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Review of Access Policy Under the Credit Tranches and the Extended Fund Facility

INTERNATIONAL MONETARY FUND

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Review of Access Policy Under the Credit Tranches and the Extended Fund Facility

Prepared by Policy Development and Review and Treasurer's Departments

In Consultation with other Departments

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I. INTRODUCTION

1. **This paper provides staff analysis and recommendations for the Executive Board's review of access under the credit tranches and the EFF, as envisaged under the 1992 decision on access limits.**[1] The last review conducted on August 30, 2001 concluded that the structure of annual and cumulative access limits, as well as the criteria for access, remained appropriate.[2] This paper reviews access decisions over the period from January 2001 to December 2002. Based on the analysis of recent experience and potential demand for Fund resources, it recommends retaining the current level and structure of access limits. This paper also proposes to switch from an annual to a biennial cycle in conducting reviews of access policy.

2. **A separate paper deals with issues related to the strengthened framework for access in capital account crises adopted on September 6, 2002.**[3] The companion paper considers the appropriate maturity of the Supplemental Reserve Facility (SRF), and follows up on other issues to operationalize the new framework for access policy.

II. RECENT APPLICATION OF ACCESS POLICY

3. **The current limits on access to Fund resources under the credit tranches and the EFF have not changed since October 1994** (Box 1). The structure of annual and cumulative access limits was established in 1992, and the current access limits themselves were set in 1994 at 100 percent of quota annually, and 300 percent of quota cumulatively. These limits were left unchanged following the increase in quotas that took effect in 1999. The annual and cumulative access limits applying to credit tranche and EFF lending may only be exceeded under exceptional circumstances. Guidelines on access in individual cases, established by the Board in 1983, comprise: the member's actual or potential need for resources from the Fund; the capacity of the member to repay the Fund including the strength of its program; and the member's indebtedness to the Fund and its track record of policy implementation.

4. **There is a bi-modal distribution in the magnitude of balance of payments needs,** with a large cluster of cases centered around an average within the access limits, and a small number of very large outliers well outside the access limits (Figure 1a). Since 1994, over 90 percent of the arrangements fell within the normal access limits while 85 percent of the

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[1] Decision No. 10181-(92/132).

[2] See *Review of Access Policy in the Credit Tranches and Under the Extended Fund Facility* (EBS/01/133, 8/9/01) as well as its background paper (EBS/01/134, 8/10/01), and Decision No. 12562-(01/86), 8/30/01.

[3] See *Access Policy in Capital Account Crises* (SM/02/246, 7/30/02) and Summing Up by the Acting Chair—Access Policy in Capital Account Crises (BUFF/02/159, 9/20/02).

Box 1. Access Limits and Policy Under the Credit Tranches and the EFF

Limits:

The use of Fund resources in the credit tranches and under the EFF is subject to an annual and a cumulative limit under the current access policy. The annual limit of 100 percent of quota (i.e. applying to gross purchases over any 12-month period), and the cumulative limit of 300 percent of quota (i.e. applying to outstanding Fund credit), have been in place since October 1994. Only under exceptional circumstances can these limits be exceeded.

The current framework on access limits was established in 1992 at the time of the Ninth General Review of Quotas. To simplify the complex set of access limits in place in the 1980s, annual and cumulative limits were set at 68 and 300 percent of quota, respectively, and made subject to annual reviews. During the 1994 review, the Board decided to increase the annual access limit to 100 percent of quota while keeping the cumulative limit unchanged. Access limits in SDR terms were raised by about 45 percent in January 1999 when increased quotas under the Eleventh Review of Quotas came into effect and access limits as a percent of quota were maintained at the same level.

Guidelines on the size of access in individual cases:[1]

Balance of payments need. The member's actual or potential need for resources from the Fund is considered, taking into account other sources of financing and the desirability of maintaining a reasonable level of reserves; in no circumstance can access be greater than this need. The Fund's Articles of Agreement establish as a condition for use of Fund resources that the member represents that it has a need to make the purchase because of its balance of payments or its reserve position or developments in its reserves.[2]

Capacity to repay. To preserve the revolving character of Fund resources, the capacity of the member to service its indebtedness to the Fund and the timing and extent of the expected improvement in the member's balance of payments are relevant factors. The strength of the member's adjustment program is an important element in judging capacity to repay.

