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FUND CONDITIONALITY: AN INSIDER VIEW

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Fund Conditionality: An Insider View

Introduction

The subject of IMF conditionality has attracted a great deal of attention in the past few years, both in the context of international monetary reform discussions and as an issue in itself. Starting from the Arusha initiative 1/ of 1980, the debate has been conducted in many different forums, including the G-77, the Non-Aligned Conference, UNCTAD, etc. Of special note are papers emerging from a conference organized by the Institute of International Economics, Washington, D.C. in 1981, 2/ the work of the Commonwealth Study Group 3/ in 1982-83, and a major research project of the Overseas Development Institute (London), published in 1984. 4/ Apart from these, a large outpouring of articles and scholarly monographs has ranged from a discussion of general principles to the results of Fund programs in individual countries 5/ and regions. 6/ The Fund itself has contributed to the growing literature through speeches by its Managing Director, pamphlets, seminar volumes, and cross-sectional analysis of country programs and other staff publications. 7/ Not included in this listing is the large volume of public commentary that has accompanied the recent debates over enlargement of Fund resources and its role in dealing with problems of external debt of a number of developing countries.

While the constraints that operate on member countries undertaking stabilization programs are well enough known, there is perhaps less appreciation of the difficulties that confront the Fund itself in negotiating adjustment programs. By elucidating some of these constraints, it may be possible to afford to those outside the institution some insights into the negotiating process as it is perceived by those within it.

Clarifications of the Concept of Conditionality

Before turning to the main subject, it would be useful to clarify three points. First, some definitions: Fund conditionality refers to the linking of Fund financial assistance to the adoption of corrective measures by a member country in order to achieve a viable balance of payments position such as will allow repayment to be made within a medium-term time-scale. The policies required to bring about this result depend on both the nature and size of the existing and prospective balance of payments deficits. Purchases in the first credit tranche, which may be appropriate when the payments deficit is relatively small, require that the member demonstrate reasonable efforts to overcome its problems. Purchases in the upper tranches, which are generally made under a stand-by or an extended arrangement, 8/ require that policies be adopted which give substantial assurance that a viable payments position will be reached within a pre-determined period.

The literature now broadly accepts that adjustment measures are required in all cases where problems are not of a strictly transitory character. It is less clearly agreed that the need for adjustment measures and, hence, for Fund conditionality, is no less pressing when the problems arise from circumstances largely outside the control of the country. Given the revolving character of the Fund's resources, it is required to make a distinction

between temporary and reversible and nonreversible causes. Even where it is possible (and this is not always the case) to draw a clear line between exogenous and domestic causes of balance of payments problems, a failure to recognize that the problems are not transitory and self-correcting itself becomes an argument for treating the subsequent difficulties as the consequence of domestic policy.

Secondly, there is a recognition that adjustment will always involve costs in the sense of reducing net domestic absorption, and that these are unavoidable costs if the need for adjustment is imposed by a shortage of foreign exchange resources. The basic question is how to minimize the costs, and the debate relates to the content of corrective measures proposed and an evaluation of whether alternative measures could achieve a given balance of payments outcome at a lower cost. 9/

Thirdly, some of the academic comment tends to confuse content with the form of conditionality. There is a great deal of discussion of performance criteria, review clauses, and phasing: these, however, constitute a framework which the Fund and members have found useful for the purpose of monitoring programs in the course of implemention. The use of fairly uniform monitoring criteria creates the faulty impression that the prescription is standardized. Fund support is provided on the basis of a whole package of macroeconomic and financial measures, much of which is not subject to performance criteria. Such a package may place emphasis on augmenting supply, restraining demand, shifting resources from the nontradables to the tradeables sector, or on a combination of all three. However, for monitoring purposes attention is directed to certain key economic variables that are readily available and relatively dependable. 10/ These variables are formulated so as to be consistent with the entire composite of economic and financial policies as well as with anticipated macroeconomic developments over the period. Deviations from the projected levels of these variables are therefore viewed as an indicator that certain elements of the program may not be evolving as anticipated and that it would be necessary to review the economic policy package before moving forward. It is therefore not correct to conclude based on the observation that most performance criteria apply to variables measuring demand that the programs supported by the Fund are necessarily oriented wholly towards demand restraint.

