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INTERNATIONAL MONETARY FUND

Committee of the Whole on Review of Quotas

Meeting 89/16

10:00 a.m., December 20, 1989

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

Executive Directors	Alternate Executive Directors
F. Cassell	C. Enoch
C. S. Clark	
Dai Q.	Zhang Z.
T. C. Dawson	C. S. Warner
	J. Prader
	S. M. Hassan, Temporary
E. A. Evans	S.-W. Kwon
	R. J. Lombardo
L. Filardo	
R. Filosa	
M. Finaish	A. M. Othman
M. Fogelholm	
M. R. Ghasimi	O. Kabbaj
G. Grosche	
J. E. Ismael	T. Sirivedhin
B. Jalan	L. E. N. Fernando
A. Kafka	L. M. Piantini
J.-P. Landau	J.-F. Cirelli
Mawakani Samba	C. V. Santos
	M. Al-Jasser
	G. P. J. Hogeweg
K. Yamazaki	

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

<u>Also Present</u>
Administration Department: G. F. Rea, Director. Asian Department: P. R. Narvekar, Director; E. J. Bell, J. S. Kahkonen. European Department: M. Guitián, Deputy Director. Exchange and Trade Relations Department: J. T. Boorman, Deputy Director; T. Leddy, Deputy Director; G. R. Kincaid, A. K. McGuirk, J. P. Pujol, M. Shadman-Valavi. External Relations Department: R. J. Bhatia, Director, Fund Office in the United Nations; E. Ray. Fiscal Affairs Department: V. Tanzi, Director; C. M. Towe. IMF Institute: O. B. Makalou. Legal Department: R. H. Munzberg, Deputy General Counsel; H. Elizalde. Research Department: J. A. Frenkel, Economic Counsellor and Director; P. Isard. Secretary's Department: J. W. Lang, Jr., Deputy Secretary; A. Tahari. Treasurer's Department: G. Laske, Treasurer; D. Williams, Deputy Treasurer; S. I. Fawzi, D. Gupta, O. Roncesvalles, G. Wittich. Western Hemisphere Department: S. T. Beza, Counsellor and Director. Office of the Managing Director: E. A. Milne. Personal Assistant to the Managing Director: H. G. O. Simpson. Advisors to Executive Directors: N. Adachi, M. B. Chatah, M. Eran, Z. Iqbal, J.-L. Menda, P. O. Montórfano, A. Napky, B. S. Newman, D. Powell, A. Raza, S. P. Shrestha. Assistants to Executive Directors: S. Appetiti, G. Bindley-Taylor, C. Björklund, B. A. Christiansen, J. Gold, S. Gurumurthi, M. Hepp, J. Heywood, L. Hubloue, K. Ichikawa, A. Iljas, C. J. Jarvis, M. E. F. Jones, C. Y. Legg, R. Marino, J. A. K. Munthali, S. Rouai, D. Saha, J.-P. Schoder, Shao Z., J. C. Westerweel.

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

Executive Directors, meeting as a Committee of the Whole, continued from their discussion at Committee of the Whole on Review of Quotas Meeting 89/15 (12/20/89) their consideration of the Managing Director's statement on the Ninth General Review of Quotas (Committee of the Whole on Review of Quotas Meeting 89/14, 12/8/89). They also had before them a staff paper on illustrative quota calculations for individual members (EB/CQuota/89/11, 12/6/89; and Sup. 1, 12/13/89).

Following an exchange of views by Executive Directors on the schedules of their Ministers during the forthcoming weeks, the Chairman noted that the consensus of the Board was to schedule a contingency Interim Committee meeting on January 25 and January 26, 1990, should such a meeting prove necessary to resolve the main outstanding issues related to the Ninth General Review of Quotas. Nevertheless, it was the strong desire of Directors as well as management to reach a consensus on those issues in the Executive Board in time to meet the agreed deadline for the conclusion of the Ninth Review, of March 31, 1990. Every effort would be made toward that end during the first week of January 1990, but if sufficient agreement was not reached by the end of that week, a decision would be taken on whether or not it would be necessary to convene a contingency meeting of the Interim Committee.

Mr. Yamazaki said that, since his authorities considered that further efforts toward reaching a consensus in the Board should be made prior to any discussion of a possible Interim Committee meeting, they objected to the proposed dates for such a meeting. In addition, his authorities felt strongly that the press should not be informed of either the contingency meeting or the dates that had been set for it.

