

MASTER FILES
ROOM C-525

0404

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Committee of the Whole on Review of Quotas
Meeting 90/13

10:30 a.m., March 19, 1990

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

Executive Directors

F. Cassell
C. S. Clark
Dai Q.
T. C. Dawson

E. V. Feldman
L. Filardo
R. Filosa
M. Finaish
M. Fogelholm
M. R. Ghasimi
G. Grosche
J. E. Ismael
A. Kafka
J.-P. Landau

G. A. Posthumus
K. Yamazaki

Alternate Executive Directors

L. E. N. Fernando

J. Prader
L. B. Monyake
S.-W. Kwon
R. J. Lombardo
M. A. Fernández Ordóñez

A. M. Othman
I. H. Thorláksson
O. Kabbaj

T. Sirivedhin
L. M. Piantini
J.-F. Cirelli
C. V. Santos
M. Al-Jasser
G. P. J. Hogeweg
S. Yoshikuni

J. W. Lang, Jr., Acting Secretary
S. W. Tenney, Assistant

Also Present

African Department: R. C. Williams. Asian Department: P. Gotur. Exchange and Trade Relations Department: L. A. Whittome, Counsellor and Director; M. Shadman-Valavi. External Relations Department: E. Ray. Legal Department: F. P. Gianviti, General Counsel; R. H. Munzberg, Deputy General Counsel. Research Department: I. Isard. Secretary's Department: C. Brachet, Deputy Secretary. Treasurer's Department: D. Williams, Deputy Treasurer; D. Gupta, A. J. Tweedie, G. Wittich. Office of the Managing Director: A. K. Sengupta, Special Advisor to the Managing Director; E. A. Milne. Advisors to Executive Directors: N. Adachi, M. B. Chatah, Z. Iqbal, K.-H. Kleine, P. O. Montórfano, B. S. Newman, D. Powell, F. A. Quirós. Assistants to Executive Directors: T. S. Allouba, S. Appetiti, G. Bindley-Taylor, B. A. Christiansen, A. Fanna, S. K. Fayyad, B. R. Fuleihan, M. A. Ghavam, A. Hashim, A. J. Heywood, A. Iljas, M. E. F. Jones, C. Y. Legg, R. Marino, G. Montiel, J. A. K. Munthali, S. Rouai, D. Saha, H.-J. Scheid, J.-P. Schoder, Shao Z., J. C. Westerweel, Yang J.

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

The Executive Board, meeting as a Committee of the Whole, considered the following statement by the Managing Director on the Ninth General Review of Quotas:

The last substantive meeting of the Committee of the Whole on the Ninth General Review of Quotas was on January 31, 1990. It would seem to be time to make a concerted effort to fit together the various parts of this complex quota exercise, which started in March 1987.

It may be useful to outline briefly the issues on which we need to agree and also to give some indication of the broad balance of our discussions thus far. There is a wide consensus on a large number of issues. This broad consensus now needs to be converted into specific agreement in the next few days so as to enable the Executive Board to prepare a Report to the Board of Governors and propose a draft Resolution by the end of March 1990, thereby allowing, if needed, the Interim Committee to express its views on these issues in advance of the deadline for completion of the Ninth Review on June 30, 1990.

The issues that will need to be reflected in the Report and proposed Resolution to the Board of Governors are as follows:

- (i) size of the overall increase in quotas;
- (ii) the timing of the next review of quotas;
- (iii) the use of 1985 or 1986 data in making quota calculations for the Ninth General Review;
- (iv) distribution of the overall increase including requests for ad hoc increases in quotas by the Islamic Republic of Iran, Japan, Korea and the special adjustments for the very small quotas of SDR 10 million or less;
- (v) rounding of the individual increases in quotas;
- (vi) the amount to which members may consent, the period for consent and the participation requirement;
- (vii) payment for the increase in quotas; and
- (viii) quota increases and members with overdue financial obligations to the Fund.

For the sake of good order I suggest we discuss these issues in turn, but it goes without saying that they are closely interrelated. We will need to come to a conclusion on all of these issues that can be reflected in the documents to be submitted to the Board of Governors.

While a number of Directors are of the view that a doubling of quotas would be warranted, other Directors believe that the Fund could reasonably agree on an increase in quotas of the order of two thirds. Indeed, only three Directors have indicated in past discussions that they could not support an increase of two thirds or more, although some of these Directors have indicated that they could agree to an increase of the order of 50 percent. Directors are fully aware of the factors that bear on the size of the Fund in the early 1990s and of course it is generally agreed that in the last resort the appropriate size of the Fund in the early 1990s is a matter of judgment rather than calculation. There are, however, three important aspects to bear in mind: the need to preserve the relative size of the Fund in the world economy; the conclusion of the Interim Committee that the Fund would reduce its reliance on borrowing; and the need for the Fund to have adequate resources so that it could perform its responsibilities in the international monetary system and that members would maintain confidence in the institution. I also note that many Directors consider that the timing of the next review of quotas has an important bearing on the size of the increase; several Directors have made the point that a postponement to 1995 of the next review would justify a significant increase of the size of the increase in quotas to take into consideration both the need and the uncertainties of this lengthened period.

The size of the Fund is of significant consequence for the international monetary system, and in coming to a conclusion on this matter we should fully weigh the consequences of an increase in the size of the Fund that may prove to be inadequate to enable the Fund to fulfill its responsibilities in the international monetary system.

As Directors are aware, in accordance with the Articles, the Tenth General Review of Quotas should be completed by March 31, 1993, that is, five years from the date on which the Ninth Review should have been completed. However, some Directors have suggested that the next review of quotas should be completed within five years after the actual completion of the Ninth Review of Quotas, as determined by the date of the Board of Governors' vote on the proposed Resolution, but not later than March 31, 1995. Other Directors have suggested that the next review of quotas be completed not later than March 31, 1994. In response to a suggestion

by another Director, the staff has confirmed that it would be legally possible to complete the Tenth General Review of Quotas at the same time as the completion of the Ninth Review, in the light of the size of the increase under the Ninth Review, which would open a new five-year period for the completion of the Eleventh Review. The first approach would not require any decision of the Board of Governors. The second and third approaches would require a Resolution of the Board of Governors on the continuation of the Tenth Review beyond March 31, 1993. The fourth approach would require a Resolution on the early completion of the Tenth Review at the same time as the Ninth Review.