The invariable use of credit ceilings as performance criteria also creates the impression that the Fund is a "monetarist" institution. Since the prime focus of every program supported by the Fund is a certain outcome in the overall balance of payments as measured by changes in the net foreign assets of the monetary authorities, attention to the domestic monetary counterpart of movements in net foreign assets is only logical. Of course, much more is involved here than a balance sheet identity. There are assumptions that (1) the change in net foreign assets will be positive (i.e., the balance of payments will improve) to the extent that the change in broad money exceeds the change in domestic credit and (2) that changes in the demand for broad money stand in a stable relationship to changes in real

income, price level, etc. However, the assumption of a stable demand-for-money function is only a starting point for evaluation. Since data on monetary and credit variables are among the earliest to become available and are also among the most reliable, it is reasonable to treat them as a first approximation check on performance. If they deviate substantially from their projected path, it is a signal that the program might be veering off track. Furthermore, the use of real sector variables, such as domestic absorption or output or investment, directly to measure performance is not possible in most countries due to lack of timely data on these variables and these are in any event target variables rather than instrument variables within the policy control of the authorities. It is important to bear these qualifications in mind because confining attention to performance criteria detracts from the total policy package in support of which Fund assistance is provided.

Timing Constraints

The Fund maintains a policy dialogue with all its members through Article IV consultation discussions. These are normally conducted for all the larger countries (both industrial and developing) on a 12-month cycle and cover the entire range of macroeconomic policies that bear upon the countries' balance of payments and exchange rate. There is also a regular flow of periodic information from members to the Fund. The Fund staff will therefore have fairly clear ideas of the financial situation of a country and may even have cautioned it on matters within the Fund's purview where this is appropriate. However, the Fund has no power of initiative to offer financial assistance. The timing of an approach to the Fund is always a decision of the member country. The Fund's own experience indicates that an early adoption of corrective measures is helpful in producing a satisfactory outcome without resort to drastic measures. When action is delayed, confidence erodes on the part of the country's own asset holders and on the part of its lenders. Commercial banks may begin to shorten maturities as well as to reduce exposures. The Fund can be called in at any point within the spectrum from incipient unease to the onset of an acute financial crisis. Clearly, the action that is recommended by the Fund will correspond to the seriousness of the situation that confronts the authorities. Some policy options that might be open if an early approach is made (e.g., when the country has reserves) are no longer available at a later stage (e.g., when it is accumulating payments arrears). A Fund mission is usually dispatched within a short time, and its first objective is to reach an understanding of the situation on the ground and to develop a shared diagnosis. The next step is to devise measures that will ensure that the balance of payments situation is contained and then turned around; here the initial conditions that prevail become a prime determinant of the policy prescription.

Foreign Exchange Constraint

What needs to be done and the time in which to do it (i.e., the pace of adjustment) depend critically on an assessment of the resources available to the country, both in the form of foreign savings (including use of Fund

resources) and the potential for raising domestic productivity and saving. It has been argued by those who emphasize the structural character of the difficulties of many developing countries that a Fund-supported program should only address the sources of the problem and recognize that in most cases these are only tackled over the medium term. However, the introduction of policies that will address the problem over the medium term may not be sufficient in the short term to eliminate the imbalance which cannot be financed and would therefore require additional measures to be taken. To state the same idea in a different way, while it is indeed desirable to consider a wide range of alternatives to address the underlying balance of payments problem, one cannot escape the fundamental short-term constraint of matching claims on resources with the resources that are available.

The resource constraint applies not only to the speed of adjustment and the choice of instruments but also to the manner of their use. It is suggested, for instance, that gradual realignment of the exchange rate to a realistic level might well be the most cost effective solution in certain circumstances. However, there might be a pressing need to make a change that leaves no room for doubt about the finality of the exchange rate action. In the absence of that, leads and lags may continue to operate against a currency and those who have earlier switched from domestic to foreign currency assets may hold back from repatriating them. 11/ In that sense, some of the discussion of the "shock-treatment" versus "gradualist" approaches to adjustment in the literature might well be moot because the lack of foreign exchange reserves leaves no room for gradualism.

The Fund can and does help to reduce the financial constraint by providing its own resources and in serving to unlock access to other external sources. The Fund's own contribution may be marginal in quantitative terms if the access of the member is constrained by the size of its quota relative to the magnitude of the external imbalance and also by the previous use of Fund resources by the country. Under the current policy of enlarged access the ability of the Fund to provide resources towards the upper limits of access also depends upon the strength of the program being adopted. The Fund may wish to hold back from a maximum commitment in order to have some margin for influencing both the borrowing country as well as other lenders over a lengthy period of time. This is true especially where it is judged that debtor countries must depend heavily on commercial and official lenders to secure debt relief and on new financing over a number of years. This also applies to countries that depend on official aid to a substantial extent.

