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IMMEDIATE ATTENTION

CONFIDENTIAL

June 8, 1988

To: Members of the Committee of the Whole on Review of Quotas

From: The Secretary

Subject: Draft Minutes of Meeting 87/4

Attached are the draft minutes of Meeting 87/4 of the Committee of the Whole on Review of Quotas held on September 17, 1987. If no revisions are proposed by the close of business on Wednesday, June 15, 1988, the minutes will be deemed approved as of that date.

Att: (1)

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INTERNATIONAL MONETARY FUND

Committee of the Whole on Review of Quotas

Meeting 87/4

3:00 p.m., September 17, 1987

M. Camdessus, Chairman

Executive Directors	Alternate Executive Directors
	E. T. El Kogali
	Jiang H.
	M. K. Bush
	L. Hubloue, Temporary
	M. Hepp, Temporary
	S. K. Fayyad, Temporary
G. Grosche	
	Khong K. N., Temporary
A. Kafka	J. Hospedales
T. P. Lankester	M. Foot
M. Massé	
Mawakani Samba	
Y. A. Nimatallah	I. A. Al-Assaf
G. Ortiz	
	M. Fogelholm
H. Ploix	
	G. P. J. Hogeweg
C. R. Rye	
	O. Kabbaj
	L. E. N. Fernando
K. Yamazaki	M. Sugita
	S. Rebecchini, Temporary

L. Van Houtven, Secretary and Counsellor
S. J. Fennell, Assistant

Also Present

African Department: R. C. Williams. Exchange and Trade Relations Department: S. J. Anjaria. External Relations Department: P. C. Hole, R. W. Russell. Legal Department: H. Elizalde. Research Department: J. Frenkel, Economic Counsellor and Director; M. Goldstein, Deputy Director; P. Isard. Secretary's Department: C. Brachet, Deputy Secretary; J. W. Lang, Jr., Deputy Secretary. Treasurer's Department: F. G. Laske, Treasurer; D. Williams, Deputy Treasurer; P. B. Clark, S. I. Fawzi, O. Roncesvalles. Western Hemisphere Department: S. T. Beza, Director. Personal Assistant to the Managing Director: R. M. G. Brown. Advisors to Executive Directors: L. P. Ebrill, S. M. Hassan, D. C. Templeman, A. Vasudevan, K. Yao, J. E. Zeas. Assistants to Executive Directors: M. A. Hammoudi, G. K. Hodges, A. Iljas, J. M. Jones, S. King, K.-H. Kleine, M. A. Kyhlberg, C. Noriega, D. Saha, H. van der Burg.

1. NINTH GENERAL REVIEW OF QUOTAS - SIZE OF THE FUND

The Executive Directors, meeting as a Committee of the Whole, continued their consideration of a staff paper on the size of the Fund in connection with the Ninth General Review of Quotas (EB/CQuota/87/2, 7/31/87).

The Chairman made the following summing up:

In their preliminary review of the size of aggregate quotas in the Fund, Directors expressed views on the role of the Fund, the environment in which the Fund is likely to be operating in the period ahead, and the implications for the Fund's need for resources.

Directors reaffirmed that ordinary resources, rather than borrowed resources, should be the main source of support for the Fund's operations. Indeed, no Director argued against this view. An expansion of quotas would be required to reduce over time the use of borrowed resources. Some Directors could accept a more intensive use of ordinary resources--which could reduce to some extent the required adjustment in quotas--provided it remained within the prudent limits suggested by the staff.

The large majority of Directors emphasized that a substantial increase in quotas was necessary to bring the size of the Fund back into more appropriate balance with the world economy. The increase in quotas indicated by the traditional quota formulas supported that view.