While the Fund must conduct a general review of quotas within intervals of not more than five years, it can conduct a general review of quotas at any time within such intervals. As Directors are aware, in order to facilitate a consensus on the global question of the quota increase, I stand ready to support a completion of the next quota review later than March 31, 1993. Nevertheless, I strongly agree with the views of those Directors that have indicated that the longer the expectation that quotas established under the Ninth Review would remain unchanged, the larger should be the increase under the Ninth Review to ensure that the Fund has sufficient resources to carry out its responsibilities during the period before the next review of quotas. In this connection, Directors may note that to maintain the relative size of the Fund, taking into account the longer period before the next review of quotas would be completed, say in 1995, would call for an increase in quotas under the Ninth Review of the order of 68 percent.

Directors will recall their conclusion in their report to the Interim Committee in September 1989 that "as the quota calculations are made essentially for the purpose of guiding the distribution of the overall increase, it was suggested that the use of 1985 data be confirmed within the context of an agreement on the overall distribution of the increase in quotas, including ad hoc increases." As Directors are aware, the Articles do not prescribe the criteria, including data, to be used in connection with consideration of increasing quotas under a general review. During the previous discussion on this issue, a number of Directors reiterated their preference for using 1985 data, in part to maintain the five-year periodicity of updating the quota calculations and to avoid overlapping periods or gaps in the periods used for making the calculations, but a number of Directors also felt that further consideration should be given to the use of quota calculations for the Ninth Review on the basis of data ended in 1986 in view of the delay in concluding the Ninth Review. As Directors are aware, the total of calculated quotas does not differ significantly from the use of 1985 or 1986 data. Furthermore, proposed

shifts in actual quota shares would basically depend on the distribution of the increase.

During previous discussions on the distribution of the increase, major progress was achieved; there seemed to be a general understanding that 60 percent of the overall increase should be distributed in the form of an equiproportional increase, so as to ensure that all members receive a meaningful increase in quotas and to help maintain a reasonable balance in the quota structure, as agreed by the Interim Committee. As to the distribution of the remainder, there seemed to be widespread support for the use of Method A, namely that 40 percent of the overall increase would be distributed in proportion to members' shares in calculated quotas. Directors also broadly accepted the proposals of Mr. Cassell and Mr. Dawson, which would confine within the G-7 countries the consequential adjustments in quotas to accommodate Japan's request for an ad hoc increase in quota to raise its ranking to second place. Directors have not on past occasions expressed sufficient support for the requests by the Islamic Republic of Iran and Korea for ad hoc increases in their quotas, and it would be useful if Directors could indicate their views on these requests during the current discussion. As to the quotas of the very small members, Directors agreed that the quotas of those members with shares in calculated quotas above their shares in actual quotas should be raised to their shares in calculated quotas and that further adjustments in the quotas of this group of members should be made within a scheme of rounding all quotas.

Increases in quotas in connection with general reviews have normally been rounded up to further amounts. In some past reviews the rounding up has been up to certain amounts differentiated by the size of quota. 1/ In the Seventh and Eighth Reviews the quotas were rounded up to the next higher SDR 0.1 million, and under the latter review, the very small quotas were rounded up to the next higher SDR 0.5 million. I suggest, partly for presentational reasons and taking into account the small amounts involved, that on this occasion all increases in quotas be rounded to the next SDR 1 million, including for the very small quotas, even though it would in a number of cases--including the very small quotas--cause some overshooting. The system of rounding would thus be uniform in absolute terms for all members; rounding to SDR 1 million would "cost" approximately SDR 80 million in connection with an increase in the size of the Fund to SDR 150 billion.

Directors will recall the discussion in November 1989 on whether the proposed resolution should provide for a member to

1/ See EB/CQuota/89/3 (1/25/89), pages 6-8.

consent to the full amount of the proposed increase in its quota or to a lesser amount. On that occasion, Directors' views were generally in favor of following the precedent of the Eighth Review to provide for members to consent only to the full amount of the increases proposed for them, which would thereby help ensure the maximum liquidity effects of the increase in quotas. It would be useful if Directors could indicate their views on this issue for the current discussion.

As to the period during which a member may consent to its increase, consideration has been given by Directors to set the period for consent to within 12 months of the date of the Resolution approved by the Board of Governors. A Director has suggested that the period for consent be lengthened to the end of 1991 to help his authorities in their domestic legislative procedures that are needed to effect an increase in quota for that member. A number of Directors expressed agreement with that suggestion. Directors were of the view that the Board of Governors would enable the Executive Board to extend the period for consent, if needed. It would be useful if we could come to a tentative conclusion on this matter of the period for consent.

The size of the participation requirement to bring an increase in quota into effect is, of course, closely related to the length of the period for consent. In the Eighth Review, the participation requirement was set at 70 percent of total quotas on the date of the Resolution. While the same participation requirement has been suggested in the context of the Ninth Review, one Director has proposed, with support from others, that the participation requirement would be met when the Fund determines that members with not less than 85 percent of total quotas on the date of the Resolution have consented to increases in their respective quotas; or, on or after December 31, 1991, provided that the Fund has determined that members having not less than 70 percent of total quotas have consented to increase their respective quotas. This is an interesting approach that merits serious consideration.

Article III, Section 3(a) provides that 25 percent of an increase in quotas shall be paid in SDRs, but permits the Board of Governors to prescribe inter alia that this payment may be made on the same basis for all members, in whole or in part in the currencies of other members specified by the Fund, subject to their concurrence. Directors have generally agreed that the reserve asset payment should amount to 25 percent of the increase in quotas and should be paid in SDRs, or currencies acceptable to the Fund, or in any combination of SDRs and such currencies. I understand that Directors have also agreed that, as on the occasion of the Eighth Review, the Fund would stand ready to assist members

that do not hold sufficient reserves to make their reserve asset payment to the Fund to borrow SDRs from other members willing to cooperate. These loans would be made on the condition that such members would, on the same day, repay the loans from the SDR proceeds of drawings of reserve tranches that had been established by the payment of SDRs. You will also recall that a number of creditor members have already indicated that they would agree in principle to participate in such arrangements.

The Directors also agree that it would seem reasonable for a member to pay the increase in its quota within 30 days after the date on which the member notifies the Fund of its consent or after the date on which the participation requirement is met, whichever is later. It was also generally agreed that the Board would be authorized to extend the period for payment.

We have discussed the matter of members with overdue financial obligations on a number of previous occasions. On the basis of those discussions, we concluded that a member must first discharge its overdue obligations to the Fund before it can be permitted to consent to or pay for an increase in its quota in connection with the Ninth Review; and if a member had not increased its quota within the prescribed period, the proposal for an increase in quota would lapse.