Where such reliance is involved, the negotiating process becomes highly complex. It may require several iterations as the content of the program is continuously adjusted to the changing estimates of available resources. Even so, the possibilities of forecasting error remain and a great deal of time is necessarily spent in obtaining the best possible "fit" on the amounts and terms of external commitments, predicting the path of disbursements, and working through the shares of various suppliers of funds where burden-sharing considerations are at play. Whether the eventual outcome

is more restrictive or less restrictive than needed depends on the accuracy of the projections. Where the projections turn out to be unduly conservative, the outcome will be regarded as the consequence of an unduly restrictive program; on the other hand, errors of optimism can end in loss of confidence for both the country and its foreign partners. In practice, there appears to be a systematic tendency for estimates of foreign exchange availabilities made by other sources to be unduly optimistic.

Domestic Policy Constraints

The balance of payments recovery path being determined in the light of the projected availability of foreign capital (and Fund resources) the policy package is formulated so as to produce a level and composition of domestic demand as well as the level and distribution of output as between tradables and nontradables such as will tend to produce the desired outcome. 12/ Essentially, three sets of measures can be brought into play: (a) aggregate demand management, (b) demand and output switching and (c) strengthening supply incentives and management.

(a) It is axiomatic that corresponding to the external financial imbalance will be an imbalance in domestic finances. The imbalance will not necessarily be of domestic origin but any improvement in the external balance will necessitate corresponding changes in the domestic financial balance of the economy. If the external imbalance were to be suppressed through quantitative import restrictions and exchange controls, its domestic counterpart would translate into higher inflation or a growing scarcity of essential inputs where prices are controlled and supplies rationed. The causes of imbalances are a mixture of external and domestic factors 13/ and the symptoms of imbalance will be declining foreign exchange reserves and/or accumulating payments arrears as well as rising inflationary pressures at the time that a member approaches the Fund. In any case, an improvement in the domestic financial balance will require a careful assessment of the scope for mobilizing resources through the banking system. As a first step an estimate of the margin for domestic credit expansion will be calculated given the net foreign assets target and the demand for money function. 14/

Where the budget is running a deficit that is being financed, or accommodated, in part through the banking system, a reduction in the fiscal deficit may be required to free up resources (including financial) for other sectors. Where state enterprises are a significant component of the productive sector, the margin for domestic credit expansion will typically be allocated three ways, i.e., for the budget proper, for state enterprises, and for the private sector. These allocations and the manner in which they are accomplished will be determined by the institutional arrangements in the country. Even where domestic financial markets are well developed, quantitative ceilings on credit to various sectors may be called for, in some cases with interest rates reflecting the available flow of credit to each sector.

The private sector is often a significant claimant of credit allocations and its degree of access is again for the authorities of the country to determine. Since Fund negotiations are conducted only with the public authorities, there is at times an appearance of the Fund favoring the private sector. This is because the argument on the size of the public sector deficit to be financed by the banking system tends to be couched in terms of leaving enough resources for the productive sectors not only to maintain their operations but to take advantage of the incentives that become available as a result of changes in the key prices that are the second major element of any adjustment program.

(b) The exchange rate is the key price that must be brought into play if demand switching is to be accomplished in favor of the external sector. Much is made of low supply elasticities in developing countries and the restraints on export markets. There is no great merit in the argument even when the analysis starts, as it does in most academic literature, from an assumed position of equilibrium. This is rarely the case in most situations dealt with by the Fund. The overvaluation of the exchange rate is among the most frequent accompaniments of balance of payments difficulty and a country's need to depreciate becomes unavoidable if a rational pricing structure is to be established. The fundamental choice that countries have to make is between quantitative allocations and rationing through the price mechanism. The pervasive inefficiencies that accumulate when the former method is pursued in order to maintain an artificial price for foreign exchange become a major impediment to the growth process. The Fund's predilection for exchange rate adjustments is often little more than an effort to correct an existing situation of overvaluation and thereafter to help keep the exchange rate moving in a way that maintains the competitiveness of export industry and the profitability of import substitution.