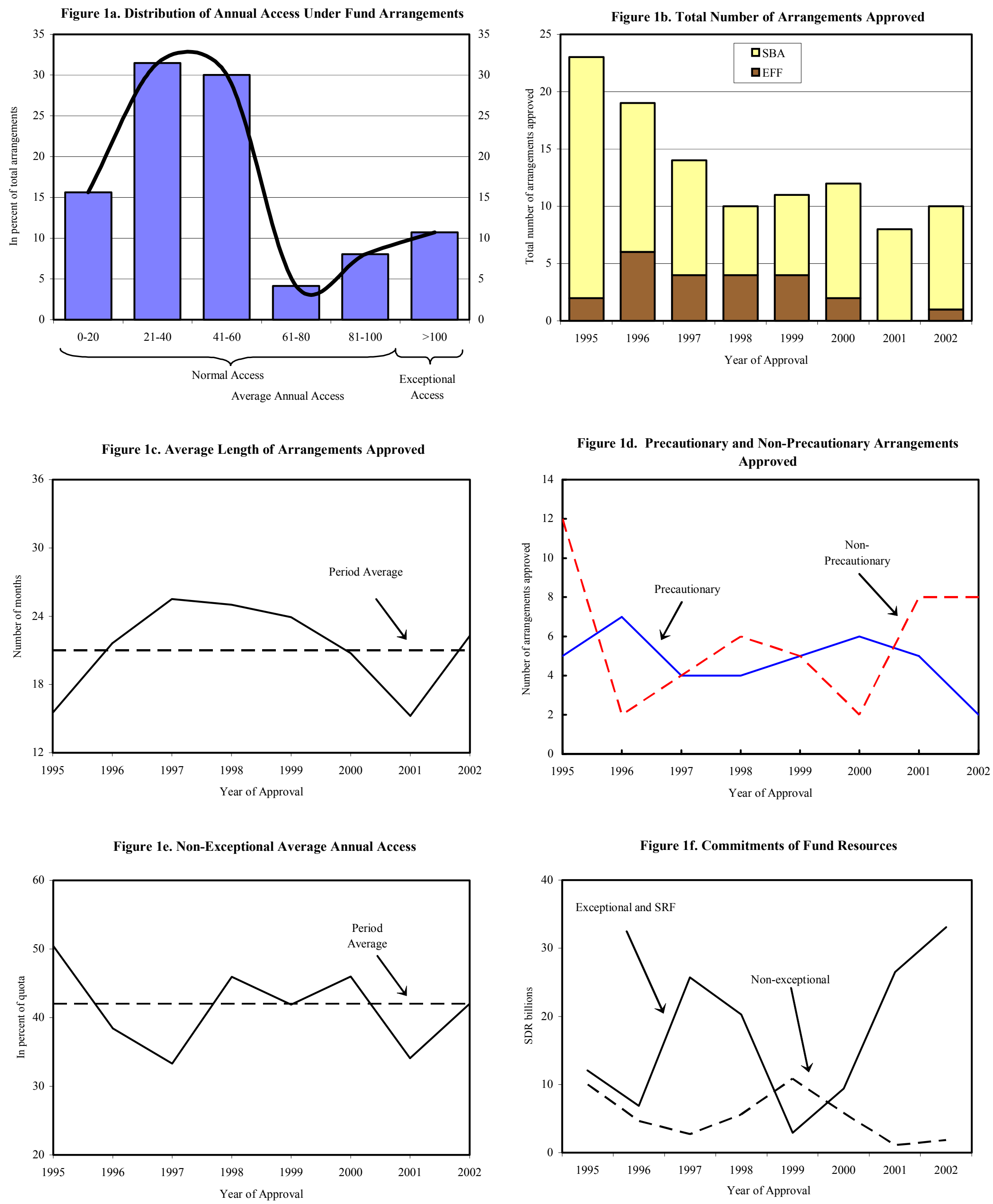
Indebtedness to the Fund and track record. The amount of the member's outstanding use of Fund credit and its record in using Fund resources in the past must enter into the judgment on the appropriate scale of further use of Fund financing.

1/ See *The Chairman's Summing Up at the Conclusion of the Discussion on Criteria for the Amount of Access in Individual Cases*, Executive Board Meeting 83/167, 12/3/83.

2/ Article V, Section 3 (b) (ii). See also *Need as a Condition for the Use of Fund Resources* (SM/94/299, 9/16/94).

Figure 1. Recent Developments in Access Policy, 1995-2002

(Stand-By Arrangements and Extended Fund Facility)



Source: Fund staff.

Fund's commitments as of end-2002 is concentrated in five arrangements with exceptional access.

A. Number and Type of Arrangements

5. **The number of new stand-by and extended arrangements approved during 2001-02 was in line with the historical average, but the use of extended arrangements declined** (Tables 1 and 2). There were 18 arrangements approved during the period under review. Consistent with the more stringent application of the balance of payments test for the Extended Fund Facility (EFF) following the 2000 review of Fund facilities, there is a continued tendency to rely less on the EFF. About 95 percent of the arrangements (17 out of 18) were SBAs with only one extended arrangement approved in the period under review (Figure 1b). Over 15 percent of the SBAs included SRF resources (3 out of 17).

6. **With shorter arrangements, the number of stand-by and extended arrangements in place is below the average of previous years.** The number of arrangements in place declined to 14 at end-2002, from 19 at the end of 2001, and around 28 in the second half of the 1990s. This development reflects a steady decline in the number of new arrangements approved since the peak of 1997, as a number of transition countries are no longer using Fund resources, and countries increasingly have access to private markets. Also, there has been less frequent use of 36 month arrangements compared to the late 1990s (Figure 1c).

7. **The number of precautionary arrangements approved declined somewhat in 2002.** About 40 percent of the arrangements over the two year period were precautionary at the time of approval, that is, the member indicated its intention at the outset not to make purchases (7 out of 18) (Figure 1d). While a small fraction of those arrangements that were precautionary on approval eventually made purchases (1 out of 7), the number of arrangements in place is evenly divided between precautionary and non-precautionary ones.

B. Average Annual Access

8. **Average access for non-exceptional arrangements declined in 2001 but returned to more normal levels in 2002.** Average annual access (at the time of approval) decreased to 34 percent of quota in 2001 (one of the lowest levels in recent history), but subsequently bounced back to 40 percent of quota during 2002 (Figure 1e). Annual non-exceptional access ranged from 16 percent in the case of Latvia (April 2001) to 97 percent for Uruguay (April 2002; the arrangement was then augmented in June and August to levels exceeding the access limits). As expected, average annual access under precautionary arrangements at the time of approval (30 percent of quota) was generally lower than under non-precautionary arrangements (41 percent of quota) (Tables 1 and 2).[4]

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[4] Unless otherwise indicated, figures for access levels reflect the amounts at the time of approval of new arrangements. Thus, mid-term augmentations or extensions (including through the provision of SRF resources) are excluded.

Table 1. Access Under Fund Arrangements Approved During 2000 - 2002 1/

(In percent of quota, unless otherwise indicated)

	Effective date of arrangement	Duration *(months)*	Average Annual Access 1/	Fund Credit Outstanding: Excluding special facilities 2/: Start of Arrangement	End of Arrangement	Including special facilities 2/: Start of Arrangement	End of Arrangement	GFF/GFN 3/ *(percent)*
2000								
Upper credit tranche SBA								
Argentina 4/	03/10/00	36	85	147	290	147	290	7
Ecuador	04/19/00	12	75	0	75	0	75	14
Estonia 4/	03/01/00	18	30	0	45	27	63	6
Gabon	10/23/00	18	40	38	90	38	90	9
Lithunia 4/	03/08/00	15	34	89	122	115	138	3
Nigeria 4/	08/04/00	12	45	0	45	0	45	7
Pakistan	11/29/00	10	54	28	63	104	133	15
Panama 4/	06/30/00	21	18	44	50	44	50	4
Papua New Guinea	03/29/00	14	56	10	66	10	66	15
Uruguay 4/	05/31/00	22	27	37	82	37	82	9
Extended arrangements								
Indonesia 6/	02/04/00	36	58	359	375	359	375	8
Macedonia 7/	11/29/00	36	12	4	35	90	98	3
Average SBA and EFF 5/		21	41	110	149	138	170	9
Average for "ordinary" cases 5/		18	46	39	93	52	103	9
2001								
Upper credit tranche SBA								
Brazil 4/ 8/	09/14/01	15	320	97	436	97	436	19
Croatia 4/	03/19/01	14	47	8	61	33	78	6
Latvia 4/	04/20/01	20	16	0	26	20	35	4
Lithuania 4/	08/30/01	19	38	75	113	92	120	4
Peru 4/	03/12/01	12	20	59	58	59	58	2
Romania	10/31/01	18	19	18	41	27	46	5
Sri Lanka	04/20/01	14	41	0	48	26	61	13
Yugoslavia, FR	06/11/01	9	57	0	43	25	68	2
Average 5/		15	70	32	103	47	113	7
Average for "ordinary" cases 5/		15	34	23	56	40	66	5
2002								
Upper credit tranche SBA								
Bosnia and Herzegovina	08/02/02	15	32	49	65	49	65	6
Brazil	09/06/02	16	564	359	813	359	813	35
Bulgaria	02/27/02	24	19	122	131	131	132	9
Dominica	08/28/02	12	40	0	40	0	40	9
Guatemala 4/	04/01/02	12	40	0	40	0	40	8
Jordan	07/03/02	24	25	203	187	203	187	4
Peru 4/	02/01/02	25	19	48	55	48	55	4
Turkey	02/04/02	35	456	1,165	1,246	1,165	1,246	23
Uruguay	04/01/02	24	97	82	243	82	243	36
Extended arrangements								
Yugoslavia, FR.	05/14/02	36	46	43	154	68	163	8
Average SBA and EFF 5/		22	95	134	234	147	238	11
Average for "ordinary" cases 5/		22	42	58	131	71	136	9

Source: Executive Board documents; Treasurer's Department.

1/ Reflects amounts and duration agreed at the time the arrangements were initially approved; excludes potential access under later augmentations. Total access divided by length of arrangement (in years), except where otherwise specified.

2/ Special facilities include Emergency Assistance, CCL, CCFF/CFF, PRGF, SAF, and STF; end positions assumes full disbursement of committed amounts; in the case of phased drawing under CCFF, the entire eligible amount estimated.

3/ Gross Fund Financing/Gross Financing Requirement; GFF includes all use of Fund resources during the period under arrangement and associated purchases that were anticipated at the time of approval. GFN 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.

4/ Precautionary on approval.

5/ Simple arithmetic average.

6/ Cumulative access limit exceeded using exceptional circumstances.

7/ PRGF/EFF blend case.

8/ Brazil's previous SBA was cancelled and replaced with a new arrangement which the authorities expected not to draw upon; however they drew on the arrangement two weeks after approval on September 14, 2001.

Table 2. Access Under Fund Arrangements By Year Of Approval, 1995 - 2002 1/ 2/

(In percent of quota, unless otherwise indicated)

	1995	1996	1997	1998	1999	2000	2001	2002
Average annual access								
SBA and EFF								
Non-exceptional 3/	50	38	33	46	42	46	34	40
Exceptional and SRF	500	53	329	172	100	58	320	510
Precautionary	27	27	27	43	21	40	30	30
Range of annual access								
Non-exceptional 3/								
SBA	24-100	18-80	24-69	20-81	20-85	18-85	16-57	19-97
EFF	33-43	17-55	20-45	45-55	21-84	...	...	46
Exceptional and SRF	500	53	163-646	144-200	100	58	320	456-564
Average use of Fund credit at beginning of arrangement, excluding special facilities 4/ 5/								
SBA	25	50	27	31	61	39	32	72
EFF	51	107	52	195	88	182	...	43
Average projected use of Fund credit at end of arrangement, excluding special facilities 4/ 5/								
SBA	101	85	219	107	115	93	103	109
EFF	66	145	78	217	94	224	...	154
Average projected use of Fund credit at beginning of arrangement, including special facilities 4/ 5/								
SBA	58	71	47	41	84	52	47	76
EFF	66	145	78	217	94	224	...	68
Average projected use of Fund credit at end of arrangement, including special facilities 4/ 5/								
SBA	142	103	365	116	133	103	113	109
EFF	147	230	189	317	181	237	...	163
Gross Fund Financing as percent of broad gross financing need								
SBA and EFF	16	12	12	10	10	9	7	11
Of which: Exceptional and SRF	39	17	21	10	6	8	19	29
Commitments, excluding augmentations (in SDR bn.)	20	11	28	20	13	9	10	33
Of which: Exceptional and SRF	0	0	10	0	0	0	9	8
Commitments, including augmentations (in SDR bn.)	22	12	28	26	14	15	28	35
Number of arrangements approved								
SBA	21	13	10	6	7	10	8	9
EFF	2	5	2	4	4	1	0	1
SBA and EFF	23	18	12	10	11	11	8	10
Of which: Approved Precautionary	5	7	4	4	5	6	5	2
Of which: Exceptional and SRF	1	1	3	2	1	1	1	2
Memorandum Item:								
Number of arrangements approved (including those blended with concessional resources)	23	19	14	10	11	12	8	10

Source: Executive Board documents; Treasurer's Department.

1/ Excludes arrangements blended with concessional resources. Reflects amounts and duration at the time arrangements were approved; excludes potential access under any future augmentation.
2/ Access expressed in terms of Ninth General Review of Quotas until 1998, and in terms of the Eleventh Review of Quotas thereafter.
3/ Including first credit tranche arrangements.
4/ Special facilities include CCFF/CFF, PRGF, SAF, ESAF and STF.
5/ At the time of approval, assuming full disbursment of committed amounts and repurchases made as scheduled during the arrangement.

C. Resources Committed

9. **Total resources committed increased in 2001 and reached a new peak in 2002.** New commitments under arrangements in the credit tranches, EFF and SRF (net of the impact of cancelled arrangements), increased from SDR 15 billion in 2000 to SDR 28 billion in 2001 (similar to the previous peak of 1997-98 after the financial crises in Asia, Russia and Brazil). A new record was established during 2002, when net new commitments reached SDR 35 billion (Table 3).[5]

10. **Commitments for programs supported by "normal" access declined to levels below the historical average.** New commitments made within the normal access limits amounted to only SDR 1 billion in 2001 and SDR 2 billion in 2002, down from SDR 6 billion in 2000, and well below the annual average of about SDR 7 billion recorded during the second half of the 1990s. The lower demand for Fund resources under normal access reflects improvements in the external position of a variety of members as well as "graduation" from Fund-supported programs for a number of other countries (Figure 1f).

11. **Fund financing of new arrangements as a share of individual members' gross financing needs showed a large variation during the period covered by the review.** In 2001/02, the ratio of gross Fund financing to broad gross financing needs (GFN) ranged from 2 to 13 percent in non-exceptional access cases (except for Uruguay which eventually became exceptional) and up to 35 and 36 percent in the case of the new arrangements for Brazil and Uruguay.[6] The average coverage of Fund financing increased to 11 percent of the member's financing needs in 2002. This level of Fund financing is higher than in 2000 and 2001, and about the same as during 1996-99.

D. Prolonged Users

12. **Only a small fraction of the members with arrangements approved during the period under review would be classified as "prolonged users" according to the criterion used by the Independent Evaluation Office (IEO) study.**[7] While most arrangements approved in 2001–2002 are for members that have had previous arrangements, only three out

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[5] Net new commitments represented 17½ percent of total Fund quota during 2002, just below the share of close to one fifth achieved in both 1997 and 1998 before the Eleventh Review of Quotas came into effect.

[6] Gross financing need is defined as the sum of the current account deficit net of official transfers, amortization payments on debts in excess of one year's maturity, repurchases and repayments to the Fund, the clearance of arrears, and the accumulation of official reserves.

[7] See *Evaluation of Prolonged Use of IMF Resources,* IMF Independent Evaluation Office, September 2002.

Table 3. New Commitments of Non-Concessional Fund Resources Under the Credit Tranches, EFF, and SRF, 1995-2002 1/

	1995	1996	1997	1998	1999	2000	2001	2002
				(In SDR billion)				
Total	**22.1**	**11.6**	**28.5**	**25.9**	**13.7**	**15.2**	**27.6**	**35.0**
Normal	10.0	4.7	2.7	5.6	10.8	5.8	1.1	1.9
New SBA & EFF arrangements	8.1	4.5	2.3	5.6	9.8	5.8	1.1	1.9
Augmentations	1.9	0.2	0.4	0.0	1.0	0.0	0.0	0.0
Exceptional & SRF	12.1	6.9	25.7	20.3	2.9	9.4	26.5	33.1
New SBA & EFF arrangements	12.1	6.9	25.7	14.0	2.9	3.6	8.6	31.6
Of which: SRF	0.0	0.0	10.0	0.0	0.0	0.0	8.6	7.6
Augmentations	0.0	0.0	0.0	6.3	0.0	5.8	17.9	1.5
Of which: SRF	0.0	0.0	0.0	4.0	0.0	5.8	6.1	0.1
				(In percent of total)				
Normal	45.3	40.3	9.6	21.6	79.0	38.2	4.0	5.3
New SBA & EFF arrangements	36.8	38.8	8.1	21.6	71.6	38.1	4.2	5.3
Augmentations	8.4	1.5	1.4	0.0	7.3	0.1	0.0	0.0
Exceptional & SRF	54.7	59.7	90.4	78.4	21.0	61.8	96.0	94.7
New SBA & EFF arrangements	54.7	59.7	90.4	54.0	21.0	23.9	31.1	90.3
Of which: SRF	0.0	0.0	0.0	0.0	0.0	0.0	31.1	21.8
Augmentations	0.0	0.0	0.0	24.3	0.0	38.0	64.8	4.4
Of which: SRF	0.0	0.0	0.0	15.4	0.0	38.0	22.1	0.4
Memorandum items								
New commitments / Fund quota (percent)	15.1	7.9	19.5	17.7	6.5	7.2	13.0	16.5

Source: Executive Board documents; Treasurer's department.

1/ Net of remaining access under cancelled arrangements. The most notable such operations are: Indonesia (1998) SDR 4.7 billion, Indonesia (2000) SDR 1.6 billion, Brazil (2001) SDR 3.6 billion, Turkey (2002) SDR 3.3 billion, and Brazil (2002) SDR 0.8 billion.

of 18 would be classified as prolonged users, and access under these arrangements was about half of the average (Bulgaria, Jordan, and Romania).[8]

E. Augmentations

13. **The majority of Fund resources committed in 2001 and 2002 involved augmentations of existing arrangements or successor arrangements.** Exceptionally large amounts of resources were committed to Argentina and Turkey in 2001 through

[8] The IEO report defined prolonged users as members with Fund arrangements in seven years out of ten. By this definition, five countries would be classified as prolonged users as of end-2002 (excluding PRGF-eligible countries and those that have had precautionary arrangements). Four of the five had programs in effect as of end-2002 (the three noted, and Argentina). The other one (Ukraine) did not have a program as of end-2002.

augmentations of stand-by arrangements that had been approved prior to 2001. During 2002, the large majority of resources committed were under new arrangements (Turkey, Uruguay and Brazil) that immediately followed previous arrangements, in some cases with initial access above normal limits. This is in contrast to the arrangements in the second half of the 1990s when exceptional access was first committed by the Fund to meet balance of payments needs arising from capital account crises. For virtually all of these cases, exceptional access was granted only in the initial program, without substantial augmentations or later refinancing.

III. Forward-Looking Assessment of Access Policy

14. **On the model of previous reviews of access policy, this review uses a variety of actual and prospective financial measures to assess the appropriateness of the present access limits.** The aim is to assess potential demand for Fund resources based on expected developments in the world economic environment against the constraint of present access limits. In this section, after a general consideration of the global environment, three indicators are set out to provide perspectives on this question: gross financing need based on World Economic Outlook (WEO) projections; members' sensitivity to certain shocks; and the Fund's liquidity. However, it needs to be recognized that there is no reliable method to forecast shocks and potential need for Fund resources. In part because of this uncertainty (and also because these measures do not attempt to address the appropriate share of financing needs the Fund should be prepared to meet in any context), these measures should be taken with caution when analyzing whether the current limits are serving members well.

15. **If the projections indicated a substantial increase in the demand for Fund resources, this might indicate a need to revise upwards the access limits.** The Fund is, however, already in a position to satisfy some additional demand (with the appropriate adjustment of policies) given that current access is generally significantly below the limits. In the event of large shocks that would increase the balance of payments need by a significant amount, raising the access limits would help to make available larger amounts of Fund financing to support additional adjustment. This is consistent with the purposes of the access limits (Box 2). However, the analysis below does not suggest we face a significant prospect of an increase in demand for Fund resources that could not be accommodated within current access limits.

A. The Global Environment

16. **Member countries' balance of payments needs in the near term can be expected to be influenced by the slowdown of growth in industrial countries, and the increased risk aversion of international investors towards emerging markets.** The weakening of the recovery in the major industrial countries during the second half of 2002 is now projected to carry over into 2003. The September 2002 WEO projects G-7 growth of only 2¼ percent in 2003, a downward revision of ½ percentage point relative to the April 2002 WEO. This reflects the slow recovery of the US economy and the continued anemic growth in the EU, which are only partly offset by a small upward revision of growth prospects in Japan.

Box 2. The Purposes of the Access Limits

The limit on annual access has several purposes:

- *It should ensure that members do not rely excessively on Fund financing*, but also adopt appropriate adjustment measures. As such, it is built on experience of the size and nature of balance of payments needs of members, after taking into account other sources of financing available to them.

- *It should provide confidence to members that they can secure significant support from the Fund* to enable them to weather shocks without having to resort to excessive adjustment.

- *It should ensure that members do not exhaust their total potential access to the Fund* (that is, the cumulative limit) more rapidly that would be warranted by the typical frequency and size of shocks.

- *It also serves as the typical threshold* beyond which SRF and CCL resources may be provided in relevant cases.

The cumulative limit also serves to some extent as a backstop to the annual limit and as a rule of thumb to ensure that members do not become unduly indebted to the Fund—although it must be supplemented in this task by analysis of capacity to repay in individual cases. The cumulative limit also helps reduce the risk that the Fund's resources are exhausted, so that borrowers are never treated on a "first-come-first-serve" basis. The cumulative limit therefore reflects the size of the Fund, and should be affected by the amount of quotas, any borrowing arrangements the Fund has, and the relative shares in the Fund of likely debtors and creditors.

Moreover, downward risks remain that could constrain economic recovery, including the possible impact of large declines in equity prices in the US and the EU, as well as that of a possible weakening of the real estate market, and the possible contractive effects of developments in the Japanese economy and its financial system. An obvious implication of the economic weakness in industrial countries is a moderation in their demand for the exports of developing and emerging economies. Projected export growth for this group of countries has now been revised down by 1½ percentage points for 2002 and by ½ percentage point for 2003 relative to the April WEO. An additional downward risk relates to oil prices; a protracted period of high oil prices would adversely affect the balance of payments needs of oil-importing developing countries.

17. **Private investment flows to developing and emerging economies remain generally weak, although there are significant exceptions to this general pattern.** In the wake of the regional financial crises of recent years, and also reflecting the current weakness in advanced economies, international investors are displaying lower risk appetite for emerging markets, reflected in lower gross flows and wider risk premia. For much of Latin America, Turkey, and other members, these pressures have exacerbated country-specific

features, including concerns about debt dynamics, other economic vulnerabilities and concerns about the future course of policies. For these countries, access to international capital markets in the near term has been significantly reduced, implying added strains on their balance of payments position. Other countries, however, are faring better. In particular, most Asian emerging economies (with the notable exception of Indonesia) are benefiting from renewed inflows (albeit lower than their pre-crisis levels), especially as regards foreign direct investment and portfolio investment, while also enjoying low spreads, reflecting investors' perceptions of reduced vulnerabilities and improved growth prospects.

B. Gross Financing Needs

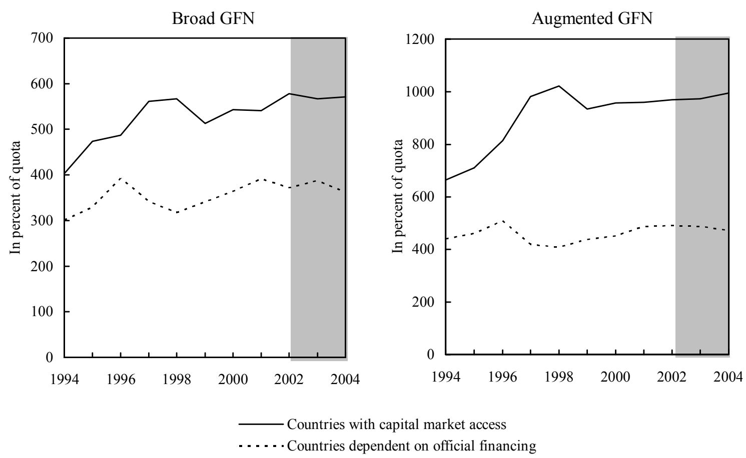
18. **Traditionally, access policy reviews analyze emerging strains in members' balances of payments by projecting gross financing needs (GFN) using WEO data.**[9] However, while GFN can be a useful way to use WEO assessing prospective BOP need, its shortcomings should be kept in mind in making assessments about future demands for Fund resources. Private capital outflows are not well accounted for under any variant of the GFN definition. Moreover, autonomous shifts in capital flows may be misinterpreted. Projected changes in the GFN may not reflect developments in members' needs for financing but rather expected developments in the supply of funds. For instance, if a narrowing GFN mainly reflects a lower current account deficit stemming from an exogenous contraction in the supply of financing, say due to a change in international investors' appetite for risk, the GFN would fail to signal imminent BOP strains that may warrant exceptional financing, including from the Fund.[10]

[9] Previous access reviews have employed the concept of the "gross financing needs" (GFN) of past users of Fund resources to assess the membership's BOP need over the near term. The most commonly used "broad GFN" (calculated on the basis of WEO projections for the group of members that have used Fund resources since 1985), is defined as the sum of current account deficits net of official transfers, amortization payments on debts in excess of one year's maturity, repurchases and repayments to the Fund, the clearance of arrears, and the accumulation of official reserves. An alternative concept that includes payments of short-term debt, called "augmented GFN" is also monitored.

[10] An additional problem is that WEO projections assume fully financed BOPs. Under these conditions, GFN calculations should be viewed as a crude measure of the vulnerabilities involved in financing these BOPs.

19. **The WEO baseline projects a broadly stable GFN through 2004.** (Figure 2 and Table 4). For past users of Fund resources with access to capital markets, the GFN is projected to decline slightly over 2003-04 with respect to the levels observed in 2002 but remain above the levels reached at the time of the Asian crisis. Augmented GFN gives a qualitatively similar picture. For past users of Fund resources dependent on official financing, the different measures of the GFN are also broadly stable. Notwithstanding its shortcomings, this analysis suggests a relatively stable demand for Fund resources and points toward the adequacy of the current access limits.

Figure 2. Projected Broad and Augmented Gross Financing Needs, 1992-2004
In percent of 11th review of quota



Sources: WEO and Fund staff estimates.

C. The Impact of Potential Oil and Growth Shocks

20. **Adverse scenarios regarding industrial country growth and oil prices in the near term have important implications for the prospective BOP needs of the membership**. The calculations take as a starting point the baseline GFN projections of the September 2002 WEO. However, the near-term global outlook entails substantial downside risks. To gauge the sensitivity of member countries' prospective financing needs to these risks, the implications of two adverse scenarios for 2002-03 are considered: (i) G-7 output growth one-half percentage point lower than the WEO baseline; and (ii) oil prices $5 per barrel higher relative to the WEO baseline. Both shocks corresponds to roughly one standard deviation with respect to the respective averages of the last five years. The analysis below estimates the magnitude of these shocks on members' balances of payments, and then determines whether such shocks could be accommodated with resources under the credit tranches and the EFF within the access limits (even before corrective measures are adopted). [11]

[11] This is an illustrative exercise aimed at measuring the upper limit in the demand for Fund resources derived from the shock. In reality the member countries take measures to alleviate the impact of the shock and Fund-supported programs entail adjustment that would reduce the financing need.

Table 4. Gross Financing Need of Past Users, 1996-2003 1/

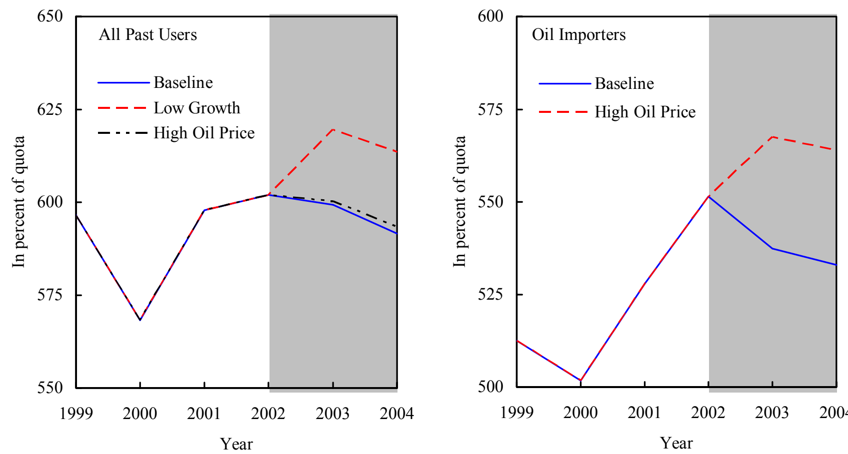
	1996-99 Annual Average	2000	2001	Est. 2002	Projection 2003	2004
In Billions of SDRs						
With capital market access (39) 2/ 3/						
Current account deficits (excl. official transfers)	39	-18	-7	0	11	28
Amortization (incl. Fund repurchases)	153	196	210	178	185	173
Narrow gross financing need	**192**	**178**	**203**	**179**	**196**	**201**
Reserve accumulation and arrears clearance	38	57	73	92	74	63
Broad gross financing need	**229**	**236**	**276**	**271**	**270**	**264**
Short-term debt stock	167	176	166	149	156	159
Augmented gross financing need	**397**	**412**	**442**	**420**	**426**	**423**
Dependent on official financing (55) 2/ 4/						
Current account deficits (excl. official transfers)	14	4	8	11	12	12
Amortization (incl. Fund repurchases)	12	10	11	11	10	9
Narrow gross financing need	**26**	**14**	**19**	**22**	**22**	**21**
Reserve accumulation and arrears clearance	3	13	12	7	10	9
Broad gross financing need	**29**	**27**	**30**	**29**	**32**	**31**
Short-term debt stock	11	11	12	15	11	12
Augmented gross financing need	**41**	**38**	**43**	**45**	**43**	**43**
In Percent of Quota 5/						
With capital market access (39) 2/ 3/						
Current account deficits (excl. official transfers)	156	70	80	116	141	161
Amortization (incl. Fund repurchases)	300	391	369	330	335	322
Narrow gross financing need	**456**	**461**	**449**	**446**	**476**	**483**
Reserve accumulation and arrears clearance	76	82	92	133	91	88
Broad gross financing need	**532**	**543**	**541**	**578**	**567**	**571**
Short-term debt stock	406	414	419	391	391	391
Augmented gross financing need	**938**	**957**	**960**	**970**	**958**	**962**
Dependent on official financing (55) 2/ 4/						
Current account deficits (excl. official transfers)	228	188	215	219	229	199
Amortization (incl. Fund repurchases)	89	92	95	93	86	85
Narrow gross financing need	**317**	**279**	**310**	**312**	**315**	**284**
Reserve accumulation and arrears clearance	31	85	82	60	72	78
Broad gross financing need	**348**	**364**	**391**	**372**	**387**	**363**
Short-term debt stock	96	87	97	118	118	118
Augmented gross financing need	**444**	**452**	**488**	**490**	**506**	**481**

Source: Staff estimates based on data from the Summer 2002 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.
5/ Trends in GFN in percent of 11th review quota may differ from those measured in absolute levels because of the changing patterns of GFN across countries with different sized quotas.

21. **The low growth scenario, while entailing higher BOP needs for past users of Fund resources, is projected to be manageable under the access limits.** In line with assumptions embodied in the September 2002 WEO, lower growth in industrial country domestic demand of one-half percentage point below the baseline can be expected to imply around one percentage point lower growth in their import demand during 2003-04. Taking into account the export market shares of past users of Fund resources, this low growth scenario could result in higher BOP needs of just under 20 percent of quota on average for members with capital market access, and by around 10 percent of quota on average for members dependent on official financing (Figure 3, left panel).[12] While this increase is not insignificant, it can be comfortably accommodated within the access limits, even if the Fund were called upon to provide the bulk of the additional financing.[13]

Figure 3. Impact of Growth and Oil Shocks to Augmented Gross Financing Needs, 1999-2004



Source: WEO and Fund staff estimates.

22. **Under the high oil price scenario, while the aggregate potential demand for Fund financing is little changed, there will be considerable and differentiated effects.** The higher BOP needs of oil-importing members would likely be sizable but manageable with the present access limits. Taking into account the share of oil in individual countries' trade, an oil price $5 per barrel higher relative to the WEO baseline (i.e. $24.3 per barrel for

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[12] The increase in the BOP need is measured as the impact of the shock on the member's BOP assuming no policy response nor any other second round effects. For expositional purposes, the additional BOP need is expressed as changes in the augmented AGFN. The results do not depend on the definition of financing needs.