Mr. Cassell made the following statement:

> The range of likely outcomes for the size of the overall increase in quotas under the Ninth Review is becoming clearer. My authorities continue to hold to the views that have been expressed on previous occasions with respect to the adequacy of Fund resources for meeting the challenges of the early 1990s. Nevertheless, they are prepared to move from their earlier position in order to facilitate the achievement of consensus in the Board.
>
> Assuming that a consensus is forming on the overall size of the quota increase, it is possible to start discussions on how that increase should be distributed. As Directors have noted on many previous occasions, the choice of distribution method is complicated by the divergent interests and preferences of

different members. In particular, the following objectives or constraints need to be taken into account: the preference for uniform distribution methods, as recently endorsed by the Interim Committee; the view that all members should enjoy a meaningful increase in quotas; the desire to maintain a broad balance between different groups of countries; and the concern of several countries, including a number of major industrial countries, that their ranking in the Fund should be improved or maintained.

On previous occasions, I have expressed my authorities' clear preference for the use of uniform distribution formulas to promote a gradual and nondiscriminatory convergence of members' actual quota shares toward their calculated quota shares. In addition, as I indicated during Committee of the Whole on Review of Quotas Meeting 89/11 (11/2/89), my authorities are prepared to support a small number of ad hoc increases for those members whose current quota shares are substantially below their calculated quota shares. Several Directors, while agreeing in principle to this two-tiered approach, have suggested that it might have the effect of reducing--to an unacceptable extent--the combined quota share of the developing countries. This concern has given rise to the suggestion that any ad hoc increase for Japan should be "paid for" not by the membership as a whole--according to uniform methods--but by a subset of members, such as the group of industrial countries.

Thus, if a consensus is to be achieved on how the agreed quota increase is to be distributed, two central issues must be addressed: the general distribution method that would best meet the diverse aspirations of the membership as a whole, and the method that should be used to accommodate the ad hoc increases agreed for particular members, bearing in mind the desirability of avoiding any significant disruption to the broad quota distribution established under the agreed general method of distribution.

As far as the first of these issues is concerned, the Managing Director noted in his statement on December 4, 1989 that in recent discussions a consensus had begun to emerge on the broad parameters of the appropriate general distribution method. Specifically, there is broad agreement among Directors that to safeguard the position of the developing countries, the distribution method should include a substantial equiproportional element. Moreover, there is broad agreement that the remainder of the quota increase should be distributed largely according to Method A, with perhaps a relatively small element being distributed according to Method B to effect some additional adjustment of the quotas of the

39 members with calculated quota shares in excess of their current shares. My authorities strongly support a general distribution method along these lines.

With respect to the second issue, as this chair has stressed during previous discussions, my authorities strongly prefer the use of uniform techniques. In the context of ad hoc increases, this would imply that such increases would be paid for by the membership as a whole in proportion to their existing or new quota shares. However, my authorities also recognize that unless the current divergence of views on distribution methods can be narrowed, the conclusion of the Ninth Review may again be delayed, which should be avoided.

Therefore, my authorities would be willing, on this occasion and without prejudice to the future, to bear the full cost of the developing countries' share in accommodating an ad hoc increase sufficient to take Japan to second place in the Fund. Thus, the United Kingdom is prepared to compensate the extent to which a substantial ad hoc quota increase for Japan--within the agreed overall increase--would reduce developing countries' quotas by "giving up" an equivalent amount of its own quota increase.

In practical terms, the effect of this proposal would be to ensure that no developing country would face a lower quota, or quota share, as a result of an ad hoc increase for Japan. In other words, the United Kingdom would pay for roughly half of Japan's ad hoc increase, with the remainder being accommodated by the other industrial countries in proportion to their shares in quotas.

The preliminary calculations of this chair suggest that if this proposal were combined with a general uniform technique broadly in line with that suggested by the Managing Director, the result would be as follows: Japan would move to second place in the Fund; Germany would remain in third place; the United Kingdom would fall to fourth position, with a reduction in quota share of roughly 0.75 percent; and the combined share of the developing countries would fall by less than 1 percentage point, and less still if ad hoc increases were given to one or more developing countries.

My authorities hope that this proposal will prove acceptable to the membership as a whole and will facilitate a rapid conclusion to the Ninth Review.