The Board also concluded that when considering any extension of the period for consent or payment it would give particular consideration to the situation of members that may still wish to consent to or pay for the increase in quota, including members with overdue repurchases, charges, or assessments to the General Resources Account that are judged to be cooperating with the Fund toward the settlement of these obligations. It would seem reasonable that the period for consent would not be extended beyond the establishment of the Committee of the Whole for the next review of quotas. However, some Directors have suggested that if a member settles its overdue obligations to the Fund only after the period for consent had lapsed, the Executive Board would give sympathetic consideration to any request from a member for an increase in quota up to the amount that had been proposed for it under the Ninth Review. Directors will recall that, to avoid prejudging the position of future Executive Boards, such an understanding was reached in the case of some past quota reviews at the time when the Directors agreed to let the period for consent lapse. I would see some merit in continuing that precedent, and the present Executive Board could reasonably express its expectation that such an understanding would be reached at the time that the period for consent would lapse.

Mr. Grosche noted that the Managing Director's opening statement reflected the different views that had been expressed by Directors during previous meetings in a properly balanced manner; therefore, it could form the basis of a reasonable compromise decision on all the issues related to the Ninth Review. While he was certainly not pleased with all of the aspects included in that overall decision, his authorities could go along with the suggestions made by the Managing Director.

Mr. Yamazaki said that the Managing Director's opening statement provided a sound basis for a final package decision on the Ninth Review. As the Managing Director had indicated, substantial progress had been made on the Ninth Review and a broad consensus had been reached on most of the related issues.

In that connection, it was important to note that the Executive Board's report to the Board of Governors and the proposed Resolution should be finalized as soon as possible, in particular since the prolonged consideration of the Ninth Review had some implications for the credibility of the Fund in terms of its decision-making ability, Mr. Yamazaki considered. He supported the list of issues to be included in the proposed Resolution.

Mrs. Filardo stated that the Managing Director's opening statement had presented a balanced account of previous discussions, and she could support the general conclusions contained in it.

Mr. Cassell said that, as the Managing Director had noted, each of the outstanding issues related to the Ninth Review would be taken up in turn during the current discussion. He welcomed the Managing Director's determination to resolve the remaining issues in the Executive Board. While the Managing Director's opening statement, combined with the statement he had circulated on overdue financial obligations to the Fund, covered almost all of the outstanding issues, one question remained, namely, the appropriate future access limits. The consideration of that question would need to be included in any package decision on the Ninth Review.

Mr. Ismael commented that his authorities were disappointed by the most recent postponement of the deadline for the conclusion of the work on the Ninth Review. In that connection, he hoped that the current discussion would pave the way toward a final decision that would be acceptable to all Fund members.

His chair's concern about the detrimental effects of the prolonged discussions on the Ninth Review was reflected in its willingness to make concessions on many issues related to the Ninth Review, and he appreciated the efforts of other chairs to do the same, Mr. Ismael said.

The Managing Director's opening statement provided an outline of the issues that remained and an indication of the progress that had been

achieved in the discussions to date, Mr. Ismael noted. Nevertheless, from previous discussions, he had received the impression that a consensus had already been reached with respect to the period of data that should be used in calculating quotas and the period of consent for the Ninth Review. A reopening of the discussion on such issues could only prolong the process of reaching a package decision. Therefore, he hoped future discussions would focus on building on the agreements that had previously been reached-- hopefully without a need for further statements from the Managing Director.

Mr. Kafka said that the Managing Director's opening statement was helpful in clarifying the outstanding issues related to the Ninth Review. While Directors were closer to reaching a final decision, he agreed with Mr. Cassell that it would not be possible to reach an agreement on the Ninth Review without also reaching an agreement on appropriate access limits and the strengthening of the Fund's cooperative approach in dealing with overdue financial obligations. The discussion on those issues could be very difficult and lengthy.

Mr. Dawson remarked that there was no doubt that agreements had been reached on some of the issues related to the Ninth Review. He was sure all Directors joined the Managing Director in hoping for an early and successful conclusion of the Ninth Review. In that connection, he would comment on each of the issues outlined in the Managing Director's opening statement at a later stage of the current discussion.

Meanwhile, like Mr. Cassell, he had noted the exclusion of access limits from the Managing Director's opening statement, Mr. Dawson stated. His authorities certainly hoped that any report on the Ninth Review would include an indication of proposed changes in the Fund's access policy. Their position that enlarged access should be phased out was well known.

Mr. Prader said that the Managing Director's opening statement provided an accurate and balanced account of the progress achieved thus far on the Ninth Review. It also reflected the many compromises that had been reached in providing the basis for future discussions.

It should be noted that recent developments in Europe, in particular the agreement that had recently been reached between East and West Germany pointed to the need for a speedy conclusion of the quota review, Mr. Prader considered. Given the already prolonged nature of the discussions on the Ninth Review, it was possible that the review could become outdated even before it was completed.

Mr. Dawson remarked that the recent agreement between the Federal Republic of Germany and the German Democratic Republic would reduce the number of countries that were likely to join the Fund in the coming months.

Mr. Grosche stated that in advocating a substantial increase in quotas during previous discussions, his authorities had also foreseen a need to draw on Fund resources to facilitate adjustment in the German Democratic Republic. While he expected that Germany would not need to enter into a Fund program in the foreseeable future, that possibility could not be totally ruled out.

The Chairman noted that, even if additional resources were not needed to support adjustment efforts in the eastern part of Germany, a substantial increase in Fund quotas was clearly justified.

Mr. Fernando observed that the Managing Director's opening statement for the current discussion had omitted the issue of prospective access limits for the period ahead, but his statement on the strengthening of the Fund's cooperative arrears strategy had referred to the proposed guidelines on access, indicating that access limits would be taken up in the context of the review of Fund conditionality either immediately following the conclusion of the work on the Ninth Review or in June 1990, whichever was earlier.

Mr. Clark noted that the Board had already had lengthy discussions on the complex issues related to the Ninth Review, and, as the Managing Director had indicated, broad agreement had been reached on many of those issues. Like other speakers, he considered that the Managing Director's opening statement provided a sound basis for the successful conclusion of the Ninth Review. He agreed with Mr. Ismael that no further statements from the Managing Director should be needed.

Mr. Al-Jasser said that he welcomed the Managing Director's opening statement as a basis for the resumption of discussions on the Ninth Review. At the present stage, it should be possible for Directors to move expeditiously toward an agreement on the outstanding issues related to the Ninth Review before the May 1990 Interim Committee meeting. As the Ninth Review had commanded a disproportionate share of the Board's time, its completion should allow Directors to address other agenda items that were equally critical to the role of the Fund in the world economy.