[13] In other words, if the prospective demand for Fund resources (in the absence of a shock) is expected to be about the same in the coming years, then the annual access under future arrangements should be about the same as in 2002, namely about 40 percent of quota on average. In the event a shock materializes (i.e. lower growth in industrialized countries by ½ percent for most members), the Fund could provide additional arrangements for that magnitude (i.e between 10 and 20 percent of quota) and still be well within the access limits on average (annual access could increase to between 50 and 60 percent for most members). As mentioned before, in reality the additional demand for Fund resources would likely be lower than the additional 10-20 percent measured in this section.

2003) is projected to imply virtually no additional aggregate BOP need for past users of Fund resources (Figure 3, left panel). In fact, for past users of Fund resources that are dependent on official financing, the high oil price scenario suggests an improvement in their BOP position by some 15 percent of quota on average, reflecting the prevalence of oil-exporting countries in this group. For past users of Fund resources with access to capital markets, on the other hand, the scenario implies an increased BOP need of less than 5 percent of quota. For the purposes of assessing access to Fund resources it would be more instructive to look at the subgroup of past users that are net oil importers (Figure 4, right panel). For this group, the high oil price scenario suggests increased BOP need by some 30 percent of quota on average. The impact in this case would be larger relative to the slow growth scenario, but it does not suggest the need for a change in the access limits.

D. Outlook for Fund Liquidity

23. **On current trends, the Fund's liquidity position is adequate to accommodate expected demands**. The Fund's liquidity position declined in 2002 with record-high new commitments and associated large purchases. Despite this, the Fund's one-year forward capacity to commit GRA resources[14] at end-2002 was SDR 55 billion. The assessment of the adequacy of the Fund's resources is subject to a substantial margin of uncertainty, as the Fund is called upon to assist member countries facing capital account crises. Nevertheless, in light of the current economic outlook, GFN projections for member countries, and alternative growth and oil price scenarios, and barring unforeseen developments that could lead to large additional demand, the Fund's liquidity position appears adequate and there would seem to be no need to change the access limits (Table 5).

IV. Proposed Access Limits and Timing of Future Reviews and Resource Implications

24. **The staff proposes to retain the structure and levels of access limits at 100 percent of quota on an annual basis and 300 percent of quota on a cumulative basis.** The current limits have worked well in dealing with the more normal (non-exceptional) BOP needs of the membership, while the Fund retains flexibility to meet exceptional BOP needs of its members, should this prove necessary. The Fund's liquidity position appears adequate to handle a potentially higher demand for Fund resources due to a sluggish world economy or somewhat higher oil prices.

[14] See *The Fund's Liquidity Position-Review and Outlook* (EBS/02/177, 10/15/02).

Table 5. The Fund's Liquidity, 1995-2002
(In billions of SDRs)

	1995	1996	1997	1998	1999	2000	2001	2002 1/
Flows during the period								
Commitments 2/	22.1	11.6	28.5	30.6	13.7	16.8	31.2	39.2
Cancelled undrawn balances 3/	0.0	0.0	0.0	4.7	0.0	1.6	3.6	4.2
Net new commitments 4/	22.1	11.6	28.5	25.9	13.7	15.2	27.6	35.0
Purchases	17.0	5.3	16.1	20.6	10.0	7.2	23.8	25.2
Repurchases	6.7	5.1	5.7	6.7	19.4	15.2	13.3	15.0
End of period								
Usable resources	58	61	51	54	95	110	103	100
Undrawn balances under GRA arrangements	9	13	21	27	22	21	26	32
Uncommitted usable resources	49	48	30	26	73	89	77	68
Projected repurchases one-year forward 2/	5	6	7	19	15	13	15	20
Prudential balance	18	19	19	22	29	30	31	33
One-year Forward Commitment Capacity (FCC)	36	35	18	23	60	72	61	55
Available NAB/GAB borrowing 3/	19	19	19	19	34	34	34	34
Memorandum items, end of period:								
Quotas of members participating in the Financial Transactions Plan	89	95	94	96	143	151	155	163
GRA credit outstanding	36	36	47	61	51	43	53	64
Outstanding borrowing under NAB/GAB 4/	0	0	0	4	0	0	0	0
Liquidity ratio (in percent)	107	104	48	32	115	164	115	84

Source: Treasurer's Department

1/ To December 27, 2002.
2/ Actual repurchases used as a proxy for projected repurchases for periods prior to the year 2001.
3/ Equals total NAB/GAB net of activated amounts.
4/ Amounts drawn and disbursed.

25. **While the share of Fund resources committed under "normal" arrangements has been declining, staff considers that the access limits continue to play a useful role**. The access limits have served well in guiding decisions on the appropriate mix of financing and adjustment for members experiencing traditional BOP problems affecting the current account. Access limits also provide a useful dividing line between problems that would generally be addressed using resources under the credit tranches, and those where SRF resources should generally be used.

26. **The staff proposes to switch the annual access review to a biennial cycle with interim annual reports on developments in access**. The access limits have been unchanged

since 1994 and, in the view of the staff, remain adequate. The stability of these limits, the decline in resources committed under non-exceptional arrangements, and the stability in the expected demand for Fund resources call for a less frequent review of access policies. It is thus proposed to conduct the next review of access policy, no later than end-December 2004 and to provide a factual report on developments no later than end-December 2003. The staff could initiate a full review of access policy earlier if requested by the Board.

27. **Some budgetary savings would be generated by the proposal to review access policy biennially.** If approved, this proposal would save staff resources in the drafting and reviewing of a full policy paper, of perhaps 1-2 person-years, together with savings in the Executive Board's time.

28. Proposed decisions will be circulated as a supplement prior to the Executive Board meeting on this paper.