The prices that primary producers receive for exports are largely a function of the exchange rate since being "price-takers" they have little influence on the foreign currency price of their exports. The prices that can be paid to domestic producers are kept lower by an overvalued exchange rate and inflict heavy losses. 15/ Similarly where food prices are controlled, an overvalued exchange rate permits food imports (often obtained through various aid channels) to be sold at prices that make the production of domestic foodgrains unprofitable. In the typical case a persistent overvaluation has either reduced the output of exports or has forced a part into illegal channels. Thus, supply responses can be quite rapid since they involve either a redirection of output into legal channels or a reinstatement of productive capacity that has been abandoned because producers were bearing losses.

The constraint on using the exchange rate instrument in order to raise domestic output in ways that improve the balance of payments is then the pressure from those who benefit from the continuation of existing exchange rate arrangements; an exchange rate action becomes a highly charged political decision precisely because it produces changes in the distribution of

income between producers (or potential producers) of foreign exchange and consumers of foreign exchange. Often the impact of exchange rate action on poor urban consumers can be dampened through devices such as subsidies targeted to the poorer elements of urban society. The Fund has been far more willing to accept such transitional arrangements especially if they are offered openly, through the budget. But there are strict practical limits to the effectiveness of such arrangements and when allowed to persist for any length of time, they become a serious drain on the availability of scarce budgetary resources for development purposes. 16/

A more difficult constraint on the use of the exchange rate operates in countries with pervasive indexation arrangements or where trade unions are strong enough to protect the living standards of their members through industrial action. In such cases, a change in the nominal exchange rate may be quickly offset by corresponding changes in nominal wage rates, leaving the real exchange rate largely unchanged. Changes in indexation mechanisms and other elements of incomes policy must be introduced if the distribution between tradable and nontradable sectors is to be influenced by a change in the nominal exchange rate. It is important to note, however, that in the short run any conclusion that a real exchange rate change is not feasible will necessarily place a larger burden of the adjustment on demand restraint and consequently on growth.

Another situation in which the exchange rate instrument is constrained is with member countries operating centrally planned economies. The relationship between the domestic price level and international prices is typically intermediated through specialized foreign trade and banking institutions that intervene between the enterprise sector and the international market. A complex web of subsidies and taxes results in a multiplicity of effective exchange rates. The experience of Yugoslavia for a number of years and of Romania and Hungary more recently has resulted in a certain movement in favor of simplifying the exchange rate arrangements so as to allow international price relationships to bear rather more directly on the allocation of domestic resources. As the need to integrate into the world price structure becomes more pressing, it may be possible to establish a greater role for the exchange rate as an unambiguous link with the outside world even in the more centralized planning systems. In its absence, Fund programs must seek other instrumentalities to produce commensurate results.

Next perhaps to exchange rates are interest rates in the pervasiveness of their effects. If these remain lower for extended periods than those prevailing in outside money markets, it becomes impossible to encourage the mobilization of domestic savings or to discourage productive investment. There are often strong domestic resistances (economic, ideological, and religious) to moving towards appropriate rates and these become a powerful constraint on the application of monetary policy.

(c) While supply responses to changes in producer prices can and do have a significant role in many instances, there are certainly situations, especially in the poorer countries, where investments in infrastructure

Adherence to the Fund's Articles must be reinforced with an understanding of their application through a series of decisions of the Executive Board starting with the 1952 decision which settled once and for all the principle of conditionality in the use of Fund resources. A milestone in this activity is the decision setting forth the guidelines on conditionality adopted in 1979 and reaffirmed as recently as November 1983. 19/ There is a potential conflict between Guideline 4, which stipulates that in devising adjustment programs "the Fund will pay due regard to the domestic social and political objectives, the economic priorities, and the circumstances of members, including the causes of their balance of payments problems" and Guideline 8, which requires that the application of policies relating to the use of Fund resources maintain the "non-discriminatory treatment of members." The staff must operate within this tension. Indeed, it must operate so as to produce comparable conditions for countries that are comparably placed. A great deal of misperception about differences in the degree of severity of programs reflects, as noted earlier, the differences in initial conditions at the time that countries approach the Fund and also differences in the external environment in which the adjustment effort must be carried out.

This environment has undoubtedly grown much harsher during the 1970s than it was in the 1960s (the sharp rise in the price of energy and a secular slowing down of growth in the industrial world being only two elements) and it has been even more difficult in the first years of the current decade with a world recession of great severity, a shift from negative interest rates to positive real rates and a complete change in the perceptions of lenders of the creditworthiness of a number of developing countries that had relied in the 1970s on access to large capital flows from private commercial banks.

