0404

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Committee of the Whole on Review of Quotas
Meeting 90/9

10:00 a.m., January 24, 1990

M. Camdessus, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors	Alternate Executive Directors
G. K. Arora	L. E. N. Fernando
	C. Enoch
C. S. Clark	
Dai Q.	
T. C. Dawson	C. S. Warner
	B. S. Newman, Temporary
J. de Groote	J. Prader
E. T. El Kogali	
E. A. Evans	S.-W. Kwon
E. V. Feldman	R. J. Lombardo
	M. Hepp, Temporary
L. Filardo	M. A. Fernández Ordóñez
	S. Appetiti, Temporary
M. Finaish	A. M. Othman
M. Fogelholm	I. H. Thorláksson
M. R. Ghasimi	O. Kabbaj
G. Grosche	
J. E. Ismael	T. Sirivedhin
A. Kafka	
J.-P. Landau	J.-F. Cirelli
Mawakani Samba	
Y. A. Nimatallah	
G. A. Posthumus	G. P. J. Hogeweg
K. Yamazaki	S. Yoshikuni

L. Van Houtven, Secretary and Counsellor
S. W. Tenney, Assistant

Also Present

African Department: M. Touré, Counsellor and Director. Asian Department: P. Gotur. Exchange and Trade Relations Department: L. A. Whittome, Counsellor and Director; J. T. Boorman, Deputy Director; T. Leddy, Deputy Director; G. R. Kincaid, M. Shadman-Valavi, B. C. Stuart. External Relations Department: H. P. Puentes, E. Ray. IMF Institute: O. B. Makalou. Legal Department: W. E. Holder, Deputy General Counsel; R. H. Munzberg, Deputy General Counsel; H. Elizalde, J. P. Francotte. Research Department: P. Isard. Secretary's Department: A. Tahari. Treasurer's Department: G. Laske, Treasurer; D. Williams, Deputy Treasurer; S. I. Fawzi, D. Gupta, O. Roncesvalles, A. J. Tweedie. Western Hemisphere Department: S. T. Beza, Counsellor and Director. Special Advisor to the Managing Director: A. K. Sengupta. Personal Assistant to the Managing Director: H. G. O. Simpson. Advisors to Executive Directors: N. Adachi, J. O. Aderibigbe, M. B. Chatah, S. M. Hassan, Z. Iqbal, K.-H. Kleine, M. J. Mojarrad, J.-C. Obame, P. Péterfalvy, D. Powell, F. A. Quirós, A. Raza, S. P. Shrestha. Assistants to Executive Directors: G. Bindley-Taylor, B. A. Christiansen, E. C. Demaestri, S. K. Fayyad, M. A. Ghavam, S. Gurumurthi, A. Hashim, J. Heywood, L. Hubloue, K. Ichikawa, K. Kpetigo, C. Y. Legg, R. Marino, J. A. K. Munthali, S. Rouai, D. Saha, J.-P. Schoder, J. C. Westerweel, Yang J.

1. NINTH GENERAL REVIEW OF QUOTAS - STATEMENT BY MANAGING DIRECTOR - FURTHER CONSIDERATION

The Executive Board, meeting as a Committee of the Whole, continued from the Committee of the Whole on Review of Quotas Meeting 90/8 (1/22/90) their consideration of a statement by the Managing Director on the Ninth General Review of Quotas 1/ together with related staff papers.

The Chairman suggested that, owing to the number of issues that needed to be addressed, it might be helpful to break the discussion into separate items, namely, size of the increase, together with the period of the next quota review; distribution method, including ad hoc increases; members with very small quotas; period of consent and participation requirement; and access limits. In that way, Committee members could focus attention on each item to be discussed in turn, beginning with the size of the increase in quotas and the period of the next quota review.

The Deputy General Counsel made the following statement:

During Committee of the Whole on Review of Quotas Meeting 90/5 (1/12/90), a suggestion was made "that in the context of an overall increase in quotas of 67 percent the Ninth and Tenth Reviews would be concluded simultaneously."

The relevant provision on the periodicity of general reviews of quotas is Article III, Section 2(a), which prescribes 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 members."

As explained in EB/CQuota/88/3 (2/22/88), the ninth review period expired on March 31, 1988, i.e., five years after the adoption by the Board of Governors of the Resolution on Increase in Quotas of Members--Eighth General Review (Resolution No. 38-1, adopted March 31, 1983). The Board of Governors has no authority to extend the review period beyond five years. However, since the Board of Governors was unable to reach the required conclusion--in the form of a resolution--as to the adequacy of quotas in the Fund within the five-year period, it decided to continue its review after March 31, 1988. The completion of this review would be a delayed but valid completion of that process. Since there is no extension of the review period, and the continued review process is part of the Ninth Review, the final date of the ninth review period is not affected, and, thus, the beginning of the tenth review period has not been postponed.

1/ Reproduced in Annex I.

The five-year period prescribed by the Articles is a maximum period. The tenth review period started on April 1, 1988 and cannot end later than March 31, 1993. Accordingly, the Board of Governors must conduct the Tenth Review within that five-year period. The Board of Governors would have to come to a judgment--in the form of a resolution--on the appropriateness of quotas.

However, the Board of Governors can conduct a general review at intervals shorter than five years. 1/ Therefore, it could decide to complete the Tenth Review earlier; such early completion of that Tenth Review would start a new five-year period. Thus, if the Tenth Review were completed on March 31, 1990, the eleventh review period would start on April 1, 1990 and could not end later than March 31, 1995.

The completion of an "accelerated" Tenth Review could coincide with the completion of the "continued" Ninth Review. A single quota increase covering both the Ninth and Tenth Reviews could be proposed and could be attributed to the Ninth Review.

These legal considerations leave open the question of the appropriate size of the quota increase, which should be considered on the basis of an assessment of the appropriateness of quotas for the first full half of the 1990s.

The Managing Director made the following statement:

At the outset, let me express gratitude to Mr. Posthumus for his imaginative response to accommodate the apparently conflicting concerns of the size of the quota increase and the timing of the next review. It is in the Fund's interest to try to help reconcile the financial needs of the Fund with members' political calendars. In this endeavor, I am concerned that we fully take into account the uncertainties of the period ahead.

Mr. Posthumus's suggestion consists of two elements, and it is not his intention that Directors would accept only one of the elements, which they perceive to be the more attractive, while ignoring the other. However, it will be recalled that, in the discussions over the past two years, and well before the recent developments in Eastern Europe, a large majority of Directors--19--have taken the view that an increase in quotas of 67 percent or more is warranted in the context of the Ninth Review. Furthermore, as would be called for by the Articles, Directors would reasonably expect to start discussions on the next review--i.e.,

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1/ See Sixth General Review of Quotas--Timing (SM/73/232, 10/2/73).

the Tenth--by at least March 31, 1992 in order to complete that review by March 31, 1993. Consequently, in coming to a conclusion on Mr. Posthumus's suggestion that an increase in quotas of 67 percent would last for five years to March 1995, Directors will need to consider that it would be an acceptable and appropriate risk for the Fund to take. Directors must feel that the risk is justified and can be defended in the light of all the present circumstances.

For reasons that are well known to Directors, an increase in quotas of the order of 67 percent in the context of the Ninth Review alone would seem to involve a risk that the increase might not be sufficient to meet the Fund's needs for usable resources over the early part of the 1990s. In my judgment, that risk increases substantially the longer the period before the next review of quotas. Furthermore, if discussions on the next review of quotas were not to begin before April 1994, the Fund would lose an important element of flexibility that is otherwise afforded by a review starting in March 1992, in accordance with the Articles.

In coming to a conclusion along the lines suggested by Mr. Posthumus, Directors must take the view, at least implicitly, that the Fund will not reasonably have a need to replenish its resources through an enlargement of quotas over the next five years. In these circumstances, Directors might also want to bear in mind that consideration may need to be given to further borrowing by the Fund during that time.

Mr. Posthumus commented that his proposal to conclude the Ninth Review and the Tenth Review simultaneously was awkward, in that it represented a compromise between two positions, that had been taken partly in the Board and partly in the press. He hoped that that proposal would help to contain the discussion on quotas to the parameters of the Board. In addition, he wondered whether the staff could comment on the data period that should be used to calculate quotas under a combined review.

Mr. Kafka asked whether Mr. Posthumus's proposal would prevent the Fund from convening a quota review before 1995, in the event that extraordinary circumstances evolved, placing additional demand on Fund resources. While the Articles did not limit the frequency with which the adequacy of Fund quotas could be reviewed, Mr. Posthumus's proposal contained a gentlemen's agreement that an additional increase of quotas would not take place before 1995.

The Chairman replied that the U.S. chair, in suggesting that the next review of quotas should be delayed until 1995, had indicated that a review of quotas could be convened earlier in the event of extraordinary circumstances. The Articles provided that a review of quotas should be conducted not later than a specific date, and it was understood that extraordinarily adverse circumstances could trigger a discussion on the adequacy of Fund quotas at any time.

Mr. Fogelholm stated that the Nordic countries continued to hold the view that a substantial quota increase, of at least 67 percent, was called for. In the current circumstances, they were willing to consider any proposal that would lead to an increase of that magnitude, including the proposal put forward by Mr. Posthumus.

Mr. de Groote noted that the issue of whether a single quota increase, covering both the Ninth Review and the Tenth Review, would be implemented under the Ninth Review, or whether a 67 percent increase in present quotas would be distributed partly under the Ninth Review and partly under the Tenth Review, had not yet been decided. In that connection, it would be helpful if the staff could advise Directors which of those options would be more appropriate legally. If Directors could agree on that issue, they probably could also agree to Mr. Posthumus's proposal. It was important to bear in mind, however, that that proposal was addressed not to one quota increase, but to two such increases, covering the period to 1995, and the way in which those increases would be distributed. He supported the view expressed by the Deputy General Counsel.