The instability of the current global economic environment, the magnitude of external imbalances among the industrial countries, and the larger than anticipated size and duration of the debt problem--all implied the existence of considerable systemic risk, and argued for the continuation of a strong Fund that could react quickly and substantially when circumstances warranted it. While it was difficult beforehand to be precise about the nature of the real and financial shocks that might buffet the world economy in the period ahead, most Directors stressed that the potential costs associated with such shocks could be large and they called for a Fund that would be prepared to assist members in all its traditional roles.

While the industrial countries had in recent years made little use of the Fund's financial resources, several Directors argued that earlier experience cautioned against the assumption that this would continue to be a feature of the period ahead, particularly in light of the stronger commitment of these countries to fostering stability in key-currency exchange rates.

In considering the implications of the debt problem for the size of the Fund, most speakers observed that the debt situation had increased the fragility of the international monetary system and intensified the need for the Fund to be adequately prepared to play a stabilizing role. The Fund has a central role to play in assisting countries with debt-servicing problems that are seeking to combine balance of payments viability with sustainable growth. The staff paper stressed that expanding productive investment in these countries calls for strong efforts to mobilize domestic savings and to eliminate distortions that prevent savings from being channeled into efficient forms of investment. It also emphasized that increases in export earnings or foreign financing will be required if the desired expansion of productive investment is to take place. Directors felt that the Fund as a monetary institution could continue to make a significant contribution by promoting macroeconomic policies that were effective for mobilizing savings and investment and, together with the World Bank, by promoting an efficient allocation of those resources. Many Directors noted that the Fund's ability to influence policies and promote effective adjustment depended on its ability and willingness to provide financing in support of such policies, as did its ability to catalyze external resources from other sources. At the same time, a number of Directors joined the staff in noting that the Fund should not be tied to fixed investment targets, or to the underwriting of a fixed share of financing gaps. In their view, the use of Fund credit had to be restricted to circumstances in which policies were sufficiently strong and credible to establish sound prospects for achieving a sustainable balance of payments position within a medium-term horizon.

Directors recognized that decisions on whether and by how much the Fund should extend additional credit in support of adjustment programs would vary with the particular situations of different countries and with the strength and credibility of their programs. Such decisions would also depend on the strength of the world economy and its bearing on the export earning of countries with debt-servicing problems. Many Directors felt that a substantial increase in quotas is required if the Fund is to remain capable of playing an effective and catalytic role in resolving the international debt problem.

According to my tally, there are 13 Directors--accounting for about 43 percent of the voting power in the Fund--who would support a doubling of Fund quotas. Most Directors in that group actually indicated that they could support an even larger increase, some of them mentioning that they consider a doubling as a minimum. One Director in that group indicated that he could also support a lower increase, such as 50 percent.

Next, there is a group of seven Directors who, on balance, favor a substantial increase in quotas--some calling it "moderate but substantial" or "realistic"--and while several were not as yet in a position to quote a particular figure, the figure of 50 percent was mentioned by a few. That group together accounts for about 29 percent of the voting power.

Lastly, there are two Directors, accounting for some 26 percent of the voting power in the Fund, one of whom could only support a moderate increase in quotas at the bottom of the range listed in the staff paper, and one who took the view that the case for a quota increase had not as yet been demonstrated. While the arguments used by the latter two Directors were not identical, I have noted among their view five important points:

- the low probability, as they saw it, of future demand for use of Fund resources by industrial countries;

- their emphasis on the catalytic rather than the financing role of the Fund;

- their view that heavily indebted countries should be cautious in adding further to their debt burden;

- the degree of Fund financial exposure vis-à-vis a number of heavily indebted countries and the persistence of arrears in financial obligations; and

- the future role of the enhanced structural adjustment facility in the financing of low-income Fund members.

Overall, we had a very useful and interesting discussion. I will report on it to the Interim Committee, referring also to our earlier discussion on quota calculations. Our exchange of views today had a preliminary character; we will come back to this subject, taking into account both the views expressed by Directors today and the views which we will be hearing from the Interim Committe and from Governors during the Annual Meeting.