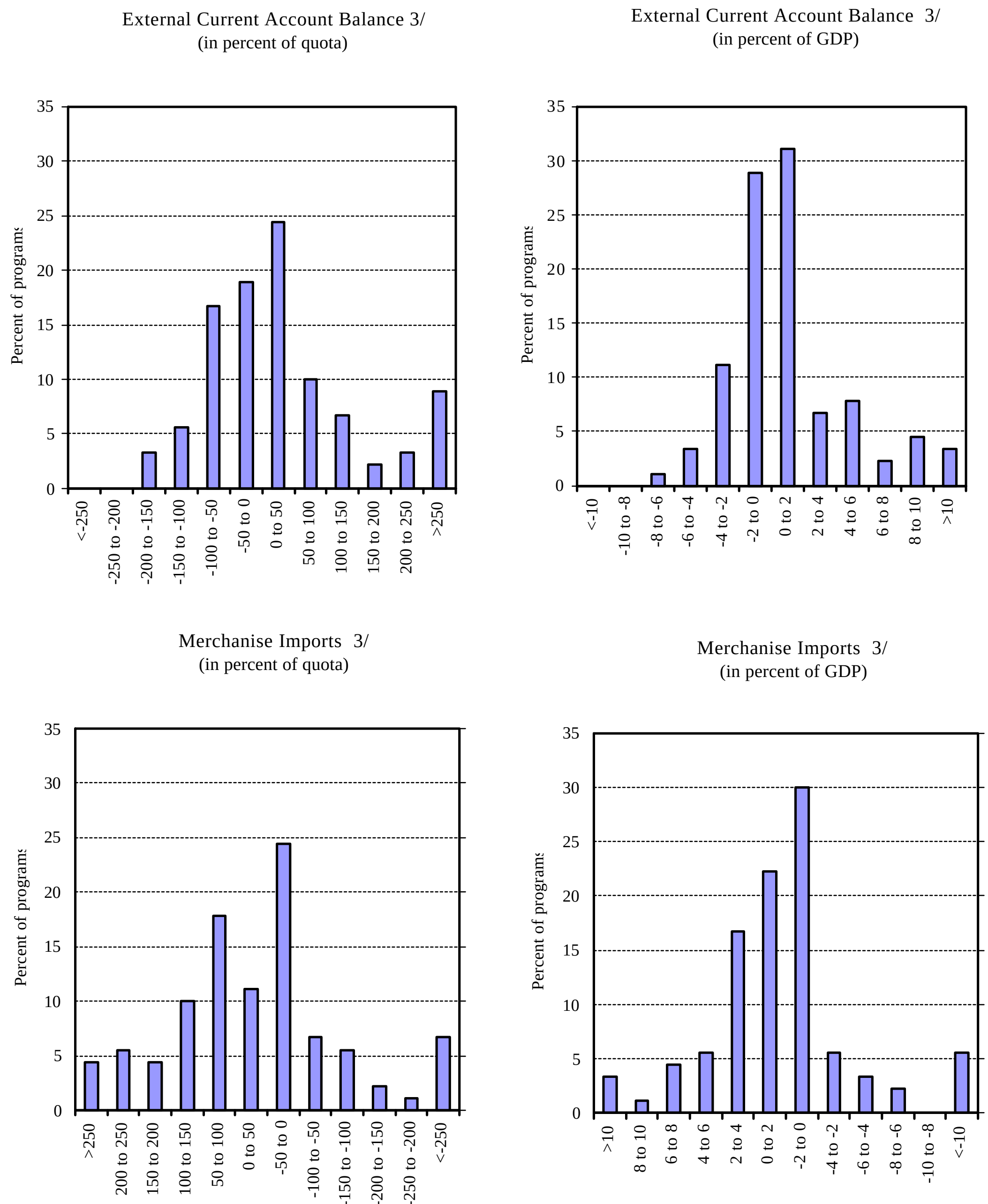
external adjustment. This section first discusses the indicators used to assess external adjustment, and the risks members have faced of larger-than-programmed external adjustments in 1993-99 under SBA and EFF arrangements[38] It then considers more closely those cases where constraints on external financing may have been a factor in the additional external adjustment.

55. **The behavior of both the external current account balance and of imports is used to assess whether external adjustment is excessive.** The external current account balance is the most commonly used indicator of external adjustment, which is natural given that it equals gross national income less domestic absorption. However, improvements in the current account may be caused by a number of factors which are not driven by greater domestic adjustment caused by a shortfall in financing. For example, shocks to exports may improve the current account as they are often not immediately reflected in higher domestic expenditures. The level of imports can therefore also be a useful indicator in cases where external adjustment is driven by lower domestic demand. Figure 3 provides both indicators, in terms of their deviation from program in the first year of an arrangement.

56. **There is no significant bias towards larger-than-programmed external adjustment in Fund arrangements.** The actual external current account balance is slightly above program projections on average (i.e. a smaller current account deficit), by some 15 percent of quota or 0.4 percent of GDP, but this deviation is not statistically significant (Table 7). Merchandise imports tend to slightly exceed program projections, by some 13 percent of quota or 0.4 percent of GDP, but again this is not statistically significant. The fact that the current account balance is stronger on average even though imports are somewhat higher indicates that other current account items make a higher-than-projected contribution to the balance on average, but again the amounts are small. The medians are similar to the means indicating that the deviations from program are largely symmetric, but the high standard deviations indicate a need to examine the risk that members face of high levels of adjustment.

[38] From the set of programs in the MONA database during this period, a sample of 90 SBA and EFF programs is available, excluding 8 SRF or SRF-type programs, along with 15 programs where data for outcomes was not available.

Figure 3. Indicators of Additional External Adjustment
Deviations from Program in First Year 1/ 2/



Source: MONA database.

1/ SBA and EEF supported programs from 1994-99, excluding those with an SRF or SRF-type access levels.
2/ The scale on each panel is ordered such that cases of smaller adjustment are on the left and larger adjustment are on the right.
3/ The imports data covers merchandise imports, because data including nonfactor service imports is not available for all countries.

Table 7. Distribution of External Adjustment

Difference between Outcomes and Program in First Year

	External current account deficit (- sign means more "adjustment")	Merchandise Imports (+ sign means less "adjustment")
In percent of quota		
Median	-33	0
Mean	-15	13
Standard deviation	128	230
In percent of GDP		
Median	-1.0	0.2
Mean	-0.4	0.4
Standard deviation	3.5	6.1

57. **Turning to an examination of those programs where shortfalls did occur, the current account balance was higher than programmed in 56 percent of this sample of programs, while imports were lower than programmed in 47 percent of cases (Table 8).** While a modest shortfall in merchandise imports, i.e. of 0 to 2 percent of GDP, is quite common at some 30 percent of programs, in only 17 percent of programs do imports fall short of expectations by more than 2 percent of GDP. Still, it is notable that some 6-7 percent

Table 8. Frequency of Larger than Programmed External Adjustment
(Share of programs, in percent)

	External current Account deficit	Merchandise Imports
Actual below program 1/	56	47
More than 2 percent of GDP	24	17
More than 4 percent of GDP	18	11
More than 10 percent of GDP	3	6
More than 50 percent of quota	31	22
More than 100 percent of quota	21	16
More than 250 percent of quota	9	7

1/ Includes cases where the current account surplus is larger than programmed.

of programs faced an import reduction relative to program of more than 10 percent of GDP or 250 percent of quota.[39]

58. **For the remainder of this analysis, cases of stronger-than-programmed external adjustments are identified using a criterion incorporating both external current account and import behavior.** A smaller (larger) than programmed external adjustment is indicated when—by any amount—the external balance is smaller (larger) and imports are higher (lower).[40] There are also cases where the external balance and imports give opposing signals of the amount of adjustment, because shocks to exports or other elements of the BOP dominate. In this sample, the frequency of these three cases is similar, with 31 percent of the sample showing a larger-than-programmed external adjustment in the first year, 34 percent showing a smaller-than-programmed adjustment, and 34 percent unallocated.[41]

59. **Of the 31 percent with stronger-than-programmed external adjustment, some clearly did not reflect external financing constraints, leaving one-fifth of the sample where external financing shortfalls may have caused larger adjustment.** In the 28 programs with larger-than-programmed external adjustment, the total financing to cover the current account, debt amortization, and reserve accumulation—including exceptional financing—was greater than programmed in 8 programs. In all of these cases, the additional financing meant that foreign reserves exceeded the programmed level by more than the excess of the current account balance. Thus, based on the methodology here, excessive adjustment due to financing shortfalls is relatively rare among Fund supported programs. Four-fifths of programs did not have this problem. The remaining 20 programs, or 22 percent of the sample, where external financing constraints may have played a role in the additional external adjustment, are examined more closely in the next section.