Extending his remarks, Mr. Cassell said that although his authorities held the view that it would be difficult to take a final position on the questions concerning the distribution of the quota increase until the size of that increase was known, they had put forward their proposal as a constructive means to help resolve at least one of the outstanding issues related to the Ninth Review. Since his authorities were willing to be flexible in their position on the size of the overall increase, he would wait to comment on that issue until later in the discussion.

Mr. Landau made the following statement:

I have expressed the views of this chair on several previous occasions. My authorities continue to consider that a sizable increase in the Fund is necessary to enable it to face the challenges of the future without weakening its financial structure and without making undue recourse to borrowing. My authorities consider that this would warrant an increase in the size of the Fund of at least 67 percent, and they take comfort in the fact that 70 percent of the voting power within the Fund supports such an increase.

However, to be realistic, account must be taken of the constraints imposed by the opinions of some parts of the membership. Furthermore, nothing could be worse than inaction and a more prolonged delay in deciding the size of the quota increase. Too much uncertainty has already been cast into the review process. For this reason, my authorities would be prepared, provided that other related issues--such as the distribution of the quota increase and the future ranking of members--are resolved in a satisfactory manner, to consider an increase of at least 51 percent as the minimum acceptable. Indeed, such an increase would yield an inflow of usable resources that would be only roughly equivalent to the net projected increase in Fund credit, namely, SDR 27 billion.

It should be noted that even that situation would not be totally satisfactory: the Fund would have to borrow SDR 15 billion--four times the amount of its current borrowing--to preserve its liquidity ratio of 70 percent. In fact, borrowing might even be greater if, as expected, early disbursements of Fund resources are necessary in the coming years and at the same time the period of consent delays the effective subscription of new quotas. As I have stated on previous occasions, given a small increase in present quotas, the Fund will face the dilemma of having to choose between increasing its borrowing or weakening its liquidity position. The Fund probably could not manage if an increase of less than 50 percent was agreed.

With respect to the question of access limits, the following considerations must be taken into account: the directive of the Interim Committee stating that the distribution should be made on the basis of uniform methods; the clear indication of some members that changes should be effected in their ranking so as to reflect more faithfully their positions and roles in the world economy; the desire of other countries--including my own--that the quota increase must not lead to adverse changes in the ranking of members that would cause their positions in the world economy to be underestimated; and the agreement among Directors that at least 60 percent of the quota increase should be allocated on an equiproportional basis.

Since it is, of course, very difficult--but not impossible--to accommodate all these concerns simultaneously, some basic principles should be followed in distributing the overall increase in quotas. First, as I have indicated on previous occasions, my authorities would be prepared to reconsider their position in favor of a larger equiproportional element, with the balance allocated according to Method A or a combination of Method A and Method B, provided that the above-mentioned conditions are met. Second, in considering requests for ad hoc increases, it should be borne in mind that some countries could get increases of either greater or smaller magnitude than those to which they would have been entitled according to a uniform method of distribution. This would provide for the necessary flexibility inside the general framework of distribution.

In the light of these basic principles, my authorities would be prepared to consider the allocation of ad hoc increases in accordance with the following guidelines, which would, of course, be applicable only to the current quota review. First, increases that would benefit Japan should be borne only by the G-7 countries, so that the total share of these countries would stand unaffected. The situation of Korea could also be taken into account by those countries. Second, to the greatest extent possible, ranking must be a reflection of relative economic positions in the world economy. In particular, those countries that have quotas very close to their calculated quotas should not be allowed to have a different ranking. Third, quotas calculated on the basis of the period of data ended in 1986 should be taken into consideration in the final decision on the Ninth Review.

The current discussion could provide an opportunity to reach a definite agreement on the position of members with very small quotas. As I indicated during Committee of the Whole on Review of Quotas Meeting 89/11 (11/3/89), I support the solution adopted for the Eighth Review, namely, to round up the quota shares of those countries to the nearest multiple of SDR 0.5 billion. Before I read Mr. Evans's statement on the members with very small quotas, I was prepared to support the position expressed by the Managing Director in his opening statement for Committee of the Whole on Review of Quotas Meeting 89/11 (11/3/89) concerning the situation of members whose shares in calculated quotas are larger than their shares in present quotas. However, I have no objection to the proposal put forward by Mr. Evans, even though some overshooting would occur, given the small portion of the quota increase at stake.