Mr. Mawakani said that his authorities continued to consider that a substantial increase in the size of the Fund, of up to 83 percent, was necessary, given the difficulties faced by several countries, including those countries of Eastern Europe. The proposal put forward by Mr. Posthumus seemed to offer a means to reconcile the view of the Directors that supported a substantial increase with the proposal to extend the interval between reviews. If the consensus among Directors was for an increase of the order contained in Mr. Posthumus's proposal, his authorities could accept it in the spirit of compromise.

Mrs. Filardo commented that Mr. Posthumus's proposal was awkward; while Directors had once considered doubling the size of the Fund for only one review period--before the recent events in Eastern Europe--they were currently considering an increase of two thirds to cover two review periods. In considering Mr. Posthumus's proposal, Directors would have to determine whether the Fund would be adequately endowed to meet its enhanced responsibilities in the international economy during the first half of the 1990s; otherwise, it would need to be made clear that the Fund could review the adequacy of quotas again for the tenth review period.

Mr. Grosche noted that Mr. Posthumus's proposal offered an interesting means to address an awkward situation, which arose from the decision to prolong the work on the Ninth Review, instead of arriving at a decision in 1988. Nevertheless, several problems could arise from that proposal, particularly with respect to setting precedents for future quota reviews. For example, it would be difficult to accept the use of data ended in 1985 in calculating quotas for a review concluded in 1990, because it would clearly be outdated. In addition, the Fund had made a commitment to review the formulas used to calculate quotas in connection with the Tenth Review, which some Directors had proposed should be completed simultaneously with the Ninth Review.

The Chairman commented that the Fund was committed to review the formulas used to calculate quotas as soon as the Ninth Review was concluded in order to prepare agreed formulas well in advance of the next quota review.

Mr. Arora said that, even if Directors agreed to conclude the Ninth Review and the Tenth Review simultaneously, the question of the appropriate Fund size would need to be considered in the light of the kinds of problems the world economy was likely to face in the 1990s. In the years ahead, there would be a large demand for Fund resources and assistance. Therefore, Directors would need to consider whether an increase of only 67 percent--which many Directors had supported for only the Ninth Review--would be sufficient for the Fund to take a leading role in steering the world economy toward stability and growth for such a long time. His authorities held the view that, given such a meager increase in its size, the Fund would be in a position to offer only advice in the period ahead.

In addition, the Fund had put off its commitment to review the formulas used to calculate quotas for a long time, Mr. Arora noted. The review of those formulas should be taken up as soon as the negotiations on the Ninth General Review of Quotas ended.

Finally, if Directors agreed to conclude the Ninth Review and the Tenth Review simultaneously, the equiproportional element of the quota increase should be enlarged to preserve the shares of developing countries, Mr. Arora concluded.

Mr. Ismael stated that, despite the fact that Mr. Posthumus's proposal was legally possible, its implications needed to be carefully studied, in particular to ensure that it did not go against the spirit--if not the word--of the Articles. The Articles of Agreement provided for a general review of quotas at intervals of not more than five years so that the size of the Fund and the distribution of quotas would be periodically updated to reflect developments in the world economy. To conclude two reviews simultaneously would be merely deceptive, because that would in practice--if not in form--extend the ninth review period to seven years. That would mean that the Board of Governors would have to express a view on the Fund's resource requirements for the next five years, which would be extremely difficult, given the rapid changes that were taking place, especially in Eastern Europe, including the possibility that those countries would join the Fund during the coming period. Moreover, if the current review was to cover five years, instead of three, a very large increase would definitely be needed, or an automatic increase should be provided to come into effect in two to three years.

Many technical details also had to be worked out if the current quota review was to cover both the ninth and tenth review periods, Mr. Ismael noted. For example, what period of data should be used in calculating quotas--1985, 1986, 1987, or even 1988? What formula should be used to calculate quotas for the tenth review period? How would the Board fulfill its commitment to review the formulas currently used to calculate quotas in connection with the Tenth Review? Which countries should be given ad hoc increases to cover the five-year period to the next review? Should there be a provision for interim ad hoc increases? While such issues were not impossible to resolve, discussion of them would inevitably prolong the consideration of the Ninth Review much longer than if the previous practices of the Fund were followed. In the light of the need to address such technical issues, Directors should consider whether the compromise proposal was worthwhile.

The current review timetable was not optimal, Mr. Ismael commented. Even if the discussions on the Ninth Review were completed by mid-February and the Resolution covering the Ninth Review was concluded in March 1990, the new quotas probably would not come into effect until 1991. In addition, if the Fund followed the current timetable for the Tenth Review, there was no guarantee that the discussions for that review would not drag on for another two or three years beyond the existing deadline. In any event, one of the most important considerations was whether the spirit of the Articles was being followed.

Mr. Landau noted that while Mr. Posthumus's proposal was complex, it had two advantages. First, it would solve the quota issue for a long period, which was the desire of some Directors. Second, it would do so in a way that was legally acceptable.

Nevertheless, Mr. Posthumus's proposal embodied a time frame that was very different from the one currently under consideration and raised a number of questions, with respect to the size of the quota increase and the prospect of reducing Fund borrowing, Mr. Landau considered. More important, as Mr. Grosche had pointed out, a question arose as to the data period that should be used in calculating quotas. The longer time frame envisaged under Mr. Posthumus's proposal would clearly call for the use of more recent data. Those questions warranted further consideration before a final position could be taken.

Mr. Feldman noted that the advantages and disadvantages of Mr. Posthumus's proposal were clearly presented in the Managing Director's opening statement. At the outset of the discussions on the Ninth Review, his authorities had supported a doubling of present quotas, but in the spirit of consensus, they had agreed to a substantial increase in quotas. At the present stage, his authorities could go along with Mr. Posthumus's proposal, with the understanding that that proposal contained two clear propositions: one concerning the combined conclusion of the Ninth and Tenth Reviews, and one specifying a 67 percent increase in quotas, as a minimum. In the light of the prospective demand for Fund resources associated with economic developments in Eastern Europe and the debt strategy, the proposal would involve too many risks for the Fund, given a smaller increase in quotas. Therefore, both propositions had to be taken together. Otherwise, the proposal would leave the Fund in a very fragile position. In fact, his authorities would prefer to support Mr. Posthumus's proposal with a larger increase of quotas, of 80 percent.

Mr. Dai said that he had not yet consulted with his authorities about Mr. Posthumus's proposal to combine the Tenth Review with the Ninth Review, with a quota increase of 67 percent. However, the preliminary view of his chair was that the proposal posed not only a problem of legal interpretation, but also had many technical implications. The discussions on the Ninth Review, which began in 1987, were based on economic data ended in 1985 and estimates of economic developments in the early 1990s. Many recent developments, such as events in Eastern Europe, had not been--and could not have been--taken into account during those earlier discussions. Even at the present stage, future economic developments in Europe and other parts of the world were uncertain and unpredictable. An extension of the interval before the next review of quotas until 1995--whether the Tenth Review or the Eleventh Review--would place an inappropriate strain on the Fund's financial position, because the current review would cover too long a period and it would be based on economic data that was outdated and that might not take fully into account developments in the 1990s. Moreover, it would set an undesirable precedent for changing the Fund's practices at the discretion of a major shareholder.

In addition, he agreed with the views expressed by Mr. Arora concerning the need for a review and modification of the existing formulas used to calculate quotas at the time of the Tenth Review, Mr. Dai continued. As Directors were aware, China had strong reservations about the current quota calculations.

Mr. Evans noted that it was clearly not the preference of Directors to effectively extend the interval between quota reviews. However, at the present stage, the search was not for preferences, but for compromises. In that respect, Mr. Posthumus's admittedly awkward compromise proposal merited serious consideration in the light of possible alternatives. As the Chairman had indicated, there was a clear provision in the Articles that a review of quotas could be convened whenever necessary, and Mr. Posthumus's proposal was based on the presumption that in the event of extraordinarily adverse circumstances such a review could be convened. Nevertheless, members may feel more comfortable if the Resolution on the Ninth Review contained a clause that would explicitly acknowledge the scope for coping with such a situation.

The view of his authorities with respect to Mr. Posthumus's proposal would be determined by the progress that was made on the other outstanding issues, Mr. Evans stated. As Mr. Landau had pointed out, while Mr. Posthumus's proposal would resolve the quota issue for a long period, it would also freeze some issues for a long period, in particular the questions concerning the current distribution of quota shares. As Directors were aware, his chair had some particular concerns related to the distribution of quotas. First, there was a need to safeguard the position of members with very small quotas--a matter that would be taken up later in the current discussion. Second, there was a need to accommodate the Korean request for an ad hoc quota increase. Mr. Posthumus's proposal would have a particular disadvantage if the disparity between Korea's actual quota share and its calculated quota share was not addressed in connection with the Ninth Review--a fact that had been acknowledged by a large number of Directors who had indicated support for the Korean request.

During previous discussions, Mr. Dawson had indicated that the Korean request for an ad hoc increase should be taken up in connection with the next review of quotas, when he could perhaps view that request more favorably, Mr. Evans recalled. In the light of Mr. Posthumus's proposal, he wondered whether the U.S. chair would consider that request at the present stage, since the Ninth and Tenth Reviews were to be concluded simultaneously. Given the interval that would lapse before the next review of quotas, requests for ad hoc increases, in particular the Korean request, should be taken seriously into consideration. As Directors would recall, a recent G-7 summit communiqué had called on the newly industrialized economies to take up their share of responsibility in the world adjustment process; Korea had clearly responded to that call even before it was issued. Indeed, Korea, which had once been a debtor country, was the best example of successful adjustment. In fact, over the course of one year, Korea had adjusted its economy to reduce an excessive external surplus and return to a sound external position. That recent experience alone demonstrated Korea's willingness to shoulder its responsibilities in the international community, and it would be out of the question to delay acknowledging that contribution for an additional five years. The proposal put forward by Mr. Posthumus highlighted the issues related to the distribution of quotas, because it would lock the quota shares of individual members into place for an extended period. Nevertheless, if those issues were addressed in the context of the Ninth Review, his authorities probably could support Mr. Posthumus's compromise proposal.

Mr. Ghasimi stated that his authorities continued to support a substantial quota increase to strengthen the role of the Fund in the international monetary system. Such an increase would allow the Fund to continue to remain mainly quota based and to use sufficient usable resources to accommodate the potential demand of those countries contemplating Fund-monitored adjustment programs.