B. Sources of Financing Shortfalls and Policy Implications

60. **The 20 programs with larger than programmed external adjustment are for the most part diversely spread across members seeking arrangements (Table 9).** It is notable that half of these cases occurred in 1994-95, but some 44 percent of the sample is also from these years. This group has a typical share of precautionary arrangements, at 25 percent,

---

[39] The cases with very high import shortfalls relative to program were the Kyrgyz Republic in 1993, Moldova in 1994, Lesotho in 1995, Estonia in 1997, and the Philippines in 1998.

[40] For those countries where the MONA database provides data on nonfactor service debits, the measure of imports is merchandise and nonfactor services.

[41] Of the programs with higher the programmed external current account balances (56 percent of the total), some 45 percent had imports higher than programmed, leaving 31 percent of the sample where current account strength was associated with lower imports.

compared with 27 percent in the whole sample.[42] EFF arrangements are not significantly less frequent than expected, at 15 percent of this group compared with 22 percent of the sample.

61. **The programs with the largest financing shortfalls and the import reductions closely overlap.** In 6 of these 20 programs, the overall financing shortfall was over 100 percent of quota (see column on "Gross Financing Sources" on Table 9). This group of large financing shortfalls covers all except one of the 5 cases where the import reduction was more than 4 percent of GDP. The remaining 14 programs largely overlap with the group where import shortfalls were less than 2½ percent of GDP.[43]

62. **For the group of 20, shortfalls in official financing generally predominate, often caused by delays in program implementation.** In some two-thirds of this group, the shortfall in official financing[44] exceeded the shortfall in private financing.[45] Where shortfalls do occur, there is evidence that they are often linked to inadequate policy implementation. Analysis of Fund documents suggests that in some two-thirds of the cases with shortfalls in official financing, the shortfalls were due to weaknesses in policy implementation. Delays in structural reforms—financial sector, privatization, and poverty-related—affecting the disbursement of World Bank loans were common. There were also broader policy deviations that delayed the completion of program reviews and thus the disbursement of other official financing. Indeed, in just under one-half of these cases with policy slippages there was no

---

[42] This includes one arrangement (Venezuela 1996) which became precautionary after the first purchase.

[43] Nevertheless, reserve accumulation and external amortization were often higher-than-programmed, indicating that external financing was not the only factor contributing to greater external adjustment.

[44] Official financing is defined to include borrowing from official sources, multilateral and bilateral, official transfers, and exceptional financing excluding Fund credit, which covers other sources of BOP support, e.g. World Bank SAL loans, changes in payments arrears because these are predominantly due to official sources, debt service rescheduling for the same reason, and any financing gap in the program, because this should be covered by some unprogrammed official borrowing or exceptional financing.

[45] Private financing includes commercial borrowing and other net capital inflows. As defined in the MONA database, other net capital inflows is a residual item, being the change in reserves (overall balance) net of the current account, official borrowing and transfers, commercial borrowing, and scheduled principal payments. Other net capital inflows therefore includes errors and omissions. This implies some bias towards finding that private financing shortfalls account for external adjustment to the extent that measured adjustments (which may be partly in error) will have an automatic counterpart in errors and omissions.

Table 9. Cases of Higher than Programmed External Adjustment with External Financing Shortfalls

Country	Arrangement	Year	Precautionary	Annual Average Access	Imports Deviation (In percent of) GDP	Imports Deviation (In percent of) Quota	Financing Needs: Current Account	Financing Needs: Scheduled principal payments	Financing Needs: Foreign Reserves	Financing Sources: Gross financing sources	Financing Sources: Official including Non-Fund Exceptional	Financing Sources: Private including E&O	Financing Sources: Use of Fund Credit
							(Actual minus programmed flows in percent of quota)						
Shortfalls in both official and private financing													
Kyrgyz Rep	SBA	1993	No	46	-26.9	-613	199	0	-6	-204	-161	-63	20
Philippines	SBA	1998	No	81	-11.8	-928	408	16	96	-297	-139	-204	46
Macedonia, FYR	SBA	1995	No	42	-4.3	-239	264	-13	8	-270	-116	-157	3
Venezuela	SBA	1996	Yes	50	-2.2	-46	221	1	160	-92	-50	-24	-17
Latvia	SBA	1997	Yes	24	-2.1	-95	48	17	-1	-35	-31	-4	0
Peru	EFF	1999	Yes	21	-1.7	-111	108	-11	-155	-276	-271	-4	0
Turkey 1/	SBA	1994	No	68	-1.3	-138	419	105	245	-69	-75	0	7
Malawi	SBA	1994	No	51	-0.9	-17	19	2	3	-14	-9	-30	25
Algeria	EFF	1995	No	43	-0.8	-26	40	32	-41	-53	-37	-5	-11
Gabon	SBA	1994	No	35	-0.5	-12	240	105	60	-89	-3	-64	-22
Shortfalls in official but not private financing													
Lesotho	SBA	1995	Yes	30	-10.6	-445	390	-10	68	-332	-1050	714	4
Latvia	SBA	1994	No	20	-6.9	-125	82	2	13	-69	-83	19	-5
Dominican Rep	SBA	1993	No	27	-1.3	-52	56	10	39	-7	-20	13	0
Niger	SBA	1994	No	39	-1.3	-26	26	1	-14	-39	-31	3	-11
Djibouti	SBA	1996	No	34	-0.7	-22	14	-9	6	-18	-65	56	-9
Chad	SBA	1994	No	40	-0.6	-8	105	1	88	-13	-73	68	-7
Slovak Rep	SBA	1994	No	27	-0.5	-15	273	-2	196	-79	-141	62	0
Shortfalls in private but not official financing													
Ukraine	SBA	1997	No	40	-2.6	-101	27	-11	-2	-40	2	-39	-4
Costa Rica	SBA	1995	Yes	35	-1.4	-69	59	3	43	-13	24	-37	-1
Pakistan	EFF	1998	No	20	-1.6	-103	130	-385	-63	-578	98	-285	-6
Median				37	-1.5	-82	106	1	10	-69	-58	-5	0
Average				39	-4.0	-159	157	-7	37	-129	-112	1	1
Standard deviation				16	6.3	238	136	95	90	150	234	190	15

Source: MONA database.

1/ The import shortfall was temporary, being more than reversed in the subsequent year.

purchase after that made on approval of arrangement, or the second purchase was substantially delayed.[46] Stronger policy implementation appears to be the primary factor that would secure the disbursement of programmed official external financing and mitigate the risk of additional external adjustment, though issues of administrative capacity and ownership may underlie the implementation weaknesses in some areas. Finally, as always, programs should strive to make appropriately conservative projections of financing, and protect where possible against small shortfalls with adjusters.

V. Gross Financing Need and the Liquidity of the Fund

63. **This chapter examines the current limits in light of the latest projections of members' possible needs for Fund resources and the Fund's liquidity situation.** The staff's traditional gauge of possible strains in members' external positions that could lead to requests for use of Fund resources over the medium term has been projections of gross financing need (GFN) of past users of Fund resources derived from the World Economic Outlook (WEO) exercise. The companion policy paper describes the shortcomings of this measure and proposes that the analysis be supplemented by an examination of the sensitivity of likely demand for Fund resources to other globally relevant indicators. Nevertheless, an assessment of the current access limits in light of the latest GFN projections remains a useful starting point for the analysis.

64. **Notwithstanding an expected resumption of the upward trend of past users' GFN, the Fund's liquidity situation appears sufficient to accommodate considerable demand for its resources.** The existing limits should, therefore, not put excessive strain on the Fund's liquidity, at least through end-2002. These projections are, however, subject to considerable uncertainty and higher unexpected access could reduce the Fund's liquidity to historically low levels.