The Chairman noted that Directors had agreed to try to resolve the outstanding issues during the current discussion. In that connection, it would be helpful for Directors to state their positions on the appropriate size of the overall increase in quotas, taking into account in particular the timing of the next review.

Mr. Kafka said that he had not received instructions from his authorities. Nevertheless, it was his understanding that an increase in excess of 67 percent of present quotas would be needed to simultaneously eliminate Fund borrowing, avoid a reduction in the liquidity ratio to below 70 percent, and preserve the existing nominal access for all members over

the period to March 31, 1993. He wondered whether the staff had estimated the exact size of increase above 67 percent that would be needed.

Mrs. Filardo noted that, in the light of Mr. Dawson's proposal to delay the next review of quotas until March 31, 1995, it would be helpful if the staff could comment on the size of increase that would be needed to cover the extended interval until the next review.

The Deputy Treasurer responded that the staff's calculations had been based on an estimated net increase in Fund credit over the five-year period ended 1994 of SDR 27 billion, and the assumption that the proportion of the increase in quotas that would yield usable resources would be about 65 percent, which was close to the current proportion of quotas represented by members with usable currencies. The projections indicated that a quota increase of the order of 75 percent would be required to eliminate borrowing and maintain the Fund's liquidity ratio at about 70 percent. However, it was important to note that a slight margin would have to be taken into account as regards each of the assumptions made by the staff, such that it might be better to think of the needed increase in present quotas in terms of a range of, say, between 70 percent and 80 percent. Such a range could also take account of the differences in timing between the staff estimates, which were made on an aggregate basis from the baseline scenario contained in the most recent World Economic Outlook and covered the period to end 1994, and the possible timing of the next increase in quotas. For example, a quota increase to cover the period to end-1993 could be at the lower end of that range, while an increase to cover the period until, say, March 1995 would obviously need to be larger.

The Chairman noted that, while the staff estimates of future demand were helpful, the central issue was to ensure that the Fund would have sufficient resources to maintain its credibility in addressing the challenges it was likely to face in the period ahead.

Mr. Cassell said that he agreed with the Chairman on the need to maintain the credibility of the Fund. However, his chair had based its position not on the staff estimate of future demand, but on a prospective doubling of current outstanding Fund credit, excluding resources drawn under the enhanced structural adjustment facility. His chair had found that with a 50 percent increase in present quotas, it would be possible to repay all outstanding Fund borrowing by end-1994 without reducing the liquidity ratio below a minimum of 65 percent, which was comfortable. Indeed, the average liquidity ratio over that period would be about 80 percent.

The Chairman remarked that it was important to note that the current level of usable currencies in the Fund was near the historic peak, and it was not likely that that level could be maintained over an extended period.

Mr. Fernando recalled that during recent discussions on strengthening the Fund's cooperative approach in dealing with overdue financial obligations, Directors had agreed to consider use of the enhanced structural adjustment facility in financing the exceptional needs of some countries. To the extent that resources under that facility would be used to assist a certain group of countries, they would not be available to other members. He wondered whether that consideration could lead to a larger demand for the general resources of the Fund in excess of the amount originally estimated by the staff.

The Deputy Treasurer replied that the staff estimate of the future demand for Fund resources, which was based on the August 1989 World Economic Outlook, forecast the net demand for Fund credit from the General Resources Account. Since the resources made available under the structural adjustment facility and enhanced structural adjustment facility were outside of the General Resources Account, an additional demand for those resources would not affect the original staff estimates.

Mr. Dawson asked whether the staff could comment on the current situation with respect to Fund liquidity.

The Deputy Treasurer responded that the liquidity ratio had basically remained unchanged since the most recent staff paper on the update of the Fund's liquidity position (EBS/89/210) was circulated in November 1989, because one member that had planned to enter into a Fund-monitored program in 1990 had delayed finalizing its arrangements for one year. That delay had decreased the projected level of commitments outstanding at end-1990 from SDR 9.6 billion to SDR 8 billion, thereby resulting in a slightly higher projected end-1990 liquidity ratio. The liquidity ratio for end-1990 was now expected to be 69.5 percent.

Mr. Dawson remarked that in taking final positions on the appropriate future size of the Fund, it would be necessary for each chair to take into consideration all of the arguments that had been put forward over the past three years of discussions on the Ninth Review. Without repeating those well-known arguments, his authorities considered that an increase of about 45 percent of present quotas would enable the Fund to fulfill its systemic responsibilities over the coming five years, and they could not support an increase of more than 50 percent. The position of his authorities reflected the view that the current financial position of the Fund was strong, with a present liquidity ratio of about 100 percent, which was expected to remain of the order described by the staff.

Nevertheless, it was important to note that there was a difference of view among Directors with respect to the liquidity ratio, Mr. Dawson commented. While some Directors looked at the ratio of 70 percent as a long-run average, others saw that ratio as a prudential minimum. His

chair considered that the central objective should be to maintain a ratio that would follow along the lines of a historical average, but with some fluctuation.

He certainly did not agree with Mr. Posthumus and other speakers that a large quota increase was needed to maintain a ratio between the size of the Fund and that of the world economy, Mr. Dawson stated. That ratio had been declining for a number of years for various reasons, and there was no justification for attempting to maintain it as an arbitrary means of determining the appropriate size of Fund quotas.

Mr. Cassell commented that, while Directors were agreed that the Fund must be adequately endowed, there was a difference of view as to the size of increase that would be adequate. His authorities considered that a quota increase of up to 50 percent would ensure that the Fund had the resources needed to perform its responsibilities in the international monetary system. Indeed, from Committee of the Whole on Review of Quotas Meeting 90/12 (1/31/90), he had received the impression that there had been a significant convergence of views among Directors toward an increase of that magnitude.

Mr. Grosche stated that his chair continued to favor an increase of 67 percent of present quotas. While, in the spirit of compromise, he could go along with an increase of 50 percent, a small increase of that order should not automatically lead to Fund borrowing. Under normal circumstances, the Fund had to finance its operations from its own resources. Therefore, if the quota increase agreed was not sufficiently large to cover the period until the next quota review, access limits would need to be adjusted accordingly in order to maintain a prudent liquidity ratio of 70 percent.

Mr. Al-Jasser said that his chair continued to consider that a 50 percent increase in quotas would be sufficient to allow the Fund to fulfill its primary responsibilities in the international monetary system. In that connection, it should be emphasized that it was the quality of Fund programs that made the most significant contribution to the health of the world economy, not Fund credit. Accordingly, the credibility of the Fund should be judged on the basis of its advice to members and its technical assistance programs, rather than the magnitude of its lending. Moreover, the relative size of the Fund in the world economy was a dynamic concept that had to take into account other developments in the world economy, such as the role of private financial markets and multilateral and bilateral financial institutions and the need to re-evaluate traditional views on debt-creating public and private investments.