He agreed with the Managing Director's opening statement that unless the size of the Fund was increased sufficiently in the context of the Ninth Review, it could confront difficulties in the early 1990s, Mr. Ghasimi continued. Furthermore, the proposal to prolong the interval before the next quota review could lead to problems, in that the envisaged Tenth Review might not adequately reflect the economic positions of the membership in an up-to-date manner. According to the Articles, the next quota review would be concluded by March 31, 1993. Delaying that review until 1995 would delay for two years the reflection of economic realities in the quota calculations. Indeed, Mr. Grosche had touched on that problem, when he suggested that the data period for the quota calculations might need to be updated.

Mr. Appetiti said that, although his authorities appreciated the attempt made by Mr. Posthumus to put forward a proposal that would reconcile the differences among Directors, they considered that a number of problems could arise from that proposal. In particular, his authorities supported a much larger increase in quotas than that envisaged under the compromise proposal.

Mr. Enoch commented that, like other Directors, he considered that Mr. Posthumus's proposal offered an imaginative means to deal with problems that had arisen during previous discussions. Nevertheless, he was not sure whether that proposal adequately resolved the fundamental issue concerning the future size of the Fund. Moreover, he wondered whether the basic premise underlying the proposal, namely, that the Articles provided that general quota reviews must be conducted at intervals of not more than five years, justified it. The Articles did not refer either to review periods or to the conclusion of reviews. Therefore, if the current review was completed in March 1990, the next review would not need to be completed until March 1995. In that event, Mr. Posthumus's proposal would not be necessary. At the same time, there was no provision in the Articles that would prevent a general review of quotas from taking place whenever it was deemed appropriate. He wondered whether the Deputy General Counsel could comment on whether Mr. Posthumus's proposal was needed, and on whether the Board had discretion in determining the timing of quota reviews.

Mr. Dawson remarked that the Articles did not require that a quota review be "completed"; rather, the requirement was that a quota review be "conducted." In light of the time the Board had spent during 1988 to differentiate between "extending" a quota review and "continuing" one, Directors should be clear in acknowledging the difference between "conducting" a review and "completing" one.

The Deputy General Counsel noted that the Articles required that a general review of quotas be conducted at intervals of not more than five years. However, the Articles also specified that the Board of Governors must express a view as to the appropriateness of quotas. On that basis, the Legal Department considered that a quota review must be completed, in the sense that a view must be expressed by the Board of Governors.

At the time the Board of Governors resolved to delay the completion of the Ninth Review, it was made clear that, while the work on the Ninth Review would continue, the period of that review had not changed, the Deputy General Counsel recalled. Accordingly, the ninth review period ended on March 31, 1988, and the tenth review period began on April 1, 1988, despite the delay in coming to a conclusion on the Ninth Review.

Mr. Evans commented that the compromise proposal put forward by Mr. Posthumus was aimed at assisting Mr. Dawson in preventing the Tenth Review from beginning at a time that would be very close to U.S. Congressional consideration of the current review. Therefore, that proposal was not centered on the "completion" of quota reviews, but with the commencement of them.

Mr. Kafka stated that the provision that would allow the Executive Board to call a quota review in the event of extraordinarily adverse circumstances made Mr. Posthumus's proposal more attractive. Nevertheless, like many other speakers, he did not consider that a quota increase of 67 percent would be sufficient to last until the end of 1995. In fact, he did not consider that a quota increase of that magnitude would be sufficient to last until end-1993. He would have preferred an increase of 80 percent, if a doubling of present quotas was not possible.

The discussions concerning the future size of the Fund were deceptive, Mr. Kafka noted. Directors had agreed that in the coming years the Fund was to play a major role in the international financial system, in particular in helping to solve the debt problem, which had continued to worsen. At the same time, however, Directors were not prepared to endow the Fund with the resources that would be needed to fulfill any of its responsibilities, including those related to surveillance over the international monetary system, which were currently being fulfilled by the Group of Seven. In the context of the current review, in which Directors were depriving the Fund of adequate resources, Directors' expectations of the Fund were becoming increasingly less intelligible.

Mr. Fogelholm commented that it was a shame to return to minor details, following the general statement of Mr. Kafka, which he strongly supported.

From previous discussions he had received the impression that Mr. Posthumus's proposal was aimed at assisting the U.S. chair by providing a legal means to postpone the interval before the next review of quotas, Mr. Fogelholm said. That interval clearly could not be extended unless the size of the envisaged quota increase was also enlarged. Therefore, he wondered whether, for the current discussion, Mr. Dawson had meant to indicate that he was no longer insisting on a postponement of the next quota review.

Mr. Dawson remarked that, while Mr. Posthumus's proposal was imaginative, it was not helpful. During the course of previous discussions on the Ninth Review, the position of his chair had been based on the presumption that the Ninth Review would cover the five-year period ended in 1994, in line with the staff projections of future demand for Fund resources, which ended in 1994.

His chair had not accepted the distinction between "continuing" and "extending" quota reviews that had been put forward by the staff and management, Mr. Dawson noted. While the proposal to combine review periods might offer a means to avoid differences of legal interpretation, there might well be other ways to solve those differences. In any event, as he had indicated on previous occasions, his authorities considered that a quota increase of 45 percent would be sufficient to ensure an ample liquidity ratio at the end of 1994, taking into account the expected demand from the East European countries.

The Chairman noted that, in 1988, the U.S. chair had accepted the legal basis for continuing the work on the Ninth Review. Therefore, the change in the U.S. interpretation of the Articles was a serious cause for concern, especially as it differed from the interpretation that was generally accepted by the staff, management, and Executive Directors.

Mr. Dawson remarked that the records of his chair showed that the United States and the United Kingdom did not accept the differentiation between a "continuation" and an "extension" of a quota review at the time the decision was taken to continue the work on the Ninth Review. In the spirit of compromise, they had not pursued the argument about the legal interpretation of the Articles at that time, because the common aim of Directors was to reach a timely consensus on the Ninth Review. Otherwise, his authorities would not have been able to agree to the Resolution to continue the Review.

Mr. Finaish stated that, as Directors were aware, his authorities supported a substantial quota increase, of 67 percent, within the context of the Ninth Review. Nevertheless, if an increase of that magnitude was not possible, they could consider Mr. Posthumus's proposal.

With respect to the legal interpretation of the Articles, it should be noted that, according to Rule D-3 of the Fund's Rules and Regulations, a Committee of the Whole should be formed one year before the deadline for the completion of a quota review, Mr. Finaish commented. He wondered how that rule would be interpreted in the context of Mr. Posthumus's proposal to complete the Tenth Review before March 31, 1990.

The Deputy General Counsel noted that the first sentence of Rule D-3 of the Fund's Rules and Regulations prescribed that a Committee of the Whole should be appointed for the purpose of reviewing quotas at least one year prior to the end of the review period. An agreement to conduct the Tenth Review earlier than March 1993 would not violate that rule.

Mr. Posthumus asked what data period would normally be used in calculating quotas under a combined Ninth and Tenth Review.

The Deputy Treasurer responded that the Executive Board had the authority to determine the appropriate data period to be used in calculating quotas, as there was no strict rule governing it. Nevertheless, the previous practice of the Fund had been to use the most recent data available at the time the Committee of the Whole was established to review the appropriateness of quotas. For example, if the next review of quotas was to take place in 1995, a Committee of the Whole would have to be established not later than March 1994, and the staff would ordinarily prepare illustrative calculations based on the data period ended in 1992. Therefore, if Directors agreed to follow the established practice of the Fund with respect to a combined Ninth and Tenth Review, with the Eleventh Review to take place in 1995, the data for 1986 and 1987 would not be used in the quota calculations for either review. However, the Committee of the Whole would have the option of including those years in the quota calculations for either review. If the Tenth Review was completed in 1993, a Committee of the Whole would be established in 1992, and the quota calculations would ordinarily be based on the data period ended in 1990, which would, of course, pick up economic data from the point where the Ninth Review left off, namely, with data ended in 1985, but variations were permissible.

A similar situation to the one currently under discussion had arisen with respect to the Third and Fourth Quinquennial Reviews of Quotas, the Deputy Treasurer recalled. In 1960, the Board of Governors resolved that no revision of quotas was necessary, since the first general increase in quotas, which was 50 percent, had become effective in 1959. Nevertheless, the normal practice of the Fund with respect to the data period used in quota calculations was followed in connection with the Fourth Quinquennial Review of Quotas, which became effective in 1965. Therefore, data for three years were omitted in the calculation of quotas under the formal reviews.

Mr. Grosche stated that the difference of views with respect to the legal interpretation of the Articles was a matter for serious concern. He agreed with the staff's interpretation; it was difficult to accept that the review period would automatically be extended, if the Board of Governors was unable to express a view on the appropriateness of quotas and continued the review process. According to the U.S. interpretation of the Articles, quota review periods would not be five years as prescribed in the Articles, but indefinite.

Mr. Dawson remarked that, according to the staff's interpretation of the Articles, if the Board of Governors did not pass a Resolution by the required majority on the appropriateness of quotas, the quota review period would end. The requirement, specified in the Articles, was for the Board of Governors--or, by delegation, the Executive Board--to conduct a review of the appropriateness of Fund quotas on a regular basis. In accordance with Article II, the Board had been examining the issues related to the Ninth Review for three years. If the Articles had prescribed that a review must be completed, the Board of Governors would have had to pass a resolution by March 31, 1988.

The acceptance of Mr. Posthumus's proposal would indicate that the appropriate size of quotas under the Tenth Review should be based on a recalculation of the resources needed for the period March 31, 1988 to March 31, 1993, Mr. Dawson considered. Since two years of that period could be seen in retrospect, his chair would support an increase of 27 percent under Mr. Posthumus's proposal.