A. External Environment and Balance of Payments Needs of Members

65. **The current medium term outlook for the world economy is subject to particularly high levels of uncertainty**, depending as it does on the length and depth of the downturn for the US economy, prospects for a recovery in Japan, and the size of the knock-on effects of the crises in Argentina and Turkey. Global growth is expected to slow markedly during 2001 – to 2.9 percent, compared to an estimated outturn of 4.8 percent last year, according to the most recent WEO projections. The prospects for emerging market

[46] Besides weaknesses in policy implementation, shortfalls included voluntary reductions in borrowing due to changes in financing needs, a case where Export Credit Agencies withdrew cover, and purely temporary delays.

economies vary considerably. Prospects for growth in emerging Asia in particular, but also in Latin America have been revised downwards substantially since last year, due in part to the closeness of linkages with the United States. In contrast, most countries in the Middle East, Central and Eastern Europe, the Commonwealth of Independent States and Africa have been less directly affected.

66. **The uncertainty extends to commodity and financial markets**. In an environment of slowing global growth, commodity prices could weaken, adversely affecting commodity producers among prospective users of Fund resources. On the other hand, oil prices continue to be highly volatile and if prices returned to their 2000 peak, costs to energy importers could rise compared to currently expected amounts. Regarding private financing, the environment faced by emerging market borrowers has changed for the worse, partly as a result of developments in financial markets in advanced countries, although the extent and duration of the downturn is difficult to predict.

67. **Current projections indicate an increase in gross financing needs of past users of Fund resources**, mainly in 2002 and 2003 (Table 10 and Figure 4).[47] According to the most recent WEO data and projections, members' current accounts improved steadily in the last part of the 1990s, and thus the narrowest measure of GFN was lower in 2000 than at any point during 1996-1999.[48] For members with capital market access, current account deficits narrowed by SDR 84 billion during 1996-2000 while for members dependent on official financing, the improvement amounted to SDR 9 billion. This narrowing is, however, expected to be reversed for both groups - the current accounts of past users, as a group, are expected to widen by SDR 74 billion between 2000 and 2003. The expected widening over the medium term largely reflects the expectation that capital markets will reopen. The increase in GFN will, however, be significant only in 2002 as despite a substantial projected increase in current account deficits already in 2001 the strong external position over the past few years has led to a reduction in amortization falling due this year. Thus, while narrow GFN is projected to increase by SDR 6 billion during 2001, the projected increase (relative to 2001) is about SDR 30 billion for 2002 and a further SDR 24 billion for 2003.

68. **Broad GFN has remained more steady in the past but is also expected to increase in tandem with the deteriorating current accounts of both groups of users**.[49] Measured

---

[47] 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.

[48] Narrow GFN comprises current account deficits excluding official transfers and amortization of medium and long term loans (including Fund repurchases).

[49] Broad GFN includes, in addition to narrow GFN, reserve accumulation and arrears clearance.

broad GFN has shown less movement over the last few years because the improving current

Table 10. 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.

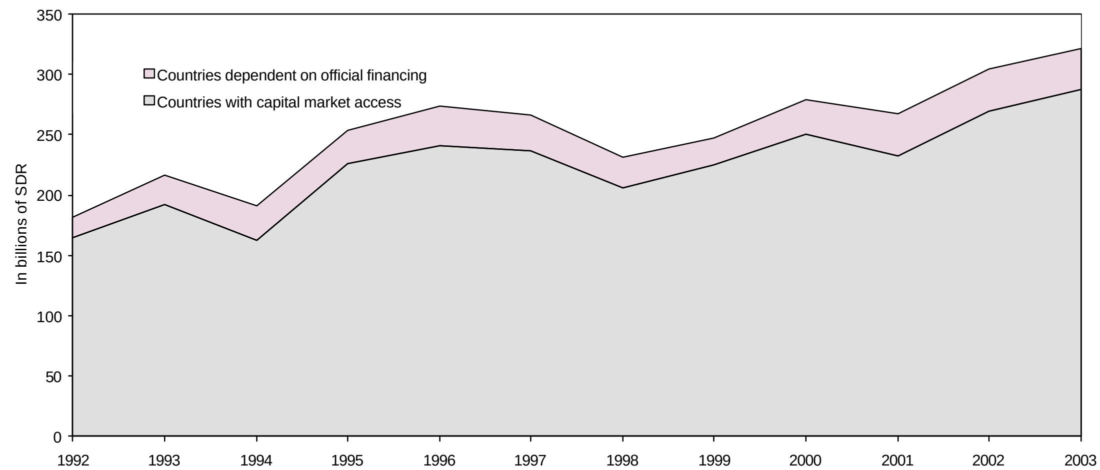
1/ Past users are defined as those members who have made use of Fund resources through arrangements in the GRA (Stand-by or EFF) since 1985.

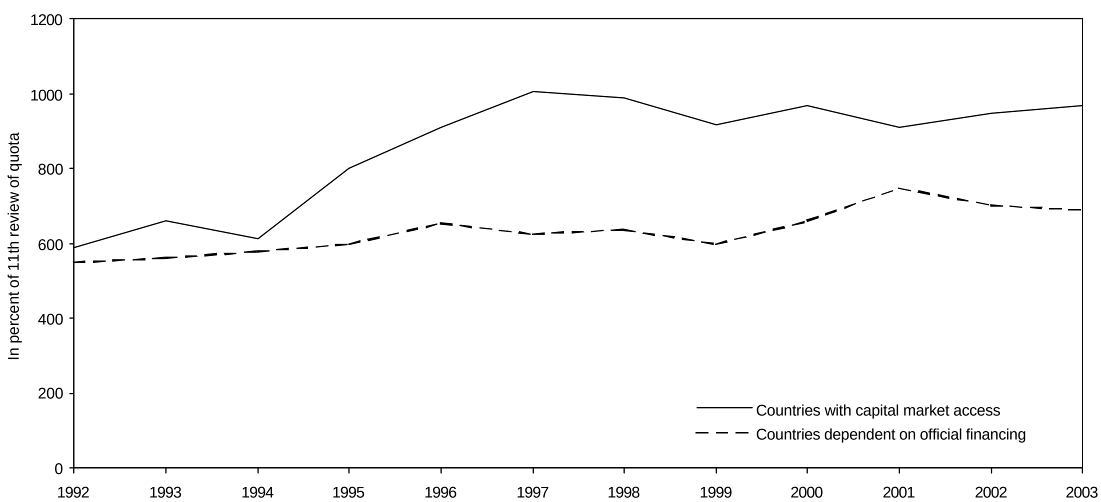
2/ Number of members in parentheses.

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.

Figure 4. Broad GFN in SDR Billions and Percent of Quota 1/





Sources: WEO and Staff Estimates

1/ Average across countries in percent of 11th review quota.

accounts enabled members to accumulate substantial reserves. Reflecting a combination of a moderation in the pace of reserve accumulation and a deterioration in narrow GFN over the medium term, broad GFN is expected to increase by about SDR 35 billion over 2001-03 for members with capital market access and by about SDR 8 billion for those dependant on official financing.

69. **The inclusion of short-term debt stocks to derive an even broader measure of members' potential needs – Augmented GFN - does not substantially alter the picture (Figure 5).**[50] The stock of outstanding short-term debt for past users fell last year, to SDR 240 billion, compared to over SDR 300 billion at end-1998. These stocks are, however, projected to increase moderately over the medium term and, therefore, projected movements in AGFN mirror those of broad GFN.