Linking overdue financial obligations to the Fund to the consideration of the Ninth Review, it should be emphasized that the issue of arrears is a very important matter that could endanger the credibility of the Fund if not resolved. However, the current intensified cooperative approach to the arrears problem has achieved positive results and it is the best approach currently available; therefore, it should not be undermined. Moreover, some encouraging steps have recently been obtained through that strategy, in particular with Peru. While more imaginative solutions could be envisaged, most of them would involve major decisions or changing the Articles, which would require a majority vote of 85 percent. On the surface, this consideration, together with the political constraints faced by some members, may seem to make a good case for reaching a decision on the arrears strategy in the context of the quota review. However, it should be borne in mind that the drawback of such an approach may be to further complicate the quota review, owing to the artificial link between issues. Therefore, the position of my authorities remains flexible with respect to this question, and they reserve their final position until the considerations involved can be further examined.

Mr. Dawson made the following statement:

The recent U.S. decision to support an increase in Fund quotas has triggered an intensive review by my authorities of the wide range of issues related to an increase in Fund resources. They have made considerable progress in developing the U.S. position, based on the discussions of the Executive Board and other bodies as well as in their consultations within the executive and legislative branches of the U.S. Government. I would like to clarify the current position of this chair in order to help narrow differences of view among Directors and facilitate agreement on a package of measures that could be presented to the Board of Governors on the Ninth General Review of Quotas. However, it should be stressed that the key issues involved in the Ninth Review are interrelated, and thus final decisions on each issue will have to be based on an assessment of all the other related issues.

The U.S. decision to support a quota increase reflects its firm conviction that the Fund must continue to play a central role in the world economy, in particular in supporting the strengthened debt strategy and in facilitating reform in Poland and Hungary toward a market-oriented economic system. At the same time, however, my authorities continue to consider that the effectiveness of the Fund rests on its role as a monetary institution, addressing temporary balance of payments problems through its support for and encouragement of sound economic policies. While the Fund must have adequate resources to fulfill this responsibility, it must remain a short- to medium-term lender, rather than a continuous source of financing.

As Directors will recall, my authorities consider that a 35 percent increase in quotas would provide the Fund with adequate additional resources to substantially expand its lending during the 1990s, while preserving sufficient resources to protect the liquidity of reserve claims on the Fund and reduce reliance on borrowing. They recognize, however, that reasonable people may differ with respect to the appropriate amount of Fund lending, liquidity, and borrowing. Consequently, the United States has indicated a willingness to consider a quota increase in the range of 35 percent to 40 percent, and it might be prepared to go along with a slightly larger increase in quotas, if the right conditions are met. In particular, U.S. willingness to go along with an increase of more than 35 percent would depend on the outcome of the discussions on access to Fund resources, the method of distribution to be used in connection with the Ninth Review, the period of consent and participation requirements for the quota increase, the timing of the Tenth Review, and measures to strengthen the arrears strategy. If these issues are resolved satisfactorily, this chair would be prepared to go along with an increase in the size of the Fund of about 45 percent.

With respect to the distribution of the overall increase, we continue to believe that the distribution technique agreed should contribute to a strengthening of Fund liquidity. As I noted during Committee of the Whole on Review of Quotas Meeting 89/14 (12/8/89), various uniform methods of distributing the overall increase can achieve similar results. We would be prepared to agree to use the same method as in the Eighth Review--Method A--

provided that the apportionment between the equiproportional and selective elements would result in an adjustment coefficient approaching that achieved in the Eighth Review. Other approaches could be considered.

My authorities continue to consider that the enlarged access policy should be phased down, consistent with the long-standing agreement that it is a temporary arrangement. We are mindful, however, that many members continue to face difficult balance of payments problems and require continued Fund support for their adjustment efforts. Therefore, the United States would be prepared to support a gradual approach to phasing down enlarged access. In this context, we would be prepared to maintain maximum absolute access at the current level rather than adjust it to the self-financing ratio.

It is clear from consultations with members of U.S. Congress that legislative consideration of the quota increase in the United States will be intensive and prolonged. A wide range of issues is likely to be considered, including, for example, the role of the Fund in the world economy, in particular as it relates to the strengthened debt strategy and events in Eastern Europe; the effectiveness of Fund efforts to promote growth-oriented adjustment and market-related reforms; and the need for a quota increase in light of competing demands at a time of tight budget constraints. Moreover, given that a final decision on quotas will not be taken until after the 1991 budget is submitted, there may be a need to include authorization and appropriations for the U.S. quota increase in the fiscal 1992 budget. In these circumstances, the period of consent for the quota increase will need to be set toward the upper end of the historical range, i.e., end-1991. The United States would, of course, hope to complete its legislative requirements at an earlier date, and my authorities consider that the quota resolution should provide for this possibility.