The Deputy General Counsel noted that the central issue was the starting point of the next quota review. In that connection, it should be noted that the Articles mandated the Board of Governors--not the Executive Board--to conduct the review and to express a view on the appropriateness of quotas. Since the only way the Board of Governors could express a view was through a Resolution either to approve an increase in quotas or to state that present quotas were appropriate, a Resolution was needed, thereby concluding the review. If the Resolution was passed prior to the end of the review period, the period of the next review would begin when the Resolution was adopted. If the Board of Governors was not in a position to express a view, and decided to continue the work on the review, the next review period would start at the end of the five-year review period. Otherwise, quota reviews would not be conducted at regular intervals, which would be contrary to the purpose of the relevant provision of the Articles.

Mr. Dawson responded that the staff's interpretation was inconsistent with the definition of "conduct"; its interpretation could be accurate only if the Articles stated that the Board of Governors must "conclude" a review of quotas. The view of his chair was that the Board of Governors had been conducting a review of quotas since 1988, and it had clearly done so in a period of less than five years. It had not completed the review, but it had conducted it. The requirement for the Board of Governors to pass a Resolution was not stated in the Articles.

The Chairman commented that, in view of the March 31, 1990 deadline for completing the Ninth Review and the number of outstanding issues that needed to be resolved, it would be best to avoid a legal dispute. Mr. Dawson was in a well-known and unique position in the Board, but he had presented an argument that was not in conformity with the interpretation of the Articles shared by the legal staff and other Directors. Therefore, Mr. Dawson should seriously consider the compromise proposal suggested by Mr. Posthumus.

While he considered that proposal to be a second-best solution, it offered the U.S. chair a means--without insisting on an interpretation of the Articles that was not shared--to achieve its political objective, the Chairman noted. In addition, it presented a way for the Fund to avoid the problems that might emerge if the U.S. chair insisted on an interpretation of the Articles that was not broadly accepted.

The Executive Board recognized the tremendous difficulties the United States faced in finding--at a time of severe budget constraints--appropriate financing for its international responsibilities and in obtaining legislative approval on such matters from its Congress, the Chairman said. Nevertheless, an increase in Fund quotas could help the United States to fulfill its global responsibilities with resources that were not deficit building. If the Fund could not provide external financing to countries embarking on strong programs of adjustment in the years ahead, those countries would look to the United States for bilateral aid, which was also difficult to arrange. Therefore, the United States should take a particular interest in ensuring that the Fund remained an institution based on quota resources.

Although the increase of 67 percent proposed by Mr. Posthumus was somewhat larger than the increase the United States had originally envisaged, an increase of that magnitude had been recommended by 19 other Directors--prior, moreover, to the recent developments in Eastern Europe, the Chairman concluded.

The Committee members then turned to the question of distributing the quota increase.

The Chairman noted that during previous discussions, there was movement toward a consensus on an apportionment of the overall increase to be distributed 60 percent equiproportionally and 40 percent selectively, based on Method A. However, some Directors had indicated support for a larger equiproportional element of 70 percent, and a few Directors had supported a smaller equiproportional element of 50 percent. At the same time, some Directors had indicated a preference for the use of Method A combined with some use of Method B in distributing selective quota increases. Nevertheless, many Directors had indicated that they would be willing to compromise on the question of distributing the quota increase within the context of a package of decisions on the Ninth Review. He wondered whether Directors had any comments to add to further the progress that had been achieved in previous discussions.

Mr. Kafka, Mrs. Hepp, and Mr. Mawakani said that, although they would prefer a 70/30 apportionment of the overall increase, they were prepared to go along with an apportionment to be distributed 60 percent equiproportionally and 40 percent selectively. However, they were opposed to the use of Method B in distributing quota increases.

Mr. Appetiti stated that his authorities continued to support the use of Method B in distributing at least a small portion of the overall increase in quotas to the 39 members with actual quota shares most out of line with their calculated quota shares. If a large equiproportional element was agreed, the use of Method B would be needed to achieve a sufficient restructuring of quotas.

Mr. Finaish commented that, during previous discussions, his chair had supported a distribution that would emphasize selective increases with a view toward realizing an adjustment coefficient similar to that achieved at the time of the Eighth Review. However, if an agreement on a 60/40 apportionment was needed to reach a consensus on the Ninth Review, his authorities might be willing to go along with it. In such an event, about 5 percent of the selective element should be distributed according to Method B.

Mr. Cassell and Mr. Dawson said that the positions of their chairs were flexible, and that they would be willing to go along with any consensus on the distribution method.

Mr. Fernández Ordóñez remarked that the position of his chair had not changed. However, any adjustment in the ranking of the G-7 countries within the Fund should be financed by the Group of Seven, and the aggregate share of that group of countries should not be increased from the share that would be allocated to it as a result of the agreed uniform distribution method.

Mr. Clark noted that, on previous occasions, he had indicated the willingness of his chair to go along with an equiproportional element, amounting to 60 percent of the overall quota increase. In that connection, he would certainly be prepared to go along with an agreement to distribute selective increases according to Method A.

Mr. Yamazaki stated that, although his authorities had supported the largest possible selective element on previous occasions, they would be willing to agree to an equiproportional element of 60 percent, in view of the concerns that had been expressed by developing countries.

Mr. Fogelholm commented that the distribution of selective increases should be considered in the light of the agreement reached on other outstanding issues, in particular the time of the next review of quotas. If the next review of quotas was not going to take place until 1995, members would have quotas based on data ended in 1985 for ten years. Moreover, the distortions in the present quota structure would worsen, if a greater effort to adjust quotas was not made under the Ninth Review.

Mr. Landau said that, as he had indicated on previous occasions, his authorities were prepared to agree to an equiproportional element amounting to 60 percent of the overall increase in quotas. However, he agreed with Mr. Fogelholm that it would be difficult to take a final position on the method to be used in distributing selective increases, until more was known about the timetable for future quota reviews.

Mr. Grosche stated that his authorities were reluctantly willing to agree to a 60/40 apportionment of the increase in quotas. They agreed with the comments made by Mr. Fogelholm with respect to the distribution of selective increases, but they considered that at least a small portion of those increases should be based on Method B in order to bridge the large disparities between the actual quota shares and calculated quota shares of some members.

Mr. Posthumus commented that, although his authorities would have preferred the achievement of a higher adjustment coefficient under the Ninth Review, they would be willing to go along with the consensus that was emerging in favor of a 60/40 apportionment. While on previous occasions he had supported the use of Method B in distributing 5 percent of selective increases, a combination of Method A and Method B in distributing the selective element would place one of the members in his constituency in an awkward position. In the light of the perverse adjustments that could result from the use of Method B, Directors should note that a similar adjustment of the disparities between quota shares could be achieved if the overall increase in quotas was distributed 50 percent equiproportionally and 50 percent selectively.

Mr. Fogelholm said that his authorities were opposed to any perversity in the adjustment of quotas. For that reason, they had supported the introduction of "caps," or limits on the extent to which quotas could be adjusted. At the outset, Directors should agree that it would not be acceptable to have any overshooting of calculated quota shares or any adjustment of quota shares that would move away from the calculated quota.

Mr. Arora recalled that on several previous occasions, his chair had expressed its concerns about the use of existing formulas to calculate quotas, owing to their bias against developing countries. Directors had agreed to review those formulas in connection with the Tenth Review. Since that review of the formulas was forthcoming, his authorities considered that quota increases under the Ninth Review should be distributed on a largely equiproportional basis. Nevertheless, he was willing to go along with any consensus on the distribution of the quota increase.

Mr. Ghasimi noted that in selecting a distribution method, his chair sought two objectives: to prevent a decline in the quota share of the non-oil developing countries to the extent possible and to narrow the disparities between actual quota shares and calculated quota shares. In the light of those two objectives, his chair did not have a preference for either of the proposed distribution methods, since neither would address his constituency's concerns. Therefore, he continued to support a distribution of quotas along the lines previously proposed by Mr. Jalan, namely, to have a substantial equiproportional element in the apportionment of the overall increase, with selective increases distributed according to a combination of Method A and Method B, setting aside a small portion of the overall increase to accommodate requests for ad hoc quota increases.

Mr. Dai stated that, although his authorities would prefer a 70/30 apportionment of the overall increase in quotas, in the spirit of compromise, they were prepared to go along with a consensus on a 60/40 apportionment.

Mr. El Kogali said that his authorities would prefer an equiproportional element of 70 percent, with the selective increases distributed according to either Method A or Method B, and with a small amount, of about 5 percent, distributed by Method B. Nevertheless, in the spirit of compromise, they were prepared to consider a 60/40 apportionment of the overall increase.

Mr. Nimatallah commented that the position of his authorities was flexible with respect to the distribution of the increase in quotas, although they had a slight preference for a 60/35/5 apportionment.

The Chairman noted that most Directors would be willing to accept an apportionment of the overall increase to be distributed 60 percent equiproportionally and 40 percent selectively. Nevertheless, the view was held that the distribution of the increase would need to be considered within the context of a package, and some Directors had indicated that if the next review of quotas was postponed until 1995, it might be necessary to return to the issues related to the distribution of quotas, including the data period to be used in calculating quotas. Nevertheless, it would be easy to finalize an agreement on the distribution of the quota increase, once a consensus was reached on the other outstanding issues related to the Ninth Review, in particular the size of the quota increase and the timing of the next review.

The Committee members then took up the requests from Korea and the Islamic Republic of Iran for ad hoc quota increases.

The Chairman noted that Mr. Evans had presented the case for an ad hoc quota increase for Korea during Committee of the Whole on Review of Quotas Meeting 90/1 (1/5/90). In addition, a communication from the Governor of the Central Bank of the Islamic Republic of Iran had been circulated to Directors (EB/CQuota/90/3, 1/12/90).

Mr. Ghasimi made the following statement:

As I have indicated during previous meetings, owing to a number of exogenous factors prevailing at the beginning of the 1980s, priorities were drastically changed in the Islamic Republic of Iran, and that, in turn, had considerable influence on matters of highest importance, including the Islamic Republic of Iran's quota increases during the Seventh and Eighth Reviews.