The Fund's membership has responded to these adversities through a series of adaptations, starting with the Oil Facilities of 1974 and 1975, which provided relatively low conditionality financing to meet the increased cost of oil imports in those years. The establishment of the Extended Fund Facility in 1974, providing assistance in larger amounts relative to quota, also took into account the need for a longer time both to implement adjustments of structural character and to lengthen the period of repayment from the normal 3-5 years to 8 and then 10 years. The Trust Fund, created out of the proceeds of the sale of 25 million ounces of Fund gold, disbursed US$4.6 billion between 1976 and 1981, of which US$1.3 billion was distributed directly to 104 developing countries and the rest was lent on highly concessional terms to poorer member countries. Two Subsidy Accounts were established in 1975 and 1980 to reduce the burden of interest cost for poor countries on amounts borrowed by the Fund and relent to them. A facility to compensate for the excessive rise in the cost of cereal imports due to circumstances largely outside the control of members was grafted onto the Compensatory Financing Facility in 1981.

Access to the Fund's resources has been enlarged through successive increases in quotas in 1978 (32.5 per cent), in 1980 (50 per cent), and in 1983 (47.5 per cent). The Supplementary Financing Facility became operational

in 1979 and more than doubled the quota limit on access by using borrowed resources. It was replaced by the enlarged access policy in 1981 which raised by a multiple, the annual and cumulative limits on access relative to quota. Following the increase of quota at the end of 1983, these limits were reduced in percentage terms but the new limits of 102/125 percent annually and cumulative limits of 408/500 percent of quota (net of scheduled repurchases) have protected the absolute access of member states. The enlargement of access in recent years has been reflected in a substantial rise in disbursements from SDR 4.6 billion in 1980 to over SDR 7 billion in each of 1981 and 1982 and to SDR 12.6 billion in 1983, almost exclusively for developing countries. 20/ At the end of that year, there were undisbursed commitments under existing stand-by and extended arrangements of another SDR 10 billion which are likely to be disbursed in the current and the following year in addition to new programs, of which some are under negotiation for substantial amounts.

These large disbursements have not prevented criticism that the Fund should have been willing to supply even larger sums in view of the difficult external environment. The willingness of the membership to support enlarged access relative to quota has been precisely in response to the adverse external situation. While it is always open to argue the need for a longer period of adjustment, this means finding ever larger amounts to lend. There are serious constraints on the Fund's ability to borrow these amounts, following the latest increase in quotas, the enlargement of the General Arrangements to Borrow and the likely conclusion of another SDR 6 billion in new borrowing on top of the SDR 17 billion already contracted for. The difficult legislative passage of quota legislation in the largest member country and the unwillingness of the membership to permit the Fund to approach private capital markets point towards a financial constraint that might well become more severe as time passes. This will in any case happen at the country level due to the accumulating use of Fund resources. Where continuous and prolonged use of Fund resources has occurred over a number of years, the Fund's net contribution will perforce be tapering off. The Fund has sought to escape the tightening constraint by playing the role of a catalyst through conditioning its own resources to the provision of very much larger sums by other lenders, whether in the form of rescheduling, refinancing, or the commitment of new funds. This effort carries its own limitations: the world financial system cannot work for long ~~except~~ on the basis of "involuntary" capital flows and spontaneous flows can be generated only if debtor countries are perceived to be pursuing adjustment programs that give assurance of a return to external viability in a medium-term context. The Fund seeks to help member countries in designing and supporting such programs and the implication of some of the academic literature that these programs are simply "imposed" upon member countries is a total misunderstanding of how the negotiating process works in practice and the constraints under which it must operate. Moreover, a fundamental lesson of experience is that programs cannot be "imposed" in any meaningful sense of the term. A program, to be useful, must be carried out, often in conditions that require courage and stamina. For that, the

NOTES

1/ "The International Monetary System and the New International Order," Development Dialogue (No. 2, 1980).

2/ John Williamson, ed., IMF Conditionality, Institute for International Economics (Washington, 1983).

3/ Towards a New Bretton Woods, Report by Commonwealth Study Group (London: Commonwealth Secretariat, 1983).

4/ Tony Killick, ed., The Quest for Economic Stabilisation: The IMF and the Third World, Overseas Development Institute (London: Heinemann Educational Books, 1984).