70. **Regional breakdowns of projected GFN largely follow the overall trend**. Current accounts of recent users among transition economies are likely in aggregate to remain in surplus during 2001, in part, as a result of high oil prices and past real depreciations (Russia, Kazakhstan). Thereafter, however, the reemergence of current account deficits and an increase in scheduled amortization will lead to increases in GFN over the medium term. Asian economies, in particular those with large needs during the Asian crisis (Korea, Thailand, Indonesia, the Philippines) are expected to maintain current account surpluses over the medium term. Nevertheless, these surpluses are expected to narrow, and despite little change in scheduled amortization, GFN in Asian economies is projected to increase - although it should remain well below previous peaks. Financing needs of countries in the Middle East, Africa and Latin America are expected to remain broadly stable. With respect to the last group, while current accounts are expected to deteriorate, scheduled amortization during 2001-03 is substantially below recorded levels during 1999-2000.[51]

71. **While the SDR value of GFN is increasing, the share of these needs which the Fund could finance within the access limits remains more steady into 2003 (Table 11).** In terms of 11th Review Quotas, projected average (broad) GFN for past users with capital market access during 2001-03 is unchanged relative to the outturn during 1996-99 whereas for users dependent on official financing, there is a projected increase of about 28 percent.[52]

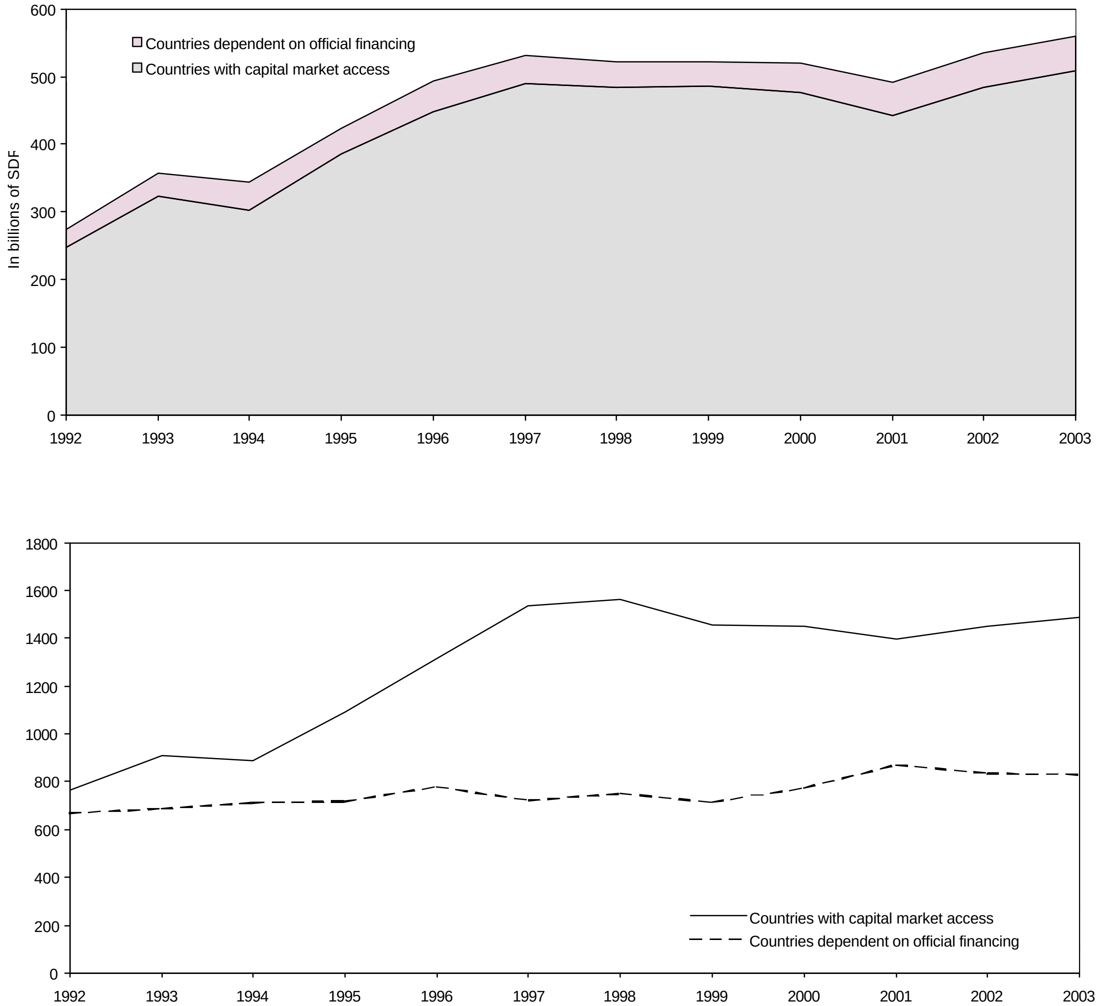
---

[50] Augmented GFN is defined in this paper to include, in addition to broad GFN, the outstanding stock of short-term debt at the beginning of the period. In past staff papers for the annual reviews of access policy, the concept of augmented GFN has sometimes been used instead to denote narrow GFN plus the stock of short-term debt.

[51] As the WEO projections were made prior to the Argentine debt exchange, these amortization schedules are likely to overestimate needs somewhat over the next few years.

[52] Access in percent of quota, averaged across members.

Figure 5. Augmented GFN in SDR Billions and Percent of Quota 1/



Sources: WEO and Staff Estimates

1/ Average across countries in percent of 11th review quota.

Table 11. 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					
	9th Review Quota	11th Review Quota 3/	2000	2001	2002	2003
With capital market access (39) 4/ 5/						
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**
Dependent on official financing (55) 4/ 6/						
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.

72. **As an indicator of potential balance of payments stress in individual cases, staff has traditionally highlighted countries with very high GFN in relation to quota**. The number of past users of Fund resources with very high prospective broad GFN (above a 1000 percent of quota) currently stands at 8, of which 5 members (Ethiopia, Brazil, Mexico, Sudan and Turkey) have GFN in excess of 1200 percent of quota, while the average for the remaining 3 members (Argentina, Equatorial Guinea and Turkmenistan) amounts to 1076 percent of quota.[53] Including short-term debt, the number of members with AGFN in excess of 1000 percent of quota currently stands at 23. However, it should be noted that this indicator has significant limitations, since the circumstances and stresses on countries with GFN's in excess of 1000 percent of quota can vary a great deal. For example, the circumstances and causes of high GFN for Mexico and Brazil are obviously very different from those of Ethiopia and Sudan.[54]

B. Access Limits and Fund Liquidity

Background

73. **Access limits have to be considered in the context of the actual and prospective use of Fund credit and the Fund's liquidity.** This section considers developments in this area and examines the impact on liquidity of various access limits and use of credit scenarios.

74. **The period 1995–99 saw a rapid increase in access to Fund resources following the Asian crisis in 1997 and difficulties in Russia and Brazil in 1998.** Credit outstanding in the General Resources Account more than doubled from about SDR 25 billion in 1994 to over SDR 60 billion in early 1999 and to meet this demand for resources, the General and New Arrangements to Borrow were activated. The traditional indicator of Fund liquidity, the liquidity ratio,[55] reached a historical low point under 30 percent in late 1998. Since then the Fund' liquidity position has improved sharply, largely due to the increase in quotas in early 1999. In addition, use of Fund credit declined because the faster-than-expected repayment of

---

[53] This calculation is based on an average of individual members' GFN over 2000-03.

[54] Ethiopia, Sudan and Turkmenistan have not used GRA resources since 1985 and are therefore not included in the calculations for aggregate GFN.

[55] The liquidity ratio contrasts the Fund's net uncommitted usable resources to its liquid liabilities, which currently consist only of reserve tranche positions that can be drawn on demand by members in balance of payments need. For this purpose, uncommitted usable resources are adjusted downward to reflect the maintenance of minimum working balances in the currencies of each of the Fund's creditor members.

some of the large-scale Fund credit extended during the Asian financial crisis, and despite unexpected lending to Argentina and Turkey in late 2000 and early 2001 (Figure 6).