Mr. Posthumus remarked that in taking positions on the appropriate size of the quota increase, it was important to keep in mind all of the issues related to the Ninth Review. For example, it was impossible to agree to a 50 percent increase in the size of the Fund without considering the

implications of that increase for the Fund's liquidity position, members' access, and continued borrowing over the coming period. In that connection, it was misleading to indicate that an agreement had been reached on an increase of 50 percent.

Mr. Landau stated that his chair would certainly support a substantial increase in quotas on the order of 67 percent, if there was a consensus for such an increase. As Directors were aware, in the spirit of compromise, he was willing to go along with an increase of visibly over 50 percent.

As to the trade-off between continued borrowing or reduced access in order to protect the Fund's liquidity position, his position was flexible, Mr. Landau commented. However, he differed with Mr. Grosche in that, while it was important to maintain a prudent liquidity ratio, he considered that it was also important to maintain members' access to the Fund. In addition, the timing of the next quota review had a crucial bearing on the size of increase that would be needed.

Mr. Fogelholm said that his authorities continued to support a substantial increase in quotas. He agreed with Mr. Posthumus that the size of the increase must be determined in the context of all the issues related to the Ninth Review. For instance, there was a clear trade-off between the size of the increase and the timing of the next review in that the longer the interval between reviews, the larger the increase would need to be.

In any event, the liquidity ratio of the Fund would have to be maintained, Mr. Fogelholm considered. Consequently, either borrowing or access limits would have to be adjusted to correspond with the size of the quota increase agreed. While the position of his chair on a necessary trade-off was not final, his preference would be to phase down access limits.

Mr. Monyake stated that, like Mr. Grosche, his chair had supported a substantial increase in quotas of about 67 percent, but it seemed that the consensus among Directors had shifted toward an increase of 50 percent. As Mr. Posthumus had indicated, an increase of that size would have an impact on other issues related to the Ninth Review, and it was unfortunate that the developing countries might not receive the support they needed in the coming years. In that connection, it should be noted that if an increase of only 50 percent was agreed, the next review of quotas should be in 1993 as prescribed by the Articles.

Mr. Filosa recalled that he had consistently supported a substantial increase in Fund quotas. Like Mr. Grosche and Mr. Landau, he considered that an increase of 50 percent was the minimum acceptable.

With respect to the trade-off between liquidity, borrowing, and access that such an increase would necessitate, the average liquidity ratio of 70 percent could be undershot by a limited amount, without creating

insurmountable problems, Mr. Filosa considered. He agreed with Mr. Grosche that the primary objective should be to eliminate Fund borrowing. Given the extreme variability of both liquidity and demand over time, the objective should be to eliminate borrowing completely over the period ahead, and decisions on preserving Fund liquidity and members' access would need to be taken in the light of prevailing circumstances.

Mr. Fernando commented that it was crucial to endow the Fund with sufficient resources to give members confidence in its ability to play an effective and comprehensive role in the world economy. The recent developments in Eastern Europe and the possibility of additional countries entering into the Fund needed to be taken into consideration in determining the appropriate size of the Fund. For that reason, his chair continued to support a substantial increase in the size of the Fund of up to SDR 150 billion.

In the event that such an increase could not be agreed, a flexible stance should be taken with respect to Fund borrowing, Mr. Fernando said. In that connection, he wondered whether it would be in keeping with the Interim Committee's directive on borrowing to contain borrowing to the ratio prevailing at the time the directive was issued.

He agreed with other speakers that the timing of the next quota review was connected to the size of the increase agreed under the Ninth Review, Mr. Fernando concluded. However, the distribution of the increase was also connected to the timing of the next review.

Mr. Ismael recalled that, with the understanding that the Tenth Review would be completed before March 31, 1993, his chair had demonstrated its willingness to move from insisting on a doubling of present quotas to accept an increase of 67 percent. The possibility of delaying the next review of quotas until 1995 made it imperative to increase quotas by at least 67 percent.

In the event that a majority of Directors were in favor of both limiting the quota increase under the Ninth Review to 50 percent and delaying the next review until 1995, he wondered whether it would be legally feasible for the Board of Governors to approve, at the same time, a 50 percent increase in quotas under the Ninth Review that would come into effect by end-1991 and a 12 percent increase under the Tenth Review that would automatically become effective by end-1993, Mr. Ismael said. In that way, it would be possible to increase present quotas by two thirds--up to SDR 135 billion--and the Eleventh Review could be completed by end-1995. In order to save time, the existing formulas could be used to calculate quotas for both the Ninth and Tenth Reviews.

Mr. Prader stated that his authorities continued to favor a substantial quota increase. A 50 percent increase was clearly not sufficient. In that

respect, a compromise on the future size of the Fund would depend on a satisfactory outcome on other important variables, such as access, liquidity, borrowing, and the timing of the next quota review. In that connection, it was absolutely essential for the Fund to maintain a prudent liquidity ratio. In the event that a choice had to be made between borrowing and access, like Mr. Grosche, he would prefer to reduce access limits.

Mr. Santos recalled that his authorities had consistently supported a substantial increase under the Ninth Review on the order of a doubling of present quotas. In that connection, it was difficult not to link the issues concerning the size of the increase and the timing of the next review. In the event that Directors agreed to delay the next quota review of quotas until March 31, 1995; he would support an increase in present quotas of not less than 67 percent under the Ninth Review.

Mr. Ghasimi said that he continued to support a substantial increase on the order of 67-80 percent of present quotas. In that connection, his chair attached a great deal of importance to maintaining the size of the Fund relative to that of the world economy, to keeping the Fund a quota-based institution, to strengthening the role of the Fund in the international monetary system, and to accommodating the needs of the Fund's membership.

Mr. Kafka commented that the continued shrinkage of the Fund's size in relation to the world economy should not be taken lightly--neither should the possible reduction of members' access to the Fund. At the present stage, Directors were considering members' access in nominal rather than real terms, and there was a considerable difference, given recent developments with respect to prevailing rates of inflation. It was misleading to indicate that the Fund could remain effective if its size diminished. However, in the event that choices had to be made between the various objectives related to the Ninth Review, he would prefer to maintain maximum nominal access even at the expense of continued borrowing.

Mr. Feldman said that he agreed with Mr. Kafka. His authorities continued to favor a substantial increase in quotas of not less than 67 percent. Taking into account all of the issues related to the Ninth Review, his authorities remained concerned about members' future access to the Fund's resources. Therefore, they would prefer to gradually phase out borrowing in order to maintain members' maximum nominal access at the existing level.

Mr. Clark remarked that, following the many lengthy discussions on the Ninth Review, involving the issues of liquidity, borrowing, and access, his authorities continued to favor a 67 percent increase in present quotas. Nevertheless, in the spirit of compromise, they would be willing to agree to a minimum increase of 50 percent.

Mr. Dai said that, although a doubling of present quotas was warranted, he could go along with a smaller increase in order to facilitate a consensus. However, if the timing of the next review of quotas was extended until 1995, a minimum increase of 67 percent would be appropriate.

Mr. Yamazaki commented that on previous occasions he had supported a substantial increase in quotas in order to equip the Fund with adequate resources to face the challenges of the early 1990s. Nevertheless, in a spirit of compromise, he could agree to an overall increase of 50 percent of present quotas. However, it should be noted that the next review of quotas could be accelerated if necessary.

Mr. Kwon recalled that, as his chair had indicated on previous occasions, it could support an increase in quotas on the order of 50-67 percent. Therefore, he could agree to any increase within that range, provided satisfactory agreements were reached on the other issues related to the Ninth Review.

His authorities considered that a more flexible stance should be taken with respect to the level of Fund borrowing and liquidity, although prudence should always be used in handling the Fund's operations, Mr. Kwon stated. The position of his Australian authorities was similar to that of the U.S. chair with respect to future access limits, namely, they favored the preservation of absolute access for all members as a transitional arrangement.

Mrs. Filardo remarked that, while the consensus among Directors seemed to be for a 50 percent increase in present quotas, she considered that increase too conservative, in particular if the interval before the next review of quotas was to be extended. In that event, the quota increase should be 67 percent. In addition, there was a need to continue Fund borrowing, because members' access should not be sacrificed. If burden sharing was extended, borrowing from the Fund would be very costly--indeed more so than other sources of finance. Therefore, continued borrowing should be combined with the use of quota-based resources in order to minimize the cost of Fund financing.

Mr. Finaish said that he had not received instructions from his authorities on the Managing Director's opening statement. Nevertheless, he continued to favor a 67 percent increase in the size of the Fund. However, in order to facilitate a consensus, he could agree to a 50 percent increase, provided that the next review of quotas would be completed not later than March 31, 1993.

The Committee members then took up the issue of the timing of the next review of quotas.

Mr. Fernando noted that the issue of when the next review of quotas would take place involved a choice between continuing the Tenth Review

beyond the March 31, 1993 deadline or completing the Tenth Review at the same time as the Ninth Review with a view to completing the Eleventh Review before March 31, 1995. In either event, the primary consideration should be the need to ensure that the Fund was sufficiently endowed to fulfil its role in the international monetary system over the coming five-or six-year period.

It should be noted that any postponement of the next review of quotas would maintain the distribution of shares among members and among groups of members unchanged for an extended period, Mr. Fernando commented. In that connection, he wondered how and when the Fund could meet its commitment to review the existing formulas used to calculate quotas.

Mr. Monyake stated that, as Directors did not seem to want to consider the proposal put forward by Mr. Ismael to combine the Ninth and Tenth Reviews with an additional quota increase coming automatically into effect in 1993, it should be noted that the quota increase of 50 percent represented a compromise on the part of all Directors. If an increase of that magnitude was agreed, there would be no alternative but to review quotas again before March 31, 1993, as specified by the Articles.

In response to questions raised by Mr. Posthumus and Mr. Landau, the Deputy General Counsel made the following statement:

The four approaches that can be taken with respect to the timing of the Tenth Review were outlined in the Managing Director's opening statement.

The first approach contemplates a completion of the Tenth Review by March 31, 1993, that is, five years from the end of the ninth review period. No decision regarding the timing of the Tenth Review would be needed. Since the tenth review period started on April 1, 1988, the Board of Governors will have to conduct the Tenth Review not later than March 31, 1993. One year before the end of that period, the Executive Board will have to appoint a Committee of the Whole to undertake the work on the Tenth Review and the Executive Board would need to present appropriate recommendations to the Board of Governors.

The second and third approaches contemplate a continuation of the review process under the Tenth Review beyond March 31, 1993.

As explained by the staff during Committee of the Whole on Review of Quotas Meeting 90/3 (1/8/90), the Board of Governors has not always found it possible to complete a review within the prescribed maximum period and has, in these cases, decided to continue its review.

As in the case of the Ninth Review, a continuation of the review process under the Tenth Review beyond the maximum period, i.e., March 31, 1993, would be possible, if, in the judgment of the Board of Governors, more time was needed to complete that review process. As in previous cases, the decision to continue the work on the review could be taken close to the end of the period. However, the Board of Governors could also exercise that judgment earlier in light of considerations that would make it seem unlikely that the required determination on the appropriateness of quotas could be made within the prescribed period. The size of the increase in quotas under the preceding review and the late completion of the previous review could be taken into account in the judgment as to whether a completion by March 31, 1993 would seem possible. In any case, the Board of Governors could always reconsider its decision later and decide to accelerate the review process in order to reach a conclusion before the expected date.

The continuation beyond March 31, 1993 would be part of the Tenth Review. The eleventh review period would start on April 1, 1993. A Committee of the Whole for the Tenth Review would have to be appointed one year before March 31, 1993, in accordance with Rule D-3.

Under the fourth approach, the Ninth and Tenth Reviews would be completed at the same time. As explained by the staff during Committee of the Whole on Review of Quotas Meeting 90/10, the five-year period is a maximum period, and the Board of Governors can conduct a general review at intervals shorter than five years. The decision on the completion of the Tenth Review could be taken at the same time as the decision on the completion of the Ninth Review. A single quota increase covering both the Ninth and Tenth Reviews could be proposed which could be attributed to the Ninth Review. These decisions could be combined in one resolution.

Alternatively, it could be decided to complete the Ninth and Tenth Reviews at the same time, but to propose separate quota increases for the Ninth and the Tenth Reviews. In that case, quotas would enter into effect successively, leading to a further increase of quotas after the increase under the Ninth Review.

Under either alternative, a new five-year period would begin upon the early completion of the Tenth Review.

Mr. Grosche said that, in a spirit of compromise, he could agree to extend the interval before the next review of quotas beyond March 31, 1993. However, such an extension would clearly support the case for a quota increase of more than 50 percent.

With respect to procedures that had been proposed to effect such an extension, he favored the fourth approach described by the staff, namely to conclude the Ninth and Tenth Reviews together, Mr. Grosche commented. It would be extremely awkward to have an immediate decision by the Board of Governors stating that they were unable to complete the work on the Tenth Review by March 31, 1993, which would be misconstruing the provisions of the Articles. In addition, the fourth approach could accommodate Mr. Ismael's proposal to have a two-step quota increase if that proposal received the necessary broad support. In connection with Mr. Ismael's proposal, the second increase in quota, which would come automatically into effect by end-1993, would have to be distributed entirely on an equiproportional basis in order to avoid issues concerning the ranking of members within the Fund. Such issues should appropriately be taken up in connection with the Eleventh Review, which would be very thorough.

Mr. Dawson remarked that he continued to consider that the next review of quotas should be concluded five years from the completion of the Ninth Review, but not later than March 31, 1995. As the Deputy General Counsel had noted, a general review of quotas could be initiated at an earlier date if the need arose.

He was not convinced that the Articles required that the next review of quotas be completed by March 31, 1993, Mr. Dawson stated. If other Directors insisted that such a review be completed in that time frame, his chair would need to scale down the size of the quota increase it would be willing to support under the Ninth Review. The purpose of the quota increase was to ensure that the Fund had adequate resources for the five-year period 1990-95. If a shorter period was to be considered, there would be a need to reduce the amount of funds needed.

Mr. Kwon noted that there was obviously a connection between the size of the increase agreed and the timing of the next quota review. However, the timing of quota reviews also had important implications for the speed with which members' actual quotas would be adjusted to correspond with their relative positions in the world economy. Therefore, in the absence of a satisfactory agreement on an ad hoc quota increase for Korea, his chair could not support any delay in the conclusion of the Tenth Review beyond March 31, 1993.

Mr. Al-Jasser suggested that the Ninth Review could be concluded as scheduled, and the Committee of the Whole for the Tenth Review could be convened in March 1992 to evaluate the financial position of the Fund. At that time, Directors would be in a better position to assess the demand for Fund resources in the light of developments in the world economy and the progress made in the strengthened arrears strategy. The coming two years were expected to be the most critical in terms of the Fund's efforts to meet the demand of both its current and prospective members. Therefore, in 1992, the Board would be in a position to make an informed decision on whether or

not it would be appropriate to recommend to the Board of Governors a decision to postpone the conclusion of the Tenth Review.

Mr. Monyake said that, with respect to Mr. Dawson's intervention, it should be noted that a review of quotas did not automatically lead to an increase in quotas. On the contrary, it merely referred to an evaluation of the prevailing situation in the world economy and the adequacy of Fund resources. Therefore, there was no reason to deviate from the provisions of the Articles on the timing of quota reviews, in particular given the small increase that was likely to be agreed under the Ninth Review. He agreed with Mr. Al-Jasser that the Board would be in a better position in 1992 to decide whether or not a further increase in Fund quotas was needed.

Mr. Fogelholm asked whether Mr. Dawson would object to the proposal to combine the Ninth and Tenth Reviews.

Mr. Dawson replied that the purpose of quota reviews was to provide an amount of resources to the Fund that would be adequate to cover a five-year period. His authorities considered that a quota increase of 50 percent was clearly adequate to cover the period until 1995. In that connection, it should be borne in mind that the Fund could undertake a review of quotas earlier if a need for additional resources arose.

He also considered that the timing of the Tenth Review could be set in a fairly straightforward fashion, despite the concern expressed by other Directors about the possible legal implications arising from the method envisaged by his chair, Mr. Dawson remarked. Nevertheless, the various approaches that had been proposed concerning the scheduling of the next review of quotas, such as the proposal to conclude the Ninth and Tenth Reviews simultaneously, were merely more complicated methods to achieve the same result.

Mr. Landau said that, like Mr. Grosche, he might be willing to extend the interval before the next review of quotas beyond March 31, 1993 in a spirit of compromise. In that connection, however, it should be noted that the timing of the next review was related to the data period that should be used in calculating quotas. A postponement of the next quota review until 1995 would strengthen the case for using more recent data in the context of the Ninth Review.

While Mr. Ismael's proposal clearly merited further consideration, Mr. Landau concluded, his position was flexible with respect to the methodology and data period that should be used in distributing the quota increase that would automatically come into effect in 1993.

Mr. Dai stated that his position was similar to that expressed by Mr. Al-Jasser. Aside from his general preference to maintain the original timetable for reviews of quotas, it would be more appropriate to assess

the adequacy of quotas and the demand for Fund resources again in 1992, in particular given the current differences of view among Directors on those matters. If developments in the world economy demonstrated that the size of the Fund was adequate at that time, there would be no need for a further quota increase.

Mrs. Filardo commented that the objective of any quota review should be to protect the financial position of the Fund and to ensure that it could continue to fulfill its responsibilities in the international monetary system. If, at the time of the Tenth Review, developments in the world economy pointed to a need to replenish the Fund's resources, she was certain the U.S. chair would be willing to agree to a further quota increase. Therefore, the preference of her authorities would be to review quotas again in March 1993, especially in the light of the small quota increase that was likely to be agreed under the Ninth Review. In that connection, the proposal put forward by Mr. Ismael could be considered as an alternative.

Mr. Ghasimi noted that a postponement of the next review of quotas would have two important implications. First, a longer interval before the next review would point to the need for a larger increase in quotas under the current review. Second, a longer interval would maintain unchanged the disparities that existed between members' actual quota shares and their shares in calculated quotas. Therefore, like Mr. Kwon, he would have great difficulty accepting an extension of the interval before the next review of quotas in the absence of a satisfactory agreement on the Iranian request for an ad hoc quota increase.

Mr. Clark stated that he was prepared to agree to postpone the next review of quotas beyond March 31, 1990. In that connection, it should be noted that the Fund could review the adequacy of quotas any time the need for such a review became apparent. There was a fair amount of room for flexibility in deciding on a particular timetable.

Mr. Fogelholm remarked that his chair would prefer to follow not only the wording, but also the meaning, of the Articles with respect to the timing of quota reviews. While he agreed with Mr. Grosche and other speakers that Mr. Ismael's proposal to combine the Ninth and Tenth reviews with a two-step increase merited further consideration, he was not sure there would be a need to distribute the second increase in quotas entirely on an equiproportional basis. Indeed, there was no obvious need to deviate from the principle that quota increases should aim to properly reflect members' relative positions in the world economy.