With the completion of the Ninth Review of Quotas in sight, some questions have been raised concerning the timing of the next review. A preliminary discussion of this issue arose in 1988 when the Board of Governors resolved to continue the current review. I understand that there was some difference of view at that time. Therefore, it should be made clear that my authorities hold the view that the Tenth Review should be concluded five years from the Board of Governors resolution concluding the Ninth Review--March 31, 1995.

As Directors will recall, my authorities consider that the Fund's current strategy on arrears needs to be strengthened and that a settlement of the arrears question must be part of any decision on quotas. We recognize that the current approach has made some progress, and recent indications that some countries with protracted arrears may be willing to take measures that could help normalize their relations with the Fund are welcome. However, we are concerned that the current approach does not provide adequate assurance that new cases involving overdue financial obligations to the Fund will be prevented, that the Fund's financial position will be strengthened sufficiently and in an equitable manner, and that effective arrangements are in place to facilitate repayment of overdue obligations. My authorities consider that a comprehensive approach to strengthening the current strategy requires action in the following areas:

- Prolonged use of Fund resources is inconsistent with revolving temporary character of those resources and it facilitates the emergence of new arrears cases. Thus, action is needed to prevent prolonged use of Fund resources.

- Remedial measures need to be intensified in order to assure that the members that are not cooperating with the Fund in meeting their obligations will lose the privileges of membership.

- There is a clear need for more effective collaboration between the Fund and the World Bank on arrears.

- Recent difficulties in implementing support groups in cases involving relatively small amounts of overdue obligations suggest that a new approach is needed that would provide greater incentives for such members to implement corrective policies while sharing the financing consequences among a wider range of participants; and

- The Fund's financial position needs to be strengthened and its ability to deal with the effect of arrears on income and liquidity needs to be enhanced.

My authorities are developing specific proposals on each of these issues to be presented to the Executive Board in early January 1990. We consider that those proposals will represent a balanced package that will help to achieve fundamental progress in resolving this difficult problem in a fair and equitable manner.

Mr. Fogelholm asked whether Mr. Dawson could elaborate on the points he had made about access. In particular, he wondered how the current level of absolute access could be maintained in nominal terms given such a small increase in quotas, without further reliance on borrowing.

Mr. Dawson responded that his authorities would be prepared to maintain maximum access limits in nominal terms, rather than adjusting those limits downward in line with the self-financing ratio, as recommended in the Managing Director's statement. Clearly the maintenance of current access limits would imply a continued tolerance for some degree of Fund borrowing. However, it would still be possible to reduce the Fund's reliance on borrowing.

The precise mechanism that could be used to maintain maximum absolute levels of access would arise again when the question of access was discussed, and the French chair planned to introduce a proposal for such a mechanism at that time, Mr. Dawson continued. Nevertheless, Directors would recall that at the time of the Eighth Review, a bracketing approach had been developed to safeguard the access limits of some members that otherwise would have lost some of their access to Fund resources. His chair would be willing to consider implementing a similar mechanism in connection with the current review.

Nevertheless, the focus of the current discussion was on the size of increase in quotas that might be needed, Mr. Dawson noted, and until more was known on that issue, it would be premature to take a definite position on future access limits.

Mr. Jalan said that he wondered whether the staff could comment on whether a quota increase of 45 percent, a reduction of borrowing, and the maintenance of maximum absolute access limits could be mutually consistent.

The Chairman commented that the U.S. authorities should consider the problems that could arise as a result of an agreement to increase quotas by only 45 percent for a five-year period. Indeed, the proposal put forward by Mr. Dawson did not represent movement toward consensus by the United States, because a 45 percent increase over five years was substantially less than a 35 percent increase over three years.

Mr. Dawson remarked that the U.S. chair had never accepted the proposal that the period for the Ninth Review should end March 31, 1993. Moreover, even with an increase in quotas of only 35 percent, it would be possible to reduce borrowing and maintain access, because the Fund's access limits were ceilings, not floors. The average amount of access used by members was actually much smaller than the current limits would imply.

The Chairman said that the U.S. chair had not taken a position favoring a three-year interval between the conclusion of quota reviews, because that was not a matter for decision by the Board. The five-year period for the Ninth Review--beginning March 31, 1988 and ending March 31, 1993--was specified by the Articles. Therefore, the proposal of the U.S. chair to extend that period to March 31, 1995 was unexpected.