Figure 6a. GRA Credit Outstanding, January 1994-May 2001
(In billions of SDRs)

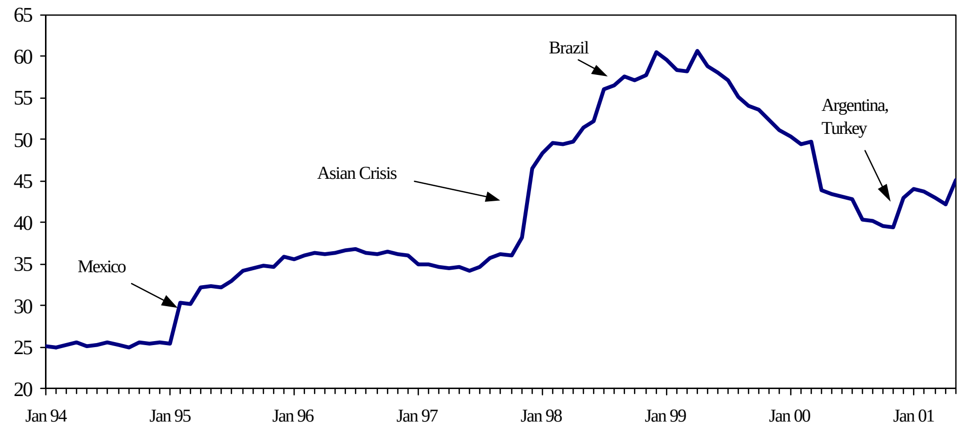
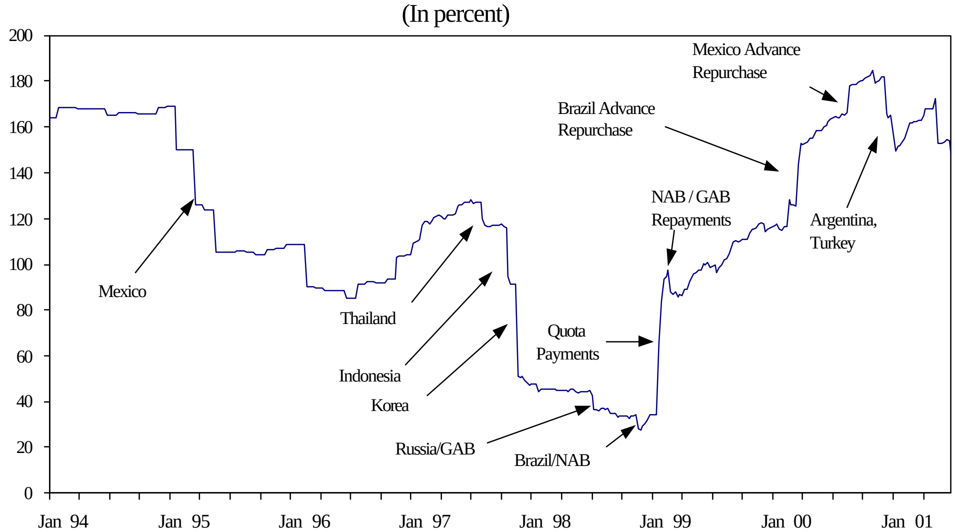


Figure 6b. Liquidity Ratio, January 1994-June 2001
(In percent)



75. **It should be noted that the increase in demand for Fund resources in the second half of the 1990s was associated with high access under arrangements for a relatively small number of countries with large quotas**. To a large extent, this development, rather than a significant increase in the number of countries with new arrangements or generally high access, accounted for the increase in total demand.[56]

76. **The significant strain placed on the Fund's financial position by the Asian financial crisis was exacerbated by the fact that the largest recipients of Fund financial assistance had, until that time, participated actively in the financing of the Fund through the financial transactions plan**. Consequently, the Fund's usable resources suffered two simultaneous negative shocks: a reduction in the quota base for Fund lending as these (and other) members could no longer support Fund financing, and the commitment of a sizable share of this smaller base to support lending to these members.[57]

C. Current Liquidity Position and Outlook

77. **The current liquidity position of the Fund is relatively comfortable and projected to remain so.** The liquidity ratio stood at just over 150 percent at end-May 2001, close to its level in 1994, prior to the Mexican crisis, and the projections for the Fund's liquidity and financing needs presented to the Board in March 2001 suggested that the Fund's liquidity position would remain comfortable. [58] These projections, on the basis of current access limits, and taking into account existing and expected new arrangements, showed in the baseline case a further strengthening of liquidity through end-2002, with moderate new demand for Fund resources and a decline in Fund credit outstanding. Since these projections were prepared there has been a deterioration in the outlook for the global economy, and with the now projected higher gross financing needs of countries, particularly beyond 2001, and developments in a number of countries, it is possible that the demand for Fund resources will be somewhat higher than earlier expected. However, based on available information, at present it is not expected that this would seriously affect the Fund's liquidity position.

---

[56] There was some increase in the number of countries seeking access to Fund resources in 1994/95 compared to earlier years (partially reflecting access by countries in the Baltics, Russia and other countries of the former Soviet Union) but this number subsequently dropped.

[57] The exclusion of these members from the financial transactions plan was, however, more than offset by the inclusion of several industrial countries with large quotas whose participation had been interrupted (Italy and Sweden in 1997, Australia in 1998).

[58] See -*Review* (EBS/01/45, 03/23/01).

78. **An assessment of the adequacy of access limits has to take into account a range of new factors and uncertainties related to the projected use of Fund resources and the assessment of the Fund's liquidity position.** Relative to the pre-Mexico situation the following factors have a particular bearing on the projections.

- On the positive side, the Fund's resource base is significantly larger following the 1999 quota increase. Moreover, the creditor base has expanded and the Fund's self-financing ratio is at a historic peak (Figure 7 and Box 1). This reflects a concerted effort by the Fund in recent years to increase the number of members in the financial transactions plan (thereby raising the quota share of creditors as a group). Finally, the recent introduction of time-based repurchase expectations should positively affect the Fund's liquidity position over the medium-term.[59]

Offsetting factors are:

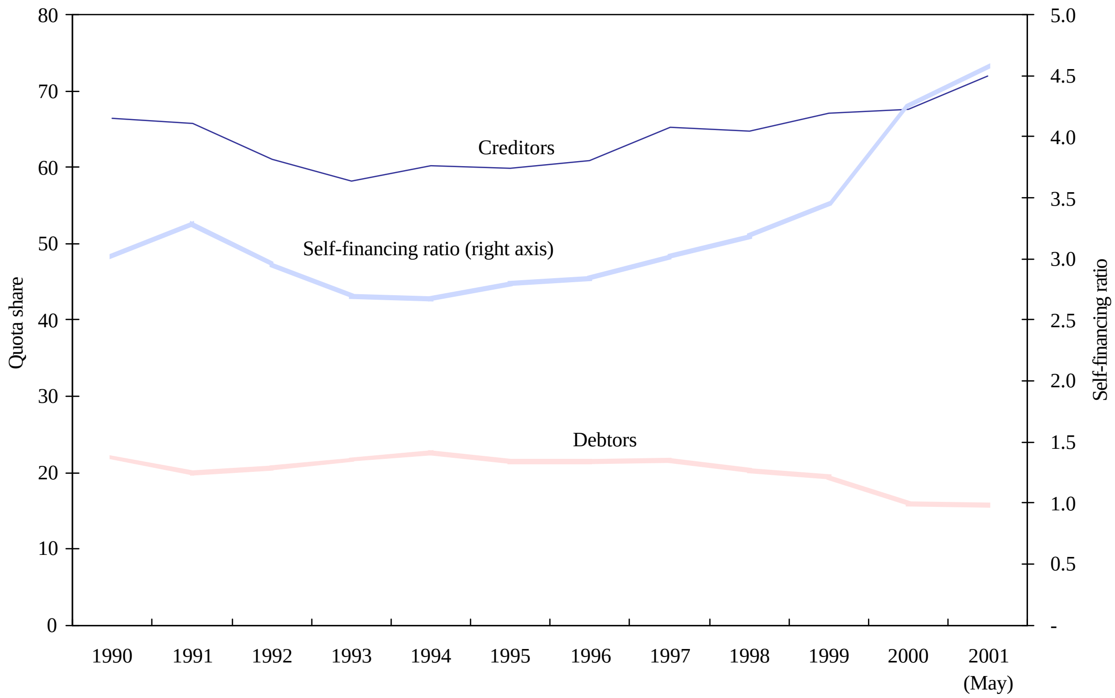
- The effect of the higher quota resources is eroded by the fact that access limits were maintained as a percent of quotas, effectively increasing nominal access by an average of 45 percent compared to the period before 1999.

- There is a greater likelihood of large and bunched demand for Fund support, as a result of the changing nature of balance of payments needs with the growing importance of capital flows and increased financing requirements, as described in the first part of this section. Furthermore, access limits have been exceeded on several occasions and there are no access limits under the SRF, while access under the CCL is guided by an indicative range of 300–500 percent of quota.

- There is an increasing reliance on arrangements that are treated as precautionary with seemingly moderate impact on liquidity, but recent experience has shown that amounts accumulated under such arrangements can be large and, if suddenly drawn, could have a significant impact on the Fund's liquidity.

[59] The parallel introduction of surcharges on Fund credit in excess of 200 percent of quota has sharpened the incentives for reducing Fund credit in advance of maturity.

Figure 7. Creditor and Debtor Quota Shares, 1990-May 2001
(In percent)



Box 1. The Self-Financing Ratio

The self-financing ratio is defined as the ratio of the sum of quotas of creditor countries to that of debtor countries. Given the respective shares of creditor members and debtor members in total Fund quotas, the self-financing ratio represents the maximum level of cumulative access (in terms of quota) that could in theory be granted to all current debtor members without the Fund having to resort to borrowing.

The self-financing ratio must be interpreted with care. This shorthand calculation has in the past been linked to decisions on access limits but this link has been weakened by the expansion of lending instruments outside these limits and by changes in the size and duration of members' balance of payments need. At the same time, the sensitivity of the self-financing ratio has increased following the inclusion as creditor members of a number of emerging market countries that (like the Asian crisis countries in 1997) may be vulnerable to shifts in market sentiment.

D. Projections of Fund Liquidity

79. Against these uncertainties affecting the size and timing of demand for Fund resources, the staff has prepared a number of projections, with various levels of access, to assess the impact on liquidity, and thus to help form a judgment about whether the present access limits continue to be appropriate.

80. **The first projection considers access at the proposed norm of 50 percent of quotas by all countries that have or have had arrangements with the Fund since 1985, except those that are presently in the financial transactions plan**. This group of "borrowing" countries has a combined quota of about SDR 47 billion.[60] Taking into account scheduled repurchases and resources already committed to countries in this group and assuming that all arrangements that are currently being treated as precautionary would be fully drawn, access of 50 percent of quota over a one-year period by all these countries would result in credit outstanding one year from now of SDR 66 billion, and a liquidity ratio of around 100 percent (Table 12). Extending the average period of the arrangements to 18 months would result in slightly higher outstanding credit and a liquidity ratio of around 85 percent. **The Fund's liquidity thus would appear adequate to accommodate access at 50 percent of quota.**

81. **Increasing access to the annual limit of 100 percent of quota for the same group of borrowing countries would raise credit outstanding to SDR 87 billion and SDR 108 billion, respectively**, after 12 or 18 months, with corresponding liquidity ratios of around 50 and 30 percent, respectively.[61] Thus, access of 100 percent for one year would appear feasible for a large group of borrowers, but would leave the Fund with very little room for maneuver to accommodate additional access during this period and would quickly lead to a liquidity situation approaching the historical low. Furthermore, it would leave no margin for additional support in subsequent years in the context of longer-term arrangements. In fact, this scenario demonstrates that **the cumulative access limits of 300 percent of quota would be well beyond the Fund's capacity to lend if a large number of countries sought this access.**

82. Reducing the size of the group of borrowing countries by eliminating a number of countries that are less likely to request access to Fund resources—which would reduce the sum of quotas of the debtor countries by about SDR 10 billion—would mitigate but not invalidate the above conclusions that **the Fund has adequate resources to accommodate**

---

[60] Adding back in those members included in the financial transactions plan for less than 2 years would increase the combined quotas of "debtor" countries by about SDR 4 billion.

[61] Without recourse to borrowing by the Fund.

Table 12. Access, Fund Credit and Liquidity under Alternative Access Scenarios 1/

	End-June 2001	50 percent access scenario 2/		100 percent access scenario 2/	
		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.
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.

average annual access at the proposed norm of 50 percent for large group of borrowers for some years, but not access at the limit of 100 percent.

83. **While available information suggests that the Fund's liquidity would not deteriorate significantly as a result of the less positive global outlook over the near term, there are considerable downside risks**. If the slowdown in industrial countries were to be more pronounced than currently envisioned, countries could experience a deterioration in their current account positions even beyond those envisaged. As almost all the members that would ask for support from the GRA have at least some access to capital markets, disturbances could have a large impact on their gross financing needs and lead to a significant additional demand for Fund financing (in excess of the 50 or 100 percent of quotas used in the illustrations above) in a short period of time.

84. **To illustrate the potential impact of higher, unexpected access, the staff has linked the demand for resources to the gross financing needs projected for the next few years in the previous section**. Assuming that the Fund would finance about 10 percent of the average gross financing needs (GFN) or broad GFN of all past users over the period July 2001- December 2002[62], it is estimated that there could be demand for Fund resources on the order of SDR 40 to 55 billion, similar to the projected access if all "borrowing" countries would seek access of 100 percent of quota over the next year. This would reduce the liquidity ratio to near historic lows, without accommodating additional demand from these or other countries.

85. **These illustrative calculations demonstrate the sensitivity of the liquidity projections to unexpected developments.** They also show that while it appears that there is considerable room for additional lending within the present access limits, this room would quickly disappear in a situation where a number of countries would seek substantially higher access or access over a longer period, and the Fund's resources could be quickly depleted. Therefore, considerable caution would be warranted in raising access limits or average access under the limits beyond the norm of 50 percent that is proposed.

[62] As shown in Table 3, this share of financing is consistent with the average for the period 1997-2000 for SBA and EFF arrangements, but is low taking into account high access cases.

VI. Access in Capital Account Crises—Some Recent History

86. **Lending beyond the access limits has long been possible under the exceptional circumstances clause.** It has been possible to waive access limits since the inception of the Fund, reflecting a balance between stringency and flexibility. Since the early 1980s, this flexibility has been exercised under the exceptional circumstances clause. Under this, the staff must inform the Board that access above the limits is proposed and explain the exceptional circumstances that make this necessary. The nature of the "exceptional circumstan would allow access above the limits was left deliberately unspecified, reflecting what was seen as the inherent uncertainty of "exceptional circumstances", and the Board also has discretion with regard to the amount of access granted above the limits. The exceptional circumstances clause was invoked rarely until the most recent crises, and mostly for technical reasons.[63]

87. **The high access granted to Mexico in 1995 and to three Asian countries in 1997 led to the creation of the SRF and CCL—two facilities which codify some of the circumstances under which high access can be provided.** The crises of the late 1990s were different in kind from earlier ones and demanded a different response from the Fund. They had their origins not in current account problems but in sudden and substantial capital outflows, reflecting among other factors a rapid deterioration in confidence. In recognition of this, the Fund developed the SRF and CCL. These facilities explicitly envisaged access significantly beyond the limits set within the credit tranches and EFF, and codified the conditions for use of Fund resources in these cases. In the case of the CCL, the facility also set a norm for the amount of access. The terms of the SRF and CCL, however, leave the criteria which should govern the *amount* of such access in individual cases largely undefined.

88. **The amount of Fund access for arrangements in support of members substantially affected by capital account problems has ranged from about 500 percent of quota (Thailand, Indonesia, Argentina) to nearly 2000 percent of quota (Korea) (Table 13).** The reasons presented in the related staff papers for high access are set out in the following paragraphs. It should be noted that Fund financing was accompanied by substantial commitments from other official (multilateral and bilateral) creditors in nearly all cases. Further information on these programs and their outcome is provided in "The Design of Fund Supported Programs in Capital Account Crises."[64]

---

[63] For example, use of Fund resources to support a debt and debt service reduction agreement resulting in the access limits being temporarily exceeded (Mexico, 1989) or the timing of a successor arrangement causing the annual access limit to be exceeded (Russia, 1996).

[64] Forthcoming.

Table 13. SRF, SRF-type, and Exceptional Circumstances Arrangements, October 1994-Present 1/

						Total Access (Millions of SDRs)			Total Access 2/ (Percent of quota)		Average Annual Access 2/ 3/ (Percent of quota)		Fund Credit Outstanding (At Approval/Augmentation) (Quota at approval)		Gross Fund Financing (In percent of Gross Financing Need) 5/
Country	Circumstances	Type	SRF/ EC	Approval/ Augmentation Date	Planned Expiration Date	SBA/ EFF	SRF	Total	Quota at Approval	11th Review Quota	Quota at Approval	11th Review Quota	Excl. Special Facilities 4/	Incl. Special Facilities 4/	
Mexico	approval	SBA	SRF	2/1/95	8/15/96	12,070		12,070	688	467	459	311	149	149	39
Russia	approval	EFF	EC	3/26/96	3/25/99	6,901		6,901	160	116	53	39	116	166	17
Thailand	approval	SBA	SRF	8/20/97	6/19/00	2,900		2,900	505	268	178	95	0	0	10
Indonesia	approval	SBA	SRF	11/5/97	11/4/00	7,338		7,338	490	353	163	118	0	0	22
Korea	approval	SBA	SRF	12/4/97	12/3/00	5,550	9,950	15,500	1,938	949	646	316	0	0	32
Indonesia	augmentation	SBA	EC	7/15/98	11/4/00	8,338		8,338	557	401	186	134	196	196	n.a.
Russia	aug. & ext.	EFF	SRF	7/20/98	3/25/00	13,207	3,993	19,356 6/	449	326	150	109	198	246	n.a.
Indonesia	approval	EFF	EC	8/25/98	11/5/00	4,669		4,669	312	225	144	104	245	245	11
Brazil	approval	SBA	SRF	12/2/98	12/1/01	3,908	9,117	13,025	600	429	200	143	0	0	8
Indonesia	augmentation	EFF	EC	3/25/99	11/5/00	5,383		5,383	259	259	119	119	310	310	n.a.
Turkey	approval	SBA	EC	12/22/99	12/21/02	2,892		2,892	300	300	100	100	46	46	6
Indonesia	approval	EFF	EC	2/4/00	12/31/02	3,638		3,638	175	175	60	60	359	359	8
Turkey	augmentation	SBA	SRF	12/21/00	12/21/02	2,892	5,784	8,676	900	900	300	300	107	107	n.a.
Argentina	augmentation	SBA	SRF	1/12/01	3/9/03	8,468	2,117	10,586	500	500	167	167	180	180	n.a.
Turkey	augmentation	SBA	EC	5/10/01	12/21/02	9,254	5,784	15,038	1,560	1,560	520	520	175	445	n.a.

Source: Executive Board documents and Staff estimates.

1/ Access figures shown are total program access, including augmentation.

2/ Amounts include funds available through SBA, EFF, SRF, and/or CCFF facilities.

3/ Average annual access is the total amount divided by the duration (in years). Actual annual access may have differed depending on the actual phasing of purchases.

4/ Special facilties include CCFF/CFF, STF, SAF, PRGF/ESAF, and SRF.

5/ Gross Fund financing includes all use of Fund resources during the period under the arrangement and associated purchases that were anticipated at the time of approval. Gross financing need is defined as the sum of the current account deficit (excluding grants), amortization of maturities in excess of one year including Fund repurchases, the targeted reduction in arrears (in cash as well as through rescheduling) and the targeted buildup in gross reserves. Figures may be estimated based on information available for the period most closely corresponding to the program period.

6/ Numbers do not sum due to the inclusion in the total of a CCFF drawing of SDR 2156.6 million approved in conjunction with this arrangement.

89. **In the first of the capital account crisis cases, Mexico, in 1995, access of 688 percent of Mexico's then quota (SDR 12.1 billion) was agreed.[65]** Since this was heavily frontloaded, average annual access in the first year of the arrangement was 459 percent of quota. Thus, both the annual and cumulative access limits were exceeded by substantial margins. The access decision was motivated by a pressing need to restore confidence in the Mexican economy through an immediate reconstitution of gross reserves. The staff report also drew attention to the systemic risks posed by the crisis of confidence: the risk that the crisis could spread to other Latin American countries; that liberal market reforms could be discredited as a policy approach; and that world economic growth could suffer if the crisis continued. It was also noted that there had been a major expansion in Mexico's trade and capital flows since 1985, the date of the economic data used to calculate Mexico's quota.

90. **In the initial phase of the Asian crisis of 1997, Thailand received access of 505 percent of quota (SDR 2.9 billion) and Indonesia 490 percent of quota (SDR 7.3 billion).** Again, both annual and cumulative access was well in excess of the limits. In Thailand, it was envisaged that the provision of external financing to reconstitute international reserves would catalyze the return to confidence and the resumption of normal market financing. The exceptional circumstances surrounding Thailand's financial system and the large increase in Thailand's trade and capital flows since the time its quota was established were also cited as justifications for high access. In Indonesia, it was hoped that early availability of sizable financing, combined with stabilization and structural adjustment, should catalyze a speedy return of confidence. Again, staff cited the exceptional circumstances surrounding Indonesia's financial situation and the rapid expansion of its trade and capital flows since its quota was determined.

91. **Fund support for Korea was even higher, at 1,938 percent of quota (SDR 15.5 billion), of which 1,244 percent of quota was eventually made available under the newly approved SRF.[66]** High access and heavy frontloading was justified due to the "exceptional nature of Korea's external crisis". Specifically, Korea needed to replenish its depleted levels of official reserves to help restore market confidence and facilitate the rollover of short-term external debt, and to allay market concerns about its ability to service its debt. It was also thought that there would be a beneficial effect on the region.

92. **The next round of high access cases began with the Russian crisis of August 1998.** Russia's EFF was augmented by 206 percent of quota. Access of 600 percent of quota (SDR 13.0 billion) was approved for Brazil, of which 420 percent of quota was under the

---

[65] All access figures in percent of quota refer to quota at the time the decision was made.

[66] It should be noted that Korea's quota was increased substantially following the 11th Quota Review. Korea's total access was 949 percent of its 11th Review Quota.

SRF, and the arrangements for Indonesia was augmented, which in both cases involved additional access in excess of the limits. In Brazil, high access was explained by reference to the persistence of twin external and fiscal deficits in unsettled international financial markets, which made Brazil especially vulnerable to contagion from the Russian crisis.

93. **In the most recent capital account crises, Turkey's 1999 SBA of 300 percent of quota has been augmented twice,** first by 600 percent of quota under the SRF (December 2000) and then by 660 percent of quota (May 2001) in the form of an augmentation of the SBA, giving total access under the arrangement of SDR 15.0 billion. The main reasons given for high access were Turkey's need to rebuild its reserves because of the marked widening of the external current account deficit in 2000, Turkey's continued vulnerabilities in the capital account particularly after the float, and the need to restore market confidence. The staff report also noted that Turkey's quota was small compared to many similar-sized emerging market economies.

94. **Finally, Argentina's precautionary stand-by was augmented in January 2001** to reach total access of 500 percent of quota (SDR 10.6 billion), of which 400 percent of quota was on SBA terms and 100 percent of quota on SRF terms. In Argentina, the high level of access was justified because of the protracted nature of Argentina's financing problem and the preponderance of financing on SBA terms was justified by the large concentration of debt maturities in the next few years, and in particular heavy repayments scheduled for 2002-2003.

95. **Some common themes can be observed in these cases.** First, balance of payments need—the main criterion for access within the limits—continued to be a major determining factor in the capital account crisis cases. Implicitly, capacity to repay was also given substantial weight since in each case the underlying adjustment program was seen as exceptionally strong. In many cases, notably Mexico (1995), Thailand (1997), Indonesia (1997), Korea (1997-98) and Turkey (2000-01) high access to Fund resources was also seen as necessary to restore market confidence. The restoration of confidence was seen as necessary to stem or produce a reversal of capital outflows and to promote recovery of market access. The near universality with which confidence effects were cited is consistent with the emphasis which the Fund has placed on preventing capital outflows rather than financing them.

96. **Other factors, including the risk of contagion, short-term debt problems, the precarious state of the financial system in the country concerned, and the relatively small size of the member's quota were also cited as factors justifying high access.** In most cases where relative smallness of quota was cited, it was in the context of changes in capital and trade flows since the compilation of data for the country's quota, and was thus partly in anticipation of future quota increases. The references to contagion are consistent with the Fund's mandated concern for the potential for damaged international prosperity as well as national prosperity.

Annex 1: Oil Prices and Access Limits

97. **The oil price increases in 2000 negatively affected a substantial number of members.** Staff calculations of the first order effect (the pure terms of trade effect induced by the average oil price increase between 1999 and 2000 assuming no volume changes) reveal that in 31 members the negative effects compared to these members' 1999 balances of payment positions exceeded 2 percent of GDP and in 50 countries they exceeded 1.5 percent of GDP.[67] The shock was equivalent to more than 50 percent of the quota in 19 of the 31 members for which the effect exceeded 2 percent of GDP and in 26 of the 50 members for which the shock exceeded 1.5 percent of GDP. In both samples, PRGF-eligible members represented more than two-thirds of the members.

98. **On current projections for 2001 the costs to oil importers would be somewhat lower than in 2000; however costs would increase significantly if prices returned to their 2000 peak and stayed there**. With the prices of oil expected to subside in 2001 (by about 5.5 percent from the average of US$28.2 per barrel in 2000 to US$26.8 per barrel in 2001), the number of members for whom the oil price increases from their average level in 1999 would entail losses in excess of 2 percent of GDP compared to their 1999 positions would decline to 23 and the number of the members falling under the 1.5 percent of GDP criterion would decline to 44. (The number of PRGF-eligible members would decline from 23 to 18 and from 35 to 32 respectively). However, if the oil prices went up by US$10 and stayed for a full year at US$36.8 per barrel—a level attained for a brief period in late 2000—the effect would be very substantial: 68 members would suffer losses exceeding 2 percent of GDP and 78 members would suffer losses exceeding 1.5 percent of GDP (of which 47 and 52 respectively would be the PRGF-eligible countries). Moreover, several large emerging economies including Korea, Philippines, and Thailand would top the list of members where the losses would be largest in absolute terms (exceeding US$1 billion) and would be equivalent to large multiples of their quotas (exceeding 700 percent of quota in the case of Korea).

99. **Significantly higher oil prices would suggest a need to re-examine access limits.** On current projections the oil price effects could be accommodated within the existing access levels, as they were in 2000. However, if the prices went up to US$36.8 (which would be some 30 percent above the 2000 average) and the Fund were to fully cover the excess financing needs resulting from such price increases, either exceptional circumstances would

---

[67] The effects for all members are derived based on their 1999 trade volumes and are measured in percent of their 1999 GDP. The underlying losses calculated as increases in the U.S. dollar value of net oil imports were subsequently converted into percentages of members' quota and their respective 1999 GDPs (Annex 1, Table 1).

need to be invoked for several members or the annual access limits would need to be raised.[68] With respect to the PRGF-eligible members, many of which appear to be the most vulnerable in all circumstances, the question arises whether the PRGF resources would be sufficient to accommodate the increased demand for Fund financing.

[68] If the oil prices stayed at US$36.8 per barrel for a full year, the cost to the Fund would be US$29.3 billion if it were to meet the resultant financing needs of the 68 members suffering losses of at least 2 percent of GDP. This cost would rise to US$35.4 billion if the Fund were to meet the needs of the 78 members that would suffer losses of at least 1.5 percent of GDP. If all the Fund financing were to be disbursed in 2001, in the former case the Fund credit outstanding would rise to SDR 72 billion and the liquidity ratio would fall to 79 percent (from 148.7 percent at end-June 2001), while in the latter case, the Fund credit outstanding would rise to SDR 76 billion and the liquidity ratio would fall to 68 percent.

Annex 1-Table 1. Actual and Illustrative Losses Due to Oil Price Changes 1/ 2/

Country	2000 ($28.21 p.b.)		2001			
			Baseline ($26.8 p.b.)		Shock ($36.8 p.b.)	
	In percent of quota	In percent of 1999	In percent of quota	In percent of 1999 GDP	In percent of quota	In percent of 1999 GDP
1 Korea	400.3	2.1	346.1	1.8	738.6	3.9
2 Eritrea	278.8	8.1	241.0	7.0	514.4	14.9
3 Cape Verde	226.0	4.9	195.4	4.2	417.0	9.0
4 Maldives	190.3	4.7	164.5	4.1	351.1	8.6
5 Lithuania	158.2	2.8	136.8	2.4	292.0	5.2
6 Liberia	145.1	4.0	125.5	3.4	267.8	7.4
7 Thailand	140.2	1.6			258.7	2.9
8 Jordan	113.9	3.4	98.5	2.9	210.2	6.3
9 Portugal					185.6	1.8
10 Panama	95.2	3.2	82.3	2.8	175.6	5.9
11 Belize	92.2	2.6	79.7	2.2	170.2	4.8
12 Moldova	91.5	11.3	79.1	9.7	168.7	20.8
13 Philippines					159.9	2.4
14 Cyprus	83.2	2.1	71.9	1.8	153.5	3.9
15 Grenada	79.9	1.6			147.5	2.9
16 Macedonia, FYR	77.7	3.3	67.2	2.8	143.4	6.1
17 Pakistan	77.5	1.8	67.0	1.6	142.9	3.3
18 Botswana	73.2	2.5	63.2	2.2	135.0	4.6
19 India					134.7	2.0
20 Kenya					134.0	1.7
21 Guyana	69.1	10.0	59.7	8.6	127.5	18.4
22 Belarus	67.2	2.1	58.1	1.8	123.9	3.9
23 Honduras	66.4	2.9	57.4	2.5	122.5	5.3
24 Burkina Faso	65.7	2.0	56.8	1.7	121.2	3.7
25 Nepal					118.3	2.2
26 Morocco					117.7	2.6
27 Mauritius	63.7	2.0	55.0	1.7	117.5	3.7
28 St. Lucia	60.7	2.0	52.5	1.7	111.9	3.7
29 St. Vincent and the Grenadir	56.2	1.5			103.6	2.8
30 Ethiopia	55.8	5.0	48.2	4.3	102.9	9.2
31 Mauritania	55.4	3.8	47.9	3.3	102.3	7.0
32 Cambodia					100.7	2.0
33 Belgium					99.1	2.4
34 Czech Republic					98.9	1.7
35 Dominican Republic	53.2	1.9	46.0	1.6	98.1	3.5
36 Mongolia	51.0	2.3	44.1	2.0	94.1	4.2
37 Bhutan	49.1	1.7			90.6	3.1
38 Kyrgyz Republic	48.5	1.6			89.4	2.9
39 Lao People's Dem. Rep.	48.3	1.8	41.7	1.6	89.1	3.3

Country	2000 ($28.21 p.b.)		2001			
			Baseline ($26.8 p.b.)		Shock ($36.8 p.b.)	
	In percent of quota	In percent of 1999 GDP	In percent	In percent of 1999 GDP	In percent	In percent of 1999 GDP
40 Bahamas	47.9	4.5	41.4	3.9	88.4	8.3
41 Jamaica	45.9	2.3	39.7	2.0	84.7	4.2
42 Senegal	45.8	2.0	39.6	1.7	84.4	3.7
43 Tonga	45.5	1.7			84.0	3.1
44 Mali	44.9	2.1	38.8	1.8	82.9	3.9
45 Solomon Islands	44.1	1.5			81.4	2.8
46 Malawi	43.2	2.8	37.3	2.4	79.6	5.2
47 Armenia					79.3	1.7
48 Benin	41.9	2.8	36.2	2.4	77.3	5.2
49 Togo	40.9	1.6			75.4	2.9
50 Tanzania					74.6	2.2
51 Slovak Republic					74.4	1.8
52 Djibouti	38.3	1.5			70.7	2.8
53 Dominica					67.8	2.6
54 St. Kitts and Nevis	35.2	1.8	30.4	1.6	64.9	3.3
55 Ukraine	34.6	1.5			63.9	2.8
56 Madagascar	34.3	2.0	29.7	1.7	63.3	3.7
57 Zimbabwe	32.8	2.7	28.4	2.3	60.6	5.0
58 Namibia					59.3	2.0
59 Nicaragua	32.1	2.4	27.7	2.1	59.2	4.4
60 Guinea	31.0	1.9	26.8	1.6	57.3	3.5
61 Sri Lanka	29.7	3.0	25.6	2.6	54.7	5.5
62 Barbados					54.1	2.0
63 Tajikistan	28.9	1.9	25.0	1.6	53.3	3.5
64 Bulgaria					51.6	1.8
65 Uganda					46.7	1.8
66 Ghana	23.8	1.5			44.0	2.8
67 Guinea-Bissau					42.1	1.7
68 Romania	22.1	2.3	19.1	2.0	40.8	4.2
69 Sao Tome & Principe					38.6	1.8
70 Suriname					37.7	2.6
71 Gambia	20.4	2.0	17.6	1.7	37.6	3.7
72 Central African Repub	20.2	2.2	17.5	1.9	37.3	4.0
73 Chad	18.0	1.5			33.2	2.8
74 Vanuatu					30.9	1.7
75 Rwanda	15.0	3.2	13.0	2.8	27.7	5.9
76 Zambia	14.6	3.0	12.6	2.6	27.0	5.5
77 Burundi					17.4	2.2
78 Sierra Leone	9.4	1.9	8.1	1.6	17.4	3.5

Source: World Economic Outlook.

1/ These figures do not take into account special long-term arrangements for oil.
2/ Losses are compared to 1999.