As was reflected in Decision No. 6747-(81/82), adopted on February 13, 1981, the Executive Board, by accepting a request for the extension of the period of consent for the Islamic Republic of Iran under the Seventh General Review of Quotas, had indicated that it would be sympathetic to the Islamic Republic of Iran and if it made a request to take up that increase before the end of 1981. Unfortunately, owing to special circumstances that persisted beyond 1981, the authorities--although willing--were unable to take up the quota increase allocated to the Islamic Republic of Iran under the Seventh Review. It should be noted that if the authorities had been successful in taking up the allocated quotas, the Islamic Republic of Iran's quota under the Seventh General Review would have amounted to SDR 1,075.9 million.

As I also emphasized during previous meetings, the persistence of special circumstances at the time of the conclusion of the Eighth General Review was responsible for the inability of my authorities to give their consent to a quota increase, which would have increased its quota to about SDR 1,603.1 million.

It should be noted that under the Ninth General Review of Quotas, the Islamic Republic of Iran's hypothetical quota would amount to SDR 2,282 million for a Fund size of SDR 135 billion, and SDR 2,513.8 million for a Fund size of SDR 150 billion, on the assumption that quota increases under the Seventh and Eighth General Reviews had been taken in full.

In addition, the forgone quotas allocated to the Islamic Republic of Iran during the Seventh and Eighth General Reviews resulted in an increase in quota shares for all members participating in those two quota increases.

My Iranian authorities propose that, after a final decision has been made concerning the actual size of the quota increase, the quotas allocated to the Islamic Republic of Iran during previous reviews should be added to the proposed size of the quota increase. In that respect, they are ready to consider any suggestion by the Board.

The disparity between the Islamic Republic of Iran's calculated and actual quota shares, the special circumstances it has faced, its cooperative spirit with the Fund, and its traditional contribution to Fund resources all constitute a very sound case for an ad hoc quota increase for the Islamic Republic of Iran in order to compensate the country for the quota shares that were forgone during the Seventh and Eighth General Reviews of Quotas. I urge Executive Directors to extend sympathetic and favorable consideration to this request.

Mr. Arora, Mr. de Groote, and Mr. El Kogali said that they supported the requests from Korea and the Islamic Republic of Iran for ad hoc quota increases.

Mr. Grosche commented that, as a matter of principle, his chair preferred the use of uniform distribution methods that would yield a high adjustment coefficient. Nevertheless, he recognized that the distribution method currently under consideration would not address the most compelling case for an ad hoc quota increase, namely, that of Japan. Therefore, he was willing to accept the Japanese request for an ad hoc increase and the proposal that the adjustment in Japan's quota share should be financed by only the G-7 countries.

His chair had a great deal of sympathy with the Korean request for an ad hoc quota increase, but it considered that the rest of the Fund's membership, aside from the Group of Seven, should bear the financial burden of accommodating that request, Mr. Grosche said.

While he also sympathized with the Iranian request for an ad hoc quota increase, it would have been easier to support that request if normal relations with the Fund had been re-established prior to the beginning of the Ninth Review, Mr. Grosche stated. Although an early Article IV consultation with the Islamic Republic of Iran was scheduled, that was only a first step toward the resumption of normal relations, and some further indications of the authorities' willingness to cooperate closely with the Fund would be helpful in assessing the case for an ad hoc adjustment to the Islamic Republic of Iran's quota share. Again, if that request was to be accommodated, it should be financed by the entire membership, except for the Group of Seven.

Mr. Ghasimi said that he was grateful for Mr. Grosche's support for the Iranian request. However, the Islamic Republic of Iran's inability to participate in the Seventh and Eighth Reviews had resulted in an increase in the quota of every other Fund member. Since more than just a subset of the membership had benefited from the quotas forgone by the Islamic Republic of Iran in the context of the two previous reviews, it would not be appropriate to divide the membership for the purpose of financing an ad hoc increase for the Islamic Republic of Iran in connection with the current review, especially given that the G-7 countries had benefited from the distribution of the forgone quotas.

With respect to the other point made by Mr. Grosche, for many reasons beyond its control, the Islamic Republic of Iran had been unable to consult with the Fund under Article IV for 11 years, Mr. Ghasimi noted. Nevertheless, the authorities had recently shown a willingness to cooperate very closely with the Fund and an Article IV consultation with the Islamic Republic of Iran was scheduled to take place soon. Similar efforts were being made to normalize the Islamic Republic of Iran's relations with other international organizations, including the World Bank.

Mr. Appetiti stated that his authorities had given careful consideration to the requests for ad hoc increases in the quotas of Korea and the Islamic Republic of Iran, but at the present stage, they could not support either of those requests. While his authorities supported the Japanese request for an ad hoc quota increase, they considered that in principle the financial burden of that increase should be borne by the entire membership.

Mr. Grosche said that he did not support the use of ad hoc arrangements. However, if such arrangements were agreed, the entire membership should participate equally in either the benefit or the loss. In view of the large financial burden that would be entailed in accommodating the Japanese request for an ad hoc quota increase, the G-7 countries had offered to provide the financing for that increase. Therefore, the remainder of the membership should take up the cost of accommodating the Korean and the Islamic Republic of Iranian requests. While such an agreement was clearly a second-best solution, it would at least be equitable for the membership as a whole.

The Chairman noted that the requests from Korea and the Islamic Republic of Iran for ad hoc quota increases had not yet received the necessary broad support. Nevertheless, the matter of ad hoc quota increases would remain open for discussion. In that connection, Mr. Ghasimi's comments on the Islamic Republic of Iranian authorities' intention to intensify cooperation with the Fund were welcome, and Directors should take those comments into account in coming to a final position on the outstanding issues related to the Ninth General Review of Quotas.

The Committee members then took up the question of safeguarding the position of members with very small quotas.

Mr. Evans made the following statement:

The illustrative quota calculations provided in the sixth supplement to EB/CQuota/90/1 (1/22/90) are helpful. The only figures missing from the tables contained in that paper are, of course, the calculated quotas and calculated quota shares for each of the members with very small quotas. As my preferred approach is to link these countries' actual quotas in a fixed ratio to calculated quotas, a table showing the relevant calculated quotas and quota shares for ease of reference is presented in the annex.

As Mr. Kwon noted during Committee of the Whole on Review of Quotas Meeting 90/6 (1/17/90), our aim in first raising the issue of members with very small quotas was twofold: first, to provide all members of this group with a meaningful increase in quotas, which would significantly enhance their potential access to Fund resources in relation to their potential external financing needs and, in the process, ensure that the Fund--and Fund conditionality--was seen by them as relevant to their financing and adjustment needs; and second, to do so in a way that would also remove many of the distortions and anomalies that had resulted from previous arbitrary, albeit well-intentioned, arrangements, such as the use of rounding-up techniques. While both objectives could in theory be met with a sufficiently large overall quota increase, and the use of appropriate uniform distribution methods, the size of the quota increase and distribution methods currently under consideration will not do the job. Therefore, as has been the case in previous reviews, there is a need for some form of special treatment. I recognize that, while the proposal put forward in my statement during Committee of the Whole on Review of Quotas Meeting 90/1 (1/5/90) attracted considerable support, there would be merit in considering a possible compromise proposal that might attract a broader consensus. To assist in this process, staff has provided calculations relating to either: use of a ratio of actual to calculated quotas somewhat lower than the average ratio for the group as a whole; or an alternative proposal under which the actual quota shares of four countries whose present quota shares are currently below their calculated shares would be adjusted upward to their calculated quota share, while all other members of the group would retain their current quota share. The major difference between these two approaches is that the first is much more selective in its impact--an important argument in its favor. By applying a uniform ratio linked to calculated quotas, that approach would go a long way toward restoring a sensible ordering within the group and toward redressing many of the anomalies and distortions among the members with very small quotas. In contrast, the alternative approach proposed by the staff would do little to rectify this aspect of the problem. In this respect, it is little better than the rounding-up device used in connection with previous quota reviews. Other than for the four members identified by the staff whose actual quota shares are below their calculated quota shares--and for whom the adjustment coefficient would be 100 percent--the adjustment coefficient for all remaining members of this group would be zero. For example, one member of my constituency, Western Samoa, would benefit to a far greater extent than the Solomon Islands, even though Western Samoa's actual quota is larger than its calculated quota, and Solomon Island's quota is significantly below its calculated quota.

On the other hand, raising all of these members' quotas according to a minimum ratio to calculated quotas would necessarily involve some overshooting in terms of adjustment coefficients. However, that increase could be seen as a one-time cost of bringing these members' quotas into a better relationship with one another. We would not see this minimum ratio--which would remain lower than that for the group of members with quota shares immediately above the members with quotas of SDR 10 million or less--as establishing a precedent for other groups or for future reviews.

In the light of the above-mentioned considerations, this chair's preference continues to be for the use of a minimum ratio of actual to calculated quotas. Nevertheless, there is sufficient scope to find an acceptable compromise in terms of the actual ratio used: a lower ratio, of about 60 percent, would go a long way toward limiting any damage our proposal might do to the principles of the Fund. While 12 of the countries in this group would benefit from our original proposal, seven members, namely, the four countries identified by staff together with Solomon Islands, Cape Verde, and St. Vincent, would benefit from the use of a ratio of 60 percent, which would reduce this list to seven members of the group whose actual quota shares are clearly well out of line with their potential external financing needs as implied by calculated quotas; it would also significantly reduce the cost to the rest of the membership of such special treatment--in all cases, the amounts under consideration would be minuscule--and while the percentage increase in quotas for some of the members would continue to be quite large, none of these countries would end up with a quota that would be disproportionately large in relation to its external financing needs, e.g., the quotas of those seven members would continue to be broadly in line with, and in some cases comfortably below the average ratio of quotas to current payments for the group of developing countries as a whole.

The Deputy Treasurer said that the approach taken by Mr. Evans was cause for concern in two respects. First, absolute calculated quotas had not been used as benchmarks in the past, because they were so large--amounting to SDR 320 billion for the Fund as a whole. Instead, it was considered more reasonable to make adjustments in terms of members' shares in the total of calculated quotas, because--as Mr. Grosche had pointed out on several previous occasions--it would lead to a more uniform adjustment process over the longer term. In that connection, Directors should note that most of the members with very small quotas currently had actual quota shares that exceeded their shares in calculated quotas. Therefore, an issue arose as to the amount of overshooting that would be acceptable.

Second, the approach taken by Mr. Evans--based on an average ratio of 60 percent of calculated quotas--would lead to unjustifiably large adjustments for some individual members, especially within the context of a 50 percent increase in quotas, the Deputy Treasurer considered. For example, columns 3 and 5 of Table 1B in the sixth supplement to EB/CQuota/90/1, which presented a comparison of the proposals put forward by Mr. Evans and the staff, showed that the outcome for 13 members with very small quotas would be the same under either proposal. However, Mr. Evans's proposal would result in quota increases for the remainder of those members--270 percent for Maldives, 148 percent for Bhutan, 193 percent for Seychelles, and 142 percent for Antigua and Barbuda--that were clearly very large within the context of a 50 percent overall increase in quotas, especially given that only four of those countries had calculated quota shares in excess of their current quota shares. While the rounding-up technique originally proposed by the staff would lead to relatively large increases for some individual members--100 percent for Seychelles, 175 percent for Maldives, and 70 percent for Antigua and Barbuda--they would be easier to justify within the context of a 50 percent overall increase in Fund quotas.

The alternative proposals put forward by the staff were shown in columns 6 and 7 of Table 1B of the sixth supplement to EB/CQuota/90/1, the Deputy Treasurer noted. While those proposals would result in slightly larger increases for 13 members with very small quotas than would Mr. Evans's proposal, the increases for 7 of those members would be much smaller than the extremely large increases suggested by Mr. Evans.

Mr. Evans responded that it was important to keep the position of members with very small quotas in perspective. While the proposed adjustment in their quotas were relatively large, the absolute amounts involved were small. Directors had agreed that it would not be possible to safeguard the share of members with very small quotas without deviating from the principles of the Fund to some extent. In that connection, the real issue was the extent to which a special arrangement for those members could deviate from the uniform distribution method agreed.

In considering the appropriate distribution of the quota increase, Directors had relied on the tables contained in EB/CQuota/89/9 (10/6/89) and EB/CQuota/90/1 (1/7/90) on the ranking of Fund members, Mr. Evans noted. According to those tables, 39 members currently had actual quota shares in excess of their calculated quota shares, while 112 members had quota shares that were lower than their shares in calculated quotas. In that connection, four important--although not mutually consistent--points should be borne in mind: strict adherence to the principle that overshooting must be avoided would maintain the breakdown between excessively high and excessively low quotas unchanged; it was the objective of a quota review to move quota shares closer to calculated quota shares; each member should receive a meaningful increase in its quota; and uniform methods should be used to the extent possible. If the quotas of the seven members in question were adjusted based on the staff proposal--to the extent that would avoid overshooting--their actual quotas would be raised to equal calculated quotas, but that adjustment would be effected on an ad hoc basis, and those members would not be added to the list of 39 members with actual quotas in excess of calculated quotas. However, if the quotas of those members were adjusted according to my authorities' proposal, their actual quotas would uniformly move closer to calculated quotas--despite the overshooting.

Owing to the absolute size of their quotas, the members under consideration could not be helped unless some overshooting was accepted, Mr. Evans said. Under his authorities' proposal--despite the overshooting--their actual quotas would be moved closer to calculated quotas and the cost involved in effecting such adjustments would be relatively small both in terms of the aggregate amount required to effect the adjustment and the deviation from Fund principles. Moreover, they would still be less out of line in relation to their calculated quotas than the group of members with quotas of SDR 25 million to SDR 60 million.

Mr. Appetiti noted that widespread disparities clearly existed within the group of members with very small quotas, and those disparities had an important bearing on the countries' relative potential access to Fund resources. In order to at least partially correct that problem, two proposals had been put forward: the average ratio approach and the maintenance of share approach. The first was much more selective than the second; therefore, it would significantly reduce the variance of ratios between actual and calculated quota shares, and thereby the disparities within the group. At the same time, it would also produce some cases of overshooting. The maintenance of share approach would not cause overshooting, at least in the unrounded version, which was presented in column 7 of Table 1A, but it would increase the variance between actual and calculated quota shares, even compared with the results that would be obtained from an unadjusted distribution of the quota increase based on a 60/40 apportionment, given a Fund size of SDR 135 billion. Nevertheless, both the maintenance of share approach and the average ratio approach would raise the cumulative share of the members with very small quotas to about SDR 158 billion without rounding.

Based on those considerations and--as Mr. Evans suggested--keeping the matter in perspective, the average ratio approach would go further toward correcting the disparities within the group of countries with very small quotas, Mr. Appetiti concluded. Therefore, his authorities could support the application of that method based on an average ratio of 55 percent, preferably without rounding.

Mr. Finaish and Mr. Ghasimi recalled that their chairs had supported Mr. Evans's original proposal. Nevertheless, at the present stage, they were willing to consider other options in order to reach an early consensus, and they could support the compromise suggested by Mr. Evans.

Mr. Dai said that he agreed with Mr. Evans that special arrangements were needed to assist the members with very small quotas. However, he preferred the maintenance of share approach suggested by the staff to safeguard the position of those members in the Fund. The concerns raised by Mr. Evans might warrant special treatment of those members through the application of the exceptional access clause.

Mr. Fogelholm commented that it was more appropriate to look at the position of members within the Fund in terms of their shares in actual and calculated quotas. The members with very small quotas currently had an aggregate share in actual quotas of 0.113 percent, while their share in present calculated quotas was 0.068 percent. If quotas were adjusted to move closer to calculated quotas, the quota share of that group should be halved. Therefore, all of the proposals under consideration went in the wrong direction.

Based on those considerations the essential question was, if perverse adjustments were accepted, the extent to which the quota shares of the members with very small quotas should be moved further in the wrong direction, Mr. Fogelholm noted. He could understand the logic of Mr. Evans's argument that a quota share could overshoot and still be closer to the calculated quota, especially if the member's actual quota was currently very far out of line. However, column 4 of Table 1A showed that some of the members with very small quotas had actual quotas that were not far out of line. For example, Seychelles's actual quota share was 0.003 percent, but while its calculated quota share was 0.004 percent; Mr. Evans's proposal would move the actual quota share to 0.007 percent--more than double the present quota share. Moreover, as the staff had pointed out on numerous occasions, the shares of these members with very small quotas were as in line with calculated quotas as other members of the Fund.

There was no justification for extending special treatment to the members with very small quotas, Mr. Fogelholm considered. His chair continued to support equal and fair treatment for all members through the application of uniform methods. The Nordic countries were in principle opposed to any ad hoc adjustments. In fact, even the application of the rounding-up techniques that had been used in the past would produce awkward results. For instance, the present quota of Guinea-Bissau, which had a calculated quota share of 0.002 percent, was 0.008 percent, and it would be rounded up to 0.009 percent. Nevertheless, in the spirit of compromise, his authorities could agree to the original staff proposal, as presented in column 6 of Table 1C.

Mr. Grosche said that he could associate himself with the comments made by Mr. Fogelholm.

Mr. Posthumus remarked that the position of his chair was the same as that expressed by Mr. Fogelholm. It seemed that Directors had agreed to extend special treatment to the members with very small quotas without examining the political or philosophical reasons for doing so, only because special arrangements had been made for those countries in the past. While the special efforts taken to safeguard the members with very small quotas represented a nice gesture on the part of the Fund membership, there was no reason for even creating that grouping of members within the Fund. Nevertheless, as the Fund always sought to resolve issues through compromise, he could go along with staff's original proposal.

Mr. Al-Jasser, Mr. Cassell, and Mr. Newman said that the positions of their chairs were flexible with respect to safeguarding the share of the members with very small quotas. They could agree to any of the staff proposals presented in Table 1C of the sixth supplement to EB/CQuota/90/1.

Mr. Landau stated that the preference of his chair was for the staff proposals presented in columns 6, 7, and 8 of Table 1C in that order.

Mr. Arora, Mr. Clark, Mr. El Kogali, Mrs. Filardo, Mr. Yamazaki, and Mrs. Hepp said that the positions of their authorities were flexible with respect to the method that should be used to safeguard the share of the members with very small quotas.

Mr. Mawakani said that Tables 1A and 2A showed that the alternative proposals put forward by the staff were an improvement over its original proposal. Nevertheless, as Mr. Evans had pointed out, problems would still remain for some of the members with very small quotas, in particular those with actual quota shares lower than calculated quota shares. It should be possible to find a compromise between Mr. Evans's proposal and the alternative proposals suggested by the staff.

The Chairman noted that there was clear support for the original staff proposal on safeguarding the share of members with very small quotas, in particular given the flexibility that had been indicated by Directors in stating their positions. While it might be possible to further alleviate some of the problems faced by the seven countries that would not receive similar quota shares under either of the proposals, that matter should be taken up at a later stage of the Ninth Review.

The Committee members then agreed to continue their consideration of the outstanding issues related to the Ninth General Review of Quotas in the afternoon session, following a working luncheon.

APPROVED: March 14, 1991

Statement by the Managing Director on
the Ninth General Review of Quotas -
Committee of the Whole on Review of Quotas Meeting 89/14

As I indicated at the Executive Board's meeting on November 28, 1989 (EBM/89/154, 11/28/89), it would seem useful for the Committee of the Whole to have an early discussion of a number of issues relating to the Ninth General Review of Quotas. Today it may be worthwhile to focus our discussion on the issues relating to the distribution of the overall increase and consideration of the relationship between the size of the increase in quotas, borrowing by the Fund over the medium term, and the amount of access to the Fund's resources. Directors also have before them a staff paper on illustrative calculations (EB/CQuota/89/11, 12/6/89).