Mr. Al-Jasser noted that the time had come to take final stock of all the relevant factors and considerations that had a bearing on the Ninth Review and to take a decision on the needed increase in quotas. His authorities had re-evaluated all of those factors and considerations, including the increased demands on the Fund that were possible in coming years, owing to certain developments in various parts of the world. In that connection, they were particularly concerned about the need to enhance the role of the Fund in helping members embark on structural adjustment programs. In addition, his authorities considered that the process of reaching an agreement on the increase in quotas had already been unduly delayed. Therefore, the need to reach a consensus on a realistic increase that would ensure the sufficient endowment of the Fund and satisfy the needs of its membership was urgent. In the light of those considerations, and, in the spirit of compromise, to reach a timely conclusion of the Ninth Review, his authorities were prepared to agree to an increase of up to 50 percent of present quotas, which should be sufficient to safeguard the future liquidity of the Fund.

Japan was an active economic power in the various forums for international financial cooperation, Mr. Al-Jasser stated. It deserved recognition for its role in the international system and encouragement to contribute further to the process of international cooperation. Therefore, Mr. Cassell's proposal that the United Kingdom was prepared to accept an ad hoc increase in Japan's quota share that would take Japan to second position in the Fund, and more significantly, that it was willing to bear the full cost of the developing countries' share in accommodating the necessary ad hoc increase was laudable. Indeed, that proposal epitomized the spirit of compromise that was so crucially needed at the present stage. He hoped that the example that had been set by the U.K. authorities could be emulated by the rest of the membership so that it would be possible to reach a timely conclusion of the Ninth Review, without an emergency meeting of the Interim Committee.

On the method of distribution, Mr. Al-Jasser stated that his chair preferred a substantial equiproportional element of 70 percent of the overall increase and a selective element of 30 percent to be distributed according to Method A, with, of course, the appropriate ad hoc provision.

Mr. Filosa made the following statement:

> During the past few weeks my authorities have reviewed the main issues outstanding in connection with the Ninth Review, in an attempt to find ways to reconcile, or at least narrow, the differences among Directors. This renewed attempt to come to a conclusion on the outstanding issues was called for by a number of considerations, including those concerning the dramatic changes that have taken place in Eastern Europe during the past few weeks, changes that are clearing the way for economic transformations of potentially vast relevance. The fact that the role of the Fund

will be central in bringing about these transformations makes the need to come to an agreement on the increase in quotas most compelling. My authorities have reconsidered a number of issues concerning the Ninth Review of Quotas in order to come to a position in the spirit of compromise.

We join a large number of members, representing more than 50 percent of the Fund's voting power, in supporting a doubling of quotas. As the Managing Director has suggested, an increase of this magnitude would better serve the purpose of reinforcing the role of the Fund as the central monetary institution by providing it with adequate resources to fulfill its systemic responsibilities in the early 1990s, while reducing its reliance on borrowing. Nevertheless, with a view to achieving a larger majority, we are prepared--not without hesitation--to substantially reduce the preferred amount of increase to go along with an increase of the order of two thirds, which has the support of 148 Fund members.

Unfortunately, even the latter position, which is supported by the overwhelming majority of members, appears to be out of reach for three member countries, one of which is the Fund's major shareholder. This situation presents a dilemma of having to choose between accepting the possible risks arising from a further reduction of the targeted quota increase or the even greater risk of not having an increase at all. Under the current circumstances and taking into consideration all the relevant elements, my authorities have modified their position, and they are prepared to support any quota increase of greater than 50 percent. However, my authorities came to this decision extremely reluctantly, in a spirit of constructive compromise, and on the condition that a satisfactory agreement would be reached on the other issues related to the quota review.

With respect to the specific method to be used in distributing quotas, the position of my authorities--as explained in detail during Committee of the Whole on Review of Quotas Meeting 89/14 (12/8/89)--is instrumental to achieving a significant restructuring of quotas. They continue to consider that a combination of Method A and Method B, applied to 39 countries, would better serve this purpose, and that a significant selective element should be included in the distribution, irrespective of the overall size of the increase. More specifically, on previous occasions, I have stated that we consider the adjustment coefficient reached during the Eighth Review to be an adequate target. However, again in a spirit of compromise, my authorities are willing to be more flexible with respect to both of these points, provided all of the other elements of an agreement on the quota increase are satisfