April 21, 1998
Approval: 4/28/98

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 97/127

10:00 a.m., December 30, 1997

Contents

Executive Board Attendance

S. Fischer, Acting Chairman
S. Sugisaki, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	A.S. Alosaimi, Temporary
	R. Fernandez
	C.X. O'Loghlin
	M. Askari-Rankouhi, Temporary
R.F. Cippa	
B. Esdar	
E.R. Grilli	N. Coumbis
	Y. Patel, Temporary
A. Kafka	H.F. O'Brien
	J. Prader
	B.S. Newman
A. Mirakhor	
A.V. Mozhin	
	J. Shields
A.S. Shaalan	
	H.B. Disanayaka
	M. Carlens, Temporary
	O. Kwon
	E. Rodriguez, Temporary
J. de Beaufort Wijnholds	
K. Yao	
Y. Yoshimura	
Zamani, A.G.	
	Han M.
	J.A. Costa, Temporary

R.H. Munzberg, Secretary
S. Bhatia, Assistant

Republic of Korea—Stand-By Arrangement—Modification of Schedule of Purchases
Staff representatives: Neiss, APD; Tseng, APD; Burton, PDR

Also Present
IBRD: H.J. Hahm, East Asia and Pacific Regional Office. African Department: E.A. Calamitsis, Director. Asia and Pacific Department: H. Neiss, Director; B.B. Aghevli, Deputy Director; S.A. Coorey, J.P. Gordon, W.S. Tseng. European I Department: J. Artus, Deputy Director. External Relations Department: S.J. Anjaria, Director. Fiscal Affairs Department: P.S. Heller, Acting Director; K.-Y. Chu. Legal Department: T.M.C. Asser, H. Elizalde. Middle Eastern Department: V. Sundararajan, Deputy Director. Monetary and Exchange Affairs Department: M.D. Knight, Deputy Director. Policy Development and Review Department: J.T. Boorman, Director; J. Ferran, Deputy Director; D. Burton. Research Department: E.R. Borensztein. Secretary's Department: A. Mountford. Statistics Department: C.S. Carson, Director. Treasurer's Department: D. Williams, Treasurer; D. Gupta, Deputy Treasurer. Western Hemisphere Department: C.M. Loser, Director. Office of the Managing Director: O.J. Evans. Advisors to Executive Directors: M.H. Elhage, A. Giustiniani, C.M. Gonzalez, R.J. Heinbuecher, J. Jonáš, J.-C. Obame, H. Ogushi, O. Sein. Assistants to Executive Directors: A.S. Alosaimi, N.R.F. Blancher, M.A. Brooke, J. Chelsky, M.A. Cilento, J.P. Leijdekker, Lu A., D. Merino, W. Merz, L. Palei, S. Rouai, J. Salleh, T.T. Schneider, R.J. Singh, R.P. Watal.

1. REPUBLIC OF KOREA—STAND-BY ARRANGEMENT—MODIFICATION OF SCHEDULE OF PURCHASES

The Executive Directors, meeting in restricted session, considered a staff paper on the Republic of Korea's request for a modification of the schedule of purchases under the Stand-By Arrangement. (EBS/97/246, 12/24/97; and Sup. 1, 12/28/97).

The Executive Board took the following decision:

1. In a letter dated December 24, 1997, the Deputy Prime Minister and Minister of Finance and Economy and the Governor of the Bank of Korea have requested a further amendment of the Stand-By Arrangement for the Republic of Korea, as amended (EBS/97/237, Sup. 2, 12/19/97), and have outlined additional policies and measures that the authorities of the Republic of Korea intend to pursue during the period of the Stand-By Arrangement.

2. Accordingly:

(a) The letter dated December 24, 1997 shall be attached to the Stand-By Arrangement, and the letters dated December 3, 1997 and December 18, 1997 from the Deputy Prime Minister and Minister of Finance and Economy and the Governor of the Bank of Korea shall be read as supplemented and modified by the letter dated December 24, 1997.

(b) Paragraph 2(a) of the Stand-By Arrangement shall be amended to read as follows:

"Purchases under this Stand-By Arrangement, shall not, without the consent of the Fund, exceed the equivalent of SDR 4,100 million until December 18, 1997, the equivalent of SDR 6,700 million until December 30, 1997, the equivalent of SDR 8,200 million until January 8, 1998, the equivalent of SDR 9,700 million until February 15, 1998, the equivalent of SDR 11,200 million until May 15, 1998, the equivalent of SDR 12,600 million until August 15, 1998, the equivalent of SDR 13,325 million until November 15, 1998, the equivalent of SDR 14,050 million until February 15, 1999, the equivalent of SDR 14,231.25 million until May 15, 1999, the equivalent of SDR 14,412.5 million until August 15, 1999, the equivalent of SDR 14,593.75 million until November 15, 1999, the equivalent of SDR 14,775 million until February 15, 2000, the equivalent of SDR 14,956.25 million until May 15, 2000, the equivalent of SDR 15,137.5 million until August 15, 2000, and the equivalent of SDR 15,318.75 million until November 15, 2000."

Decision No. 11643-(97/127), adopted
December 30, 1997

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/97/126 (12/22/97) and EBM/97/127 (12/30/97).

2. ELEVENTH GENERAL REVIEW OF QUOTAS—REPORT TO THE BOARD OF GOVERNORS AND PROPOSED RESOLUTION

I. The Executive Board approves the Report of the Executive Board to the Board of Governors, attached hereto, entitled "Increases in Quotas of Fund Members—Eleventh General Review," for transmission to the Board of Governors.

II. 1. The Board of Governors is requested to vote without meeting pursuant to Section 13 of the By-Laws upon the proposed Resolution entitled "Increases in Quotas of Fund Members—Eleventh General Review: Resolution of the Board of Governors."

2. The Secretary is directed to send the Report of the Executive Board and the proposed Resolution, both entitled "Increases in Quotas of Fund Members—Eleventh General Review," to each member of the Fund by rapid means of communication on or before December 23, 1997.

3. To be valid, votes must be cast by Governors or Alternate Governors and must be received at the seat of the Fund on or before 6:00 p.m. Washington time on January 30, 1998. Votes received after that time will not be counted.

4. The effective date of the Resolution of the Board of Governors shall be the last day for voting.

5. All votes cast pursuant to this decision shall be held in the custody of the Secretary until counted, and all proceedings with respect thereto shall be confidential until the Executive Board determines the result of the vote.

6. The Secretary is authorized to take such further action as he shall deem appropriate in order to carry out the purposes of this decision.

Decision No. 11644-(97/127), adopted
December 30, 1997

Report of the Executive Directors to the Board of Governors: Increase in Quotas of Fund Members—Eleventh General Review

1. Article III, Section 2(a) of the Articles of Agreement provides that "The Board of Governors shall, at intervals of not more than five years, conduct a general review, and if it deems it appropriate, propose an adjustment of the quotas of the members. It may also, if it thinks fit, consider at any other time the adjustment of any particular quota at the request of the member concerned." This report and the attached Resolution on increases in quotas under the current, i.e., Eleventh General Review are submitted to the Board of Governors in accordance with Article III, Section 2.

2. The five-year period prescribed by Article III, Section 2(a) for the Eleventh General Review of Quotas ends on March 31, 1998, five years from the date on which the Tenth General Review of Quotas should have been concluded.[1] The Tenth General Review of Quotas was completed in early 1995 without recommending an increase in quotas to the Board of Governors. At that time, the Executive Board reported to the Board of Governors that:

> ... the Fund is at present relatively well-positioned to meet a prospective substantial demand for its resources over the next three years. Nevertheless, the Fund's liquidity position is expected to decline over the next few years from its currently strong position. Furthermore, considerable uncertainties can be expected as regards the supply of usable resources, which depends on the continued relative strength in the balance of payments and reserve positions of mainly the industrial countries in the Fund. The continued adequacy of members' quotas, including the Fund's liquidity position, will be closely monitored by the Executive Board in the period ahead.

3. The conduct of the Eleventh General Review of Quotas has been guided by the views expressed by the Interim Committee since the spring of 1995. At its meeting in April of that year, the Interim Committee requested the Executive Board "to continue to review the adequacy of the Fund's resources, and, in connection with its review of the role of the Fund, to carry forward its work on the Eleventh General Review of Quotas." At its meeting in October 1995, the Committee "welcomed the progress already made by the Executive Board on Fund quotas, and requested the Board to move forward with the Eleventh Quinquennial Review...." The Committee's April 1996 Communiqué stated, with respect to the Fund's financial resources and assistance to members, that the Committee "notes the progress made by the Executive Board in preparatory work for the Eleventh General Review of Quotas and stresses the need to ensure the adequacy of the quotas for the Fund to continue to carry out its mandate, taking into account changes in the world economy since the last increase in quotas was agreed in 1990." In September 1996, the Committee reiterated its request to the Executive Board "to continue its work on the Review and to do its utmost to reach a

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[1]The five-year period prescribed by Article III, Section 2(a) for the Tenth General Review ended on March 31, 1993 (paragraph 2 of the "Report of the Executive Board to the Board of Governors" of December 12, 1994 on Increases in Quotas of Members—Tenth General Review).

conclusion as soon as possible." In April 1997, the Committee requested the Executive Board to complete its work on quotas as soon as possible and to report to it in time for the Hong Kong meeting of the Committee. The Committee also stated that "the proposed distribution should be predominantly equiproportional while contributing to a correction of the most important anomalies in the present quota distribution. The Executive Board should also review the quota formulae promptly after the completion of the Eleventh Review of Quotas." The Executive Board reached agreement on the size and distribution of the increase in quotas, which was endorsed by the Interim Committee at its meeting on September 21, 1997, in Hong Kong, China.

4. The Interim Committee agreed that:

- the present total of Fund quotas would be increased by 45 percent;
- 75 percent of the overall increase would be distributed in proportion to present quotas;
- 15 percent of the overall increase would be distributed in proportion to members' shares in calculated quotas (based on 1994 data), so as to better reflect the relative economic positions of members; and
- the remaining 10 percent of the overall increase would be distributed among those members whose present quotas are out of line with their positions in the world economy (as measured by the excess of their share in calculated quotas over their share in actual quotas), of which 1 percent of the overall increase would be distributed among five members whose current quotas are far out of line with their relative economic positions, and which are in a position to contribute to the Fund's liquidity over the medium term.

The Committee requested the Executive Board to submit before the end of this year a proposed resolution for the approval of the Board of Governors to effect the agreed increases in quotas. The Committee reiterated its view that the formulas used to calculate quotas should be reviewed by the Board promptly after the completion of the Eleventh General Review.

5. In its discussions on the Eleventh General Review, the Executive Board has considered, inter alia (i) the size of the overall increase in quotas; (ii) the distribution of the overall increase; (iii) the procedures for consent and payment for the increase in quotas, including by members with overdue obligations in the General Resources Account; and (iv) the media for payment for the increase in quotas. In its preparatory work on the Review. The Executive Board also considered issues relating to the role of the Fund in providing balance of payments financing, the quota formulas used in making quota calculations, and the declining share in quotas of developing countries in the Fund.

6. In assessing the Fund's need for resources over the medium term in order to carry out its purposes, the Executive Board stressed that (i) the Fund is the central institution in the international monetary system and it must be adequately endowed with financial resources to enable it to act effectively when dealing with members' balance of payments difficulties; (ii) the Fund, in fulfilling its function at the center of the system, must ensure that its resources are fully safeguarded, including by the adoption and implementation of appropriate policies by members supported by use of the Fund's general resources, and that its resources are provided on a temporary basis, thereby ensuring that its resources revolve; and (iii) the Fund must hold a level of usable assets that are sufficient to protect the liquidity and immediate usability of

members' claims on the Fund, so as to maintain members' confidence in and support of the institution.

7. In its consideration of the size of the increase in quotas, the Executive Board has taken into account a range of factors, including the growth of world trade and payments since 1990; the scale of potential payments imbalances, including imbalances that may stem from sharp changes in capital flows; the prospective demand for Fund resources, including the need for the Fund to support members' growth-oriented adjustment programs, which, in many cases, may involve far-reaching economic and structural reforms; and the rapid globalization and the associated liberalization of trade and payments, including on capital account, that has characterized the development of the world economy since the last increase in quotas was agreed in 1990. The Executive Board has also considered the Fund's current and prospective liquidity position, and has also taken into account the adequacy of the Fund's borrowing arrangements, in particular the General Arrangements to Borrow (GAB) and the prospective coming into effect of the New Arrangements to Borrow (NAB). These borrowing arrangements are an important buttress to the Fund's liquidity but are not a substitute for larger quotas. The Executive Board reiterated its view that the Fund should continue to rely on its quota resources as its principal form of financing and should resort to borrowing only in exceptional circumstances.

In its consideration of the prospective demand for the Fund's resources in the context of the globalized economy, the Executive Board stressed that members should approach the Fund at an early stage of their balance of payments difficulties, and take all appropriate steps to maintain the confidence of markets, not only through the pursuit of adequate and transparent policy actions but also through the timely and transparent provision of economic and financial information to the markets.

8. In the light of these considerations, and taking into account the agreement reached by the Executive Board at the Annual Meetings in Hong Kong which was endorsed by the Interim Committee at its meeting on September 21, 1997 in Hong Kong, the Executive Board now proposes to the Board of Governors that the present total of Fund quotas be increased by 45 percent, from approximately SDR 146 billion to approximately SDR 212 billion.

9. As regards the distribution of the overall increase in quotas, the Executive Board has been guided by the views of the Interim Committee as expressed in its Communiqués of April and September 1997, and summarized in paragraph 4 above.

10. In reaching the agreement on the size and distribution of the increase in quotas, Directors confirmed that there was no intention to re-open the issues of the size and composition of the Executive Board, and that the existing representation of developing countries should not be affected.

11. The Executive Board also proposes adjustments in the quotas of France, Germany, Italy, and the United Kingdom in a manner that would maintain unchanged the increases in quotas for all other members as determined under paragraph 4 above. The Executive Board notes that the United Kingdom and France have agreed to maintain the equal distribution of quotas between themselves under the Eleventh General Review as first agreed under the Ninth General Review.

12. The Executive Board proposes that the quotas determined in paragraph 4 above be rounded to the nearest multiple of SDR 0.1 million. The quotas proposed under the Eleventh Review for those members that have not yet consented or paid for their proposed increase in quotas under the Ninth Review (Resolution 45-2 of the Board of Governors) have been calculated on the basis of their proposed Ninth Review quotas.

13. The list of proposed quotas for all members is to be found in the Annex to the draft Resolution proposed for adoption by the Board of Governors.

14. Under the proposed Resolution, a member that does not have overdue obligations with respect to purchases, charges or assessments to the General Resources Account will be able to consent to the amount of quota proposed for it in the Annex to the proposed Resolution. The member will be able to consent to the increase in its quota at any time before 6:00 p.m., Washington time, January 29, 1999. In order to meet this deadline, the member will have to have completed before that date whatever action may be necessary under its laws to enable it to give its consent. The Executive Board is authorized by paragraph 4 of the proposed Resolution to extend the period of consent.

15. A member's quota cannot be increased until it has consented to the increase and paid the subscription. Under the proposed Resolution, the increase in a member's quota will take effect only after the Fund has received the member's consent to the increase in quota and the member has paid the increase in subscription, provided that the quota increase cannot become effective before the date on which the Fund determines that the participation requirement in paragraph 3 of the proposed Resolution has been satisfied. The participation requirement in paragraph 3 of the proposed Resolution will be reached when the Fund determines that members having not less than 85 percent of the total of quotas on December 23, 1997 have consented to the increases in their respective quotas as set out in the Annex.

16. Taking into consideration the situation of members that may still wish to consent to or pay for their quota increases under the Ninth Review, the Executive Board recommends that the periods for consent and payment for quota increases under the Ninth Review be extended until the date when the participation requirement in paragraph 3 of the proposed Resolution on the Eleventh Review has been reached. Such extension of the periods of consent and payment for quota increases under the Ninth Review is provided for in paragraph 7 of the proposed Resolution.

17. The proposed Resolution provides that a member must pay the increase in its subscription within 30 days after (a) the date on which the member notifies the Fund of its consent, or (b) the date on which the participation requirement is met, whichever is the later. A member may not make such a payment unless it is current in its obligations with respect to repurchases, charges and assessments to the General Resources Account. The Executive Board is authorized in paragraph 5 of the proposed Resolution to extend the period for payment.

18. The Executive Board has agreed that, when considering any extension of the period for consent or payment, it shall give particular consideration to the situation of members that may still wish to consent to or pay for the increase in quota, including those members with protracted arrears to the General Resources Account, consisting of overdue repurchases,

charges, or assessments to the General Resources Account, that are judged to be cooperating with the Fund toward the settlement of these obligations.

19. Article III, Section 3(a) provides that 25 percent of any increase in quota shall be paid in special drawing rights, but permits the Board of Governors to prescribe, inter alia, that this payment may be made on the same basis for all members, in whole or in part, in the currencies of other members specified by the Fund, subject to their concurrence. Paragraph 8 of the Resolution provides that 25 percent of the increase in quotas proposed as a result of the current review should be paid in SDRs or in currencies of other members selected by the Fund, subject to their concurrence, or in any combination of SDRs and such currencies. The balance of the increase shall be paid in a member's own currency. A reserve asset payment will help strengthen the liquidity of the Fund and will not impose an undue burden on members, because under the existing decisions of the Fund, a reserve asset payment will either enlarge or create a reserve tranche position of an equivalent amount. In addition, the Fund stands ready to assist members that do not hold sufficient reserves to make their reserve asset payments to the Fund to borrow SDRs from other members willing to cooperate; these loans would be made on the condition that such members would repay on the same day the loans from the SDR proceeds of drawings of reserve tranche positions which had been established by the payment of SDRs.

20. The Executive Board recommends that the Board of Governors adopt the attached Resolution that covers all the matters on which the Governors are requested to act. The adoption of the Resolution requires positive responses from Governors having an 85 percent majority of the total voting power.

ATTACHMENT

Proposed Resolution of the Board of Governors:
Increase in Quotas of Fund Members—Eleventh General Review

WHEREAS the Executive Board has submitted to the Board of Governors a report entitled "Increases in Quotas of Fund Members—Eleventh General Review" containing recommendations on increases in the quotas of individual members of the Fund; and

WHEREAS the Executive Board has recommended the adoption of the following Resolution of the Board of Governors, which Resolution proposes increases in the quotas of members of the Fund as a result of the Eleventh General Review of Quotas and deals with certain related matters, by vote without meeting pursuant to Section 13 of the By-Laws of the Fund;

NOW, THEREFORE, the Board of Governors hereby RESOLVES that:

1. The Fund proposes that, subject to the provisions of this Resolution, the quotas of members of the Fund shall be increased to the amounts shown against their names in the Annex to this Resolution.

2. A member's increase in quota as proposed by this Resolution shall not become effective unless the member has notified the Fund of its consent to the increase not later than the date prescribed by or under paragraph 4 below and has paid the increase in quota in full within the period prescribed by or under paragraph 5 below, provided

that no member with overdue repurchases, charges or assessments to the General Resources Account may consent to or pay for the increase in its quota until it becomes current in respect of these obligations.

3. No increase in quotas shall become effective before the date of the Fund's determination that members having not less than 85 percent of the total of quotas on December 23, 1997 have consented to the increases in their quotas.

4. Notices in accordance with paragraph 2 above shall be executed by a duly authorized official of the member and must be received in the Fund before 6:00 p.m., Washington time, January 29, 1999, provided that the Executive Board may extend this period as it may determine.

5. Each member shall pay to the Fund the increase in its quota within 30 days after the later of (a) the date on which it notifies the Fund of its consent, or (b) the date of the Fund's determination under paragraph 3 above, provided that the Executive Board may extend the payment period as it may determine.

6. When deciding on an extension of the period for consent to or payment for the increase in quotas, the Executive Board shall give particular consideration to the situation of members that may still wish to consent to or pay for the increase in quota, including members with protracted arrears to the General Resources Account, consisting of overdue repurchases, charges or assessments to the General Resources Account, that, in its judgment, are cooperating with the Fund toward the settlement of these obligations.

7. For members that have not yet consented to their increases in quotas under the Ninth Review, the period for consent to such quota increases shall extend to the date determined under paragraph 3 above. For members that have not yet paid for their quota increases under the Ninth Review, the period for payment for such quota increases shall extend to 30 days after the date determined under paragraph 3 above.

8. Each member shall pay 25 percent of its increase either in special drawing rights or in the currencies of other members specified, with their concurrence, by the Fund, or in any combination of special drawing rights and such currencies. The balance of the increase shall be paid by the member in its own currency.

3. ADMINISTRATIVE TRIBUNAL—APPOINTMENT OF PRESIDENT

The Executive Board approves the Managing Director's proposal that Judge Stephen Schwebel be reappointed as President of the Administrative Tribunal of the Fund as set forth in EBAP/97/119, Supplement 1, (12/17/97).

Adopted December 22, 1997

4. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 97/46, 97/49, 97/53, and 97/97 are approved.

5. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors and by an Advisor to Executive Director as set forth in EBAM/97/199 (12/23/97) is approved.

6. TRAVEL BY MANAGING DIRECTOR

Travel by the Managing Director, as set forth in EBAP/97/123 (12/22/97), is approved.

APPROVAL: April 28, 1998

REINHARD H. MUNZBERG
Secretary