With Mr. Dawson's statement at the Executive Board meeting of November 28, 1989, all Directors have now indicated their position as regards their preferred size of the overall increase. We are grateful for that clarification of positions. At that meeting, many Directors also noted the need to reach an early consensus on the issue of the size of the quota increase and some of you indeed stated a willingness to consider again the issue of the size of the increase in order to facilitate such a consensus. It is now time to come to a final judgment which, as has been said, can in no way be a mechanical judgment. I fully recognize that the relation between the size of the Fund and the size of the world economy has not been fixed throughout history. In particular, the relative size of the Fund has diminished with the growth of the role of private markets in the financing of balance of payments deficits and exchange reserve accumulation during the 1970s and the early 1980s. But we are now in a totally different environment, which is characterized by the following features: the widespread reluctance of commercial banks to increase their contribution to sovereign financing; the growing readiness of member countries to embark on strong growth-oriented adjustment programs with the support of the Fund, and which calls for a commensurate availability of resources in the Fund to provide the appropriate level of financial support. This need is well illustrated by the fact that currently 64 countries have arrangements in effect or are actively negotiating such arrangements with us, compared with a previous peak of 47 countries in October 1983; and the rapid globalization of world monetary and financial markets and the increased volatility in the volume of international financial transactions, which call for at least maintaining the size of the central institution in the international monetary system.

The prospects for increased activity by the Fund and the scale of the uncertainties in the environment in which it must work certainly would not justify a further shrinking of the size of the Fund in relation to the world economy. This, then, gives a particular relevance to an increase in the size of the Fund of 58 percent as the basic reference point for your final consideration. Indeed, many other elements, and in particular the need to reduce our reliance on borrowing, would fully justify a higher increase and in particular the increase in the size of the Fund in the order of 67 percent or more that has been contemplated by 70 percent of the voting power of the Executive Board.

I would welcome further comments on this issue, and in this connection, it may be helpful to recall some of the main conclusions of our discussion on November 3 (CW/Quotas/Meeting 89/11, 11/3/89) on the distribution of the overall increase as well as to reflect on the relationship between borrowing, the issue of access, and the size of the increase in quotas.

As regards the issue of distribution, it will be recalled that the Interim Committee agreed that all members should receive a meaningful increase in quotas and that the distribution should be based on uniform methods. Many Directors have agreed that the equiproportional element of the increase should predominate in order to help provide all members with a meaningful increase and also to help maintain a balance between different groups of countries. At our last meeting on distribution on November 3, 1989, most Directors appeared willing to support an equiproportional element of 50 percent or more of the overall increase, with a few Directors preferring a high equiproportional element of over 95 percent, while a few other Directors thought an equiproportional increase of the same order as under the Eighth Review--40 percent of the overall increase--would be appropriate. From that discussion it might seem reasonable to suggest that an equiproportional element of the order of 60 percent of the overall increase might be acceptable to Directors. Furthermore, almost all Directors suggested the use of Method A as a means of distributing the selective element, with some supporting a small use of Method B, which would not exceed 5 percent of the overall increase.

As can be seen from Table 1, a distribution based on a combination of 60/40 or 60/35/5 would, for increases in the size of the Fund to between SDR 135 billion and SDR 165 billion, generally yield adjustment coefficients of between 13 percent and 19 percent--with a few higher coefficients or slightly lower than the adjustment coefficient in the Eighth Review, as referred to by many Directors at the discussion on November 3, 1989. Coefficients of this size would limit the shifts in shares of major groups of countries while also effecting a reasonable restructuring of quotas to better reflect the relative positions of members in the world economy. The size of the adjustment coefficient is generally smaller for smaller increases in the Fund, unless the equiproportional element is significantly reduced to 50 percent or less, but this would raise difficulties regarding the adequacy of the individual quota increases for many members.

The issue of distribution also raises issues regarding ad hoc increases in quotas and the position of very small quotas. It may be more productive at this stage if we came back to these important special issues after further progress has been made on the issue of the size of the overall increase. In the meantime, I hope that Directors could agree that the overall increase might be distributed using a combination of an equiproportional increase amounting to 60 percent of the overall increase, and that the balance of 40 percent might be distributed using Method A, or, if Directors felt strongly, that Method B might also be used to distribute a small part of the selective component, say, not more than 5 percent of the overall increase, and that 35 percent of the overall increase would be distributed according to Method A.

At its September 1988 meeting in Berlin (West), the Interim Committee concluded in connection with the Ninth Review that it "also would reduce the reliance of the Fund on borrowing." At that time, the Fund's outstanding borrowing was almost SDR 8 billion, but that has since been reduced to SDR 3.5 billion, partly as a result of repayments from the Fund's ordinary resources. All available borrowed resources--SDR 3.1 billion--are now fully committed and are expected to be fully disbursed by early 1991. The Fund's liquidity ratio is projected to fall from approximately 98 percent at the end of 1989 to 56 percent at the end of 1990, which is far below the 70 percent ratio which provides the necessary safeguard of the monetary character of the Fund.

The conclusion to reduce the Fund's reliance on borrowing is an important factor to be taken into account in determining the size of the Fund and the level of access to its resources in the early 1990s. Table 2 shows, using updated data presented in Table 1 of EB/CQuota/89/7 (7/24/89), the relationship between the size of the increase in quotas and Fund borrowing, given a particular projected demand for the Fund's resources, with the view to maintain the Fund's liquidity ratio at or close to 70 percent over the medium term. A few Directors have questioned the staff's estimates of potential demand for the Fund's resources, which are based on the baseline scenario of the August 1989 World Economic Outlook and assume only a moderate revival in commercial bank lending for balance of payments purposes for the period 1990-94. These latest estimates have been reviewed again in the light of recent trends in the demand for the Fund's resources, and account has been taken that countries must sustain their efforts to adjust in view of the stated intentions of members of the banking community as regards sovereign lending. In the light of this review, we would, if anything, tend to raise rather than lower these estimates of prospective demand for the Fund's resources. Furthermore, the demand for the Fund's resources is expected to be particularly high in the next two to three years, and will, therefore, need to be accommodated as soon as the new quotas are likely to come into effect.

We must face the possibility that outstanding Fund credit may double over the 1990-94 period. As can be seen from Table 2, even with a somewhat conservative projection of demand for Fund resources over the next five years or so, a Fund size smaller than SDR 150 billion would result not only in a continued need for Fund borrowing but in amounts that would not effectively reduce the Fund's reliance on borrowing and which would be contrary to the conclusions reached by the Interim Committee in September 1988. The alternative of a possibly sharp and sustained rundown of the Fund's liquidity cannot be envisaged which would weaken the monetary character of the Fund and undermine the paramount need to maintain the liquidity and immediate usability of members' claims on the Fund, which is a feature of the institution which has not so far been challenged. In this regard, it is important to note that it is assumed that the present historically high proportion of quotas represented by creditor countries--67 percent of total quotas--would continue over the medium term. As we know, it would not be reasonable to make such an assumption for the whole of the next five years, and some reduction in the total of usable currency can be expected because of a weakening in the external financial position of some of the larger industrial countries. In this connection, it will be recalled that at present a significant number of countries, whose currencies account for over one half of the Fund's holdings of usable currencies, excluding the United States, are incurring substantial current account deficits, and several of these countries have been incurring deficits for a number of years with little immediate prospect of their restoring external financial equilibrium. This underscores the importance for the Fund to maintain a reasonably high level of liquidity, which would help cushion it from adverse effects resulting from the possible exclusion of some countries from the list of members whose currencies are usable and indeed from their possibly needing to draw on the Fund.

The present maximum access limits to the Fund's resources are set at 110 percent of quota on an annual basis, and 440 percent of quota as a cumulative limit. These limits broadly represent an unchanged absolute amount of access for members at the level established in 1981. When the new quotas are agreed, the precise access limits expressed as a percentage of new quotas will need to be considered. In the meantime, we should take into account some general considerations relating to the absolute amount of access to the extent that they bear on the size of the increase in quotas. 1/ If the Fund decided not to continue to rely on borrowing, other than in exceptional circumstances, then the new cumulative access limits should approximate the long-run self-financing level, which historically has been of the order of approximately 250 percent of new

1/ The relationship between various levels of absolute access to the Fund's resources and the size of the quota increase has been discussed in a number of staff papers, in particular EB/CQuota/88/1 (2/17/88), EB/CQuota/88/11 (12/16/88), and EB/CQuota/89/1 (1/16/89).

quota. 1/ In order to reconcile a cumulative access limit of 250 percent of quota, which would not normally require borrowing, with the maintenance on average of the present absolute amount of access of members, which is likely to be needed particularly in view of the very constrained external position of many members, an increase in the size of the Fund to SDR 165 billion would be called for. If a small increase in the average amount of absolute access would be needed, either because of a deterioration in the international economic environment and in some individual members' external financial circumstances or to provide a small cushion of resources for members, then a doubling of quotas could be justified. In view of the difficulties for some members regarding an increase of that size, it does not seem feasible at this time to provide for such a precautionary element in the increase in quotas. However, as can be seen from Tables 2 and 3, to preserve on average the present amounts of absolute access, a minimum increase of two thirds would be called for, and, even then, as discussed below, a certain amount of borrowing would be needed, though at a level that would seem to be broadly compatible with the conclusion of the Interim Committee to reduce reliance on that type of financing of the Fund.

Table 3 summarizes available access on a commitment basis for major groups of members as categorized in terms of their potential financing needs, after taking into account projected purchases and repurchases, and arrangements that are projected to be approved through early 1991. As can be seen, there are significant reductions in both the annual limits and in the remaining available amounts of access for most member countries for each size of the Fund up to SDR 150 billion. For those members in very constrained external positions--mainly the middle-income heavily indebted countries--and which recently have had, or are expected to have, heavy recourse to the Fund's resources, the reduction in the amounts of absolute access could be substantial despite increases in the size of the Fund up to SDR 150 billion. Constraints in terms of available amounts of access of the order shown in Table 3 could severely hamper the Fund's flexibility in meeting members' needs for balance of payments financing in the early 1990s. In some cases, and especially for a Fund size of SDR 135 billion or less, the reduction in the absolute amount of remaining available access is of an order that would preclude a number of countries from using the Fund's resources until repurchases had created sufficient room for new purchases. Even for those members with perhaps less pressing external financing needs from the General Resources Account, for example, those also eligible to use the structural adjustment and enhanced structural adjustment facilities, an access limit of 250 percent of new quota would significantly reduce the remaining absolute amount of access for a Fund size of SDR 150 billion or less.