Mr. Posthumus noted that the position taken by Mr. Clark, Mr. Yamazaki, and other speakers that there was room for flexibility in determining the precise timing of quota reviews, was based on the assumption that the U.S. chair would agree to convene a Committee of the Whole to review quotas

before 1995, should developments in the world economy point to a need for a further quota increase. He was not sure the U.S. chair would be flexible in that respect. Indeed, the U.S. authorities had already delayed the conclusion of the Ninth Review by two years.

His original proposal, which was described by the staff as the fourth alternative, had indicated that in the context of at least a 67 percent increase in quotas, the Ninth and Tenth Reviews could be concluded at the same time, thereby extending the interval before the next review until 1995, Mr. Posthumus stated. Since it was clear from the current discussion that the U.S. chair was not willing to agree to a quota increase of more than 50 percent, he would prefer to maintain the original timetable for quota reviews provided for in the Articles.

Mr. Cassell said that the provisions of the Articles were not intended to be as restrictive as the staff had implied. The intention of the Articles seemed to be that the adequacy of quotas should be reviewed every five years. Since the work on the Ninth Review was still under way, there was no legal reason for another review of quotas before 1995. Therefore, he could support the proposal to postpone the completion of the Tenth Review until March 31, 1995, with the understanding that the Tenth Review could be completed earlier if the need for a further quota increase became apparent before then.

Mr. Dawson remarked that the current difference of view concerning the interpretation of the Articles had arisen owing to an inability of the Board to reach an agreement on the adequacy of quotas in 1988. In retrospect, it might have been better to agree at the outset that there would be no increase in quotas under the Ninth Review.

Mr. Grosche asked whether Mr. Cassell and Mr. Dawson meant to imply that quota review periods could be longer than five years, provided a review began before the end of the five-year period. His understanding of the Articles was quite different.

The Deputy General Counsel noted that if the period for the next quota review was to end five years from the date of the completion of the current review, the period for the Ninth Review--contrary to the provisions of the Articles--would have been seven years. The work on the Ninth Review had been continued with the understanding that a late completion of the review would be within the five-year review period and the assessment of the adequacy of quotas would be made for the review period ended on March 31, 1988. Indeed the period of the Tenth Review had begun on that date. Under the Articles, the Board of Governors was required as part of the review of quotas to express a view on their appropriateness.

Mr. Dawson remarked that he differed with the staff's interpretation of the Articles. The Articles called on the Board of Governors to conduct a

review of quotas; there was no provision requiring a completion of reviews. The Fund clearly could conduct reviews of quotas at intervals of less than five years. In fact, it had done so in the past. Therefore, common sense would indicate that the Fund could also complete quota reviews at intervals of more than five years, provided they were conducted within the specified period.

Mr. Landau commented that while common sense was useful, it could be misleading in legal matters, and, on that basis, there could be as many interpretations of the Articles as there were Directors. Therefore, he would prefer to accept the legal advice of the staff.

Nevertheless, Mr. Dawson was correct to point out that, in retrospect, it would have been more appropriate for the Board to have concluded the Ninth Review on March 31, 1988, without an increase in quotas, Mr. Landau considered. For that reason, he supported the fourth alternative described by the staff, namely to conclude the Ninth and Tenth Reviews together, in order to avoid a similar situation arising in connection with future quota reviews.

Mr. Posthumus stated that the provisions of the Articles offered protection for the membership, so that the timing of quota reviews--and the size of quota increases--would not be left to the discretion of the shareholder that had a veto power, which seemed to be the direction in which the Fund was headed. Therefore, the interpretation of the Articles should be left to the legal counsel, not to individual Directors. If an agreement could not be reached on the meaning or intent of the relevant Articles, the Committee on Interpretation of the Articles should be convened to resolve the issue.

Mr. Filosa said that he did not believe it was the intention of the Articles to leave quota review periods open ended. Nevertheless, like other speakers, he could agree to the proposal to consider postponing the conclusion of the next review beyond March 31, 1993. However, given the uncertainties such a postponement would imply with respect to liquidity, borrowing, and access, it would be necessary to preserve the Fund's ability to conduct the next review before 1995. Based on those considerations, the fourth alternative described by the staff was most appropriate, because it would give explicit recognition to the fact that quota review periods were not open ended.

Mr. Al-Jasser suggested that it might be appropriate to have the Committee on Interpretation consider the important questions that had arisen during the current discussion or for the Legal Department to hold bilateral discussions with individual Directors and report to the Board on the results. Otherwise, it would be extremely difficult and time consuming to reach an agreement on the issues concerning the timing of quota reviews.

Mr. Grosche said that a clear interpretation of the Articles was needed, and he supported Mr. Al-Jasser's suggestion to ask the Committee on Interpretation to resolve the questions that had arisen with respect to the timing of quota reviews.

Mr. Kafka stated that he strongly supported the views expressed by Mr. Al-Jasser and Mr. Grosche. It was obvious that the Fund needed clear guidelines in order to operate effectively. However, unlike some other speakers, he did not consider that the timing of the next quota review was a critical matter, and his position on that issue was flexible within the limits of a legally defensible interpretation of the Articles. In any event, the effects of an extended interval before the next quota review would need to be offset by continued Fund borrowing.

Mr. Othman said that his preference would be to complete the Tenth Review not later than March 31, 1993 as specified by the Articles. Alternatively, he agreed with the observations Mr. Fogelholm had made about Mr. Ismael's proposal.

Mr. Prader stated that he agreed with Mr. Posthumus that the experience of the current quota review did not support the position taken by Mr. Clark and other Directors on the timing of the next review of quotas. Mr. Posthumus was correct to point out that there was a reason for the precise provisions on quota reviews included in the Articles, namely, to protect the interests of the membership as a whole. In that connection, he could not support any interpretation of the Articles that would leave quota review periods open ended.

In the circumstances, he would prefer to adhere to the strictly legalistic approach taken by the staff, Mr. Prader concluded. Alternatively, he could agree to the proposal put forward by Mr. Al-Jasser. While he agreed with other Directors that Mr. Ismael's proposal merited further consideration, he would not take a final position on the distribution of the second increase in quotas until a later stage in the Ninth Review.

Mr. Monyake noted that institutions like the Fund need laws to guide and regulate their operations. Even if such laws seemed constraining at times, they had to be followed. Therefore, he would prefer to adhere to the provisions of the Articles with respect to the timing of the next review of quotas.

Following a further brief discussion, Committee members agreed to continue their consideration of the Managing Director's statement on the outstanding issues related to the Ninth General Review of Quotas in the afternoon.

APPROVED: March 27, 1991