5/ Karen Bernstein, "The United Kingdom and the IMF" (doctoral dissertation, Stanford University, 1983); a number of case-studies are to be found in footnotes 2/ and 4/ above. See also World Development, Vol. 8 (November 1980).

6/ G.K. Helleiner, The IMF and Africa in the 1980s, Princeton University, Essays in International Finance, No. 149 (Princeton, New Jersey: Princeton University Press, 1983).

7/ Selected IMF staff references:

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Nowzad, Bahram, The IMF and Its Critics, Princeton University, Essays in International Finance, No. 146 (Princeton, New Jersey: Princeton University Press, December 1981).

______, The Extent of IMF Involvement in Economic Policy-Making, The AMEX Bank Review Special Papers, No. 7 (September 1983).

8/ In recent years, purchases within the first credit tranche, not in themselves numerous, have generally been made as part of, or in conjunction with, stand-by or extended arrangements.

9/ A recent review of the twenty seven stand-by and extended arrangements approved in 1981 indicates that approximately one third of cases fell into each category.

10/ Guideline No. 9 of the Guidelines on Conditionality states, inter alia, that "performance criteria will be limited to those that are necessary to evaluate implementation of the program with a view to ensuring the achievement of its objectives. Performance criteria will normally be confined to (i) macro-economic variables and (ii) those necessary to implement specific provisions of the Articles or policies adopted under them." (Decision No. 6056-(79/38), March 2, 1979 cited in Selected Decisions of the International Monetary Fund and Selected Documents, Tenth Issue, April 10, 1983).

11/ This is a far more widespread problem than is generally recognized. Private capital flows have become important in developing countries like Egypt, Pakistan, Portugal, Turkey, and Yugoslavia which rely heavily on workers' remittances. "Their payments positions are highly responsive to expected exchange rate developments and to real interest rates" (Richard N. Cooper in IMF Conditionality, Chapter 22, op. cit.).

12/ Changes in the distribution of income will ensue as policy changes are implemented and these are very much for the authorities to evaluate in the way they deploy the various policy instruments.

13/ During the 1970s, there was a combination of factors at work as brought out by Khan and Knight in "Determinants of the Current Account Balance (op. cit.).

14/ This is also a first step in the sense that monetary projections remain subject to considerable margins of error, given that they are derived from forecasts of changes in real output, in domestic prices, and in the income velocity of the monetary variable selected as well as from assumed levels of interest and exchange rates. "If the programmed credit ceilings are observed, the departures from the implicit balance of payments target will be of necessity equal to the difference between the projected and the actual change in the pertinent monetary variable and if the projection were reasonable it is likely that the balance of payments outcome will exceed the target as is a shortfall from target" (E. Walter Robichek, "The IMF's Conditionality Re-Examined," in Adjustment, Conditionality, and International Financing, edited by Joaquin Muns, forthcoming in 1984).

15/ Losses also result from inefficiency of management where parastatal marketing organizations are involved and frequently the only alternative to a larger exchange rate adjustment is an improvement in the competence of their management.

16/ "It can be argued that even in critical areas such as those related to income distribution the policies that are generally desirable from the point of view of economic efficiency tend to be the ones that provide the most likely assurance of improving income distribution. Many balance of payments recovery programs involve an improvement in the terms of trade for the rural sector which is universally the poorest sector of a country's population" (C. David Finch, IMF Conditionality, Chapter 4, op. cit.)

17/ The text is as follows:

"Article I(v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity."

"Article V, Sec. 3(a) The Fund shall adopt policies on the use of its general resources, including policies on stand-by or similar arrangements, and may adopt special policies for special balance of payments problems, that will assist members to solve their balance of payments problems in a manner consistent with the provisions of this Agreement and that will establish adequate safeguards for the temporary use of the general resources of the Fund."

18/ It is to be noted that Article I(ii) states that one of the purposes of the Fund is "to facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and income ..." The language is laying out a strategy for the membership to adopt for achieving certain objectives rather than requiring the Fund to address the objectives directly.

19/ Other decisions of the Fund having a bearing on the evolution of Fund conditionality are those relating to foreign borrowing (August 1979), the Extended Fund Facility (September 1974, as amended), the Supplementary Financing Facility (March 1980, as amended), the Policy on Enlarged Access (March 1981). See Selected Decisions of the IMF, Tenth Issue (April 1983).

20/ These are exclusive of reserve tranche drawings which are not treated as use of Fund credit. Such drawings were an additional SDR 1.3 billion in 1982 and SDR 1.5 billion in 1983.