1/ The "self-financing" access limit of 250 percent of quota is calculated on the basis of the long-run averages of the aggregate share of creditor members in the total quotas--55-60 percent and that of debtor members--25-30 percent.

It is important now for the Executive Board to agree on a quota increase that would enable the Fund to carry out its responsibilities as the central institution in the international monetary system. In a spirit of compromise, Executive Directors will no doubt wish to examine carefully solutions that would imply a certain amount of borrowing. In making their decision, Directors will certainly be mindful that it is a strongly held view of the membership that the Fund should rely on borrowing only under exceptional circumstances, that borrowing is not a substitute for the proper strengthening of the Fund's capital base for the medium term, and that their decision should be compatible with the conclusions the Interim Committee reached in Berlin in September 1988. It is most desirable also that their decision, bearing in mind the key features that are likely to characterize the working of the international monetary system at the beginning of the 1990s, and summarized above, be such as to provide for: the maintenance of the absolute amount of access which is compatible with the external position and financing needs of members; a cushion with respect to the need to maintain the level of liquidity appropriate for the Fund as the central institution in the international monetary system; and a margin to meet unexpected contingencies, such as the threat of a major reduction in the total of usable currencies or possible use of the Fund's resources by some industrial countries.

Table 1. Summary Statistics of Alternative Illustrative Distributions of Fund Quotas

(In percent)

	Present quota shares (1)	Illustrative quotas distributed using Method A 1/ 50/50 (2)	60/40 (3)	70/30 (4)	Illustrative quotas distributed using Methods A and B combined 1/ 50/45/5 (5)	60/35/5 (6)	70/25/5 (7)
I. Fund of SDR 115 billion							
Equiproportional increase (in percent of present quotas)		13.8	16.6	19.3	13.8	16.6	19.3
Distribution of quota shares (percent of total)							
Industrial countries	62.2	62.6	62.6	62.5	62.7	62.7	62.6
Major oil-exporters	10.8	11.2	11.1	11.0	11.2	11.2	11.1
Non-oil developing countries	26.9	26.2	26.3	26.5	26.0	26.2	26.4
Adjustment coefficient, average, in percent		10.8	8.7	6.5	12.6	10.4	8.3
II. Fund of SDR 121.5 billion							
Equiproportional increase (in percent of present quotas)		17.4	20.9	24.4	17.4	20.9	24.4
Distribution of quota shares (percent of total)							
Industrial countries	62.2	62.7	62.6	62.5	62.8	62.7	62.6
Major oil-exporters	10.8	11.3	11.2	11.1	11.3	11.2	11.1
Non-oil developing countries	26.9	26.0	26.2	26.4	25.9	26.1	26.2
Adjustment coefficient, average, in percent		12.9	10.3	7.7	15.0	12.4	9.9
III. Fund of SDR 135 billion							
Equiproportional increase (in percent of present quotas)		24.9	29.9	34.9	24.9	29.9	34.9
Distribution of quota shares (percent of total)							
Industrial countries	62.2	62.9	62.7	62.6	63.0	62.9	62.7
Major oil-exporters	10.8	11.4	11.3	11.2	11.4	11.3	11.2
Non-oil developing countries	26.9	25.8	26.0	26.2	25.6	25.8	26.0
Adjustment coefficient, average, in percent		16.6	13.3	10.0	19.3	16.0	12.7
IV. Fund of SDR 150 billion							
Equiproportional increase (in percent of present quotas)		33.2	39.9	46.5	33.2	39.9	46.5
Distribution of quota shares (percent of total)							
Industrial countries	62.2	63.0	62.8	62.7	63.1	63.0	62.8
Major oil-exporters	10.8	11.5	11.4	11.2	11.6	11.4	11.3
Non-oil developing countries	26.9	25.5	25.8	26.1	25.3	25.6	25.9
Adjustment coefficient, average, in percent		20.0	16.0	12.0	23.2	19.2	15.2
V. Fund of SDR 165 billion							
Equiproportional increase (in percent of present quotas)		41.5	49.9	58.2	41.5	49.9	58.2
Distribution of quota shares (percent of total)							
Industrial countries	62.2	63.1	62.9	62.7	63.3	63.1	62.9
Major oil-exporters	10.8	11.6	11.4	11.3	11.7	11.5	11.4
Non-oil developing countries	26.9	25.3	25.7	26.0	25.1	25.4	25.7
Adjustment coefficient, average, in percent		22.7	18.2	13.6	26.3	21.8	17.3
VI. Fund of SDR 180 billion							
Equiproportional increase (in percent of present quotas)		49.9	59.8	69.8	49.9	59.8	69.8
Distribution of quota shares (percent of total)							
Industrial countries	62.2	63.2	63.0	62.8	63.4	63.2	63.0
Major oil-exporters	10.8	11.7	11.5	11.3	11.7	11.6	11.4
Non-oil developing countries	26.9	25.2	25.5	25.9	24.9	25.2	25.6
Adjustment coefficient, average, in percent		25.0	20.0	15.0	29.0	24.0	19.0

1/ With the apportionment into equiproportional increases and selective increases using Method A and, where applicable, Method B (39), as indicated.

Table 2. Illustrative Calculation of the Fund's Liquidity Position in the Medium Term Under Alternative Sizes of Fund

(In billions of SDRs, except as indicated)

	Alternative sizes of Fund					
	SDR 115 billion (1)	SDR 121.5 billion (2)	SDR 135 billion (3)	SDR 150 billion (4)	SDR 165 billion (5)	SDR 180 billion (6)
1. Projected unadjusted and uncommitted resources before quota increase (end-1989)	36	36	36	36	36	36
2. Less projected repayment of borrowing (1990-94)	-4	-4	-4	-4	-4	-4
3. Less projected net increase in outstanding Fund credit (1990-94)	-27	-27	-27	-27	-27	-27
4. Plus estimated inflow of usable quota resources (65 percent of quota increase)	+16	+20	+29	+39	+49	+59
5. Usable resources without Fund borrowing Sub-total (lines 1 to 4)	21	25	34	44	54	64
6. Liquidity ratio without borrowing, in percent	(30)	(35)	(48)	(62)	(76)	(91)
7. Fund borrowing requirement to maintain liquidity ratio at 70 percent	28	23	15	5	--	--

Sources: Fund Liquidity Update - EBS/89/210 (11/1/89); projections of demand for Fund credit - staff scenario C described in EB/CQuota/89/5 (5/25/89), as revised on basis of August 1989 WEO baseline scenario.

Note: The liquidity ratio is defined as that between adjusted uncommitted usable resources and the Fund's liquid liabilities in the form of members' reserve tranche positions and loan claims on the Fund. Such liquid liabilities are projected to amount to SDR 53 billion by the end of 1994.

Table 3. Illustrative New Maximum Access Under Stand-by or Extended Arrangements

(In millions of SDRs)

	Members in very constrained external position		Members with relatively high financing needs		Other members with financing needs	
	Annual	Cumulative	Annual	Cumulative	Annual	Cumulative
1. Present access limits 1/	12,016	48,066	5,683	22,734	6,442	25,766
Less: Outstanding use (Sept. 1989)		13,397		2,914		2,510
Projected purchases and commitments through 1990/91 2/		19,819		2,903		849
Equals: Remaining available access		14,850		16,916		22,408
2. New annual limits and remaining available access 3/						
Fund of SDR 115 billion	8,440	544	3,986	10,127	4,533	14,774
(Percent change)	*(-30)*	*(-96)*	*(-30)*	*(-40)*	*(-30)*	*(-34)*
Fund of SDR 121.5 billion	8,862	2,230	4,184	10,917	4,762	15,687
(Percent change)	*(-26)*	*(-85)*	*(-26)*	*(-35)*	*(-26)*	*(-30)*
Fund of SDR 135 billion	9,737	5,732	4,595	12,561	5,236	17,583
(Percent change)	*(-19)*	*(-61)*	*(-19)*	*(-26)*	*(-19)*	*(-22)*
Fund of SDR 150 billion	10,710	9,623	5,051	14,387	5,763	19,692
(Percent change)	*(-11)*	*(-35)*	*(-11)*	*(-15)*	*(-11)*	*(-12)*
Fund of SDR 165 billion	11,682	13,514	5,508	16,213	6,289	21,798
(Percent change)	*(-3)*	*(-9)*	*(-3)*	*(-4)*	*(-2)*	*(-3)*
Fund of SDR 180 billion	12,655	17,404	5,964	18,039	6,816	23,905
(Percent change)	*(+5)*	*(+17)*	*(+5)*	*(+7)*	*(+6)*	*(+7)*
3. Memo: *Present quota*	*10,924*		*5,167*		*5,856*	

1/ 110 percent of quota (annual) and 440 percent of quota (cumulative).
2/ Net of repurchases and before adjustment by the probability factor associated with projected arrangements. Estimated commitments include interest support under the guidelines for access in connection with the strengthened debt strategy.
3/ 62.5 percent of new quota (annual) and 250 percent of new quota (cumulative); based on Method A (60/40). The cumulative access shown is based on available access after taking into account present use and projected commitments, as indicated in line 1.

Table: Members with Very Small Quotas - Calculated Quotas

	SDR (millions)	(Percent)
Belize	18.9	(0.006)
Vanuatu	12.0	(0.004)
Djibouti	16.4	(0.005)
St. Lucia	15.2	(0.005)
Guinea-Bissau	7.2	(0.002)
Grenada	8.2	(0.002)
Western Samoa	6.9	(0.002)
Solomon Islands	14.7	(0.004)
Antigua & Barbuda	20.2	(0.006)
Comoros	6.3	(0.002)
Cape Verde	12.9	(0.004)
St. Kitts & Nevis	7.8	(0.002)
St. Vincent	10.4	(0.003)
Sao Tome & Principe	5.1	(0.002)
Dominica	6.3	(0.002)
Tonga	7.8	(0.002)
Seychelles	14.6	(0.004)
Bhutan	10.3	(0.003)
Kiribati	5.6	(0.002)
Maldives	12.4	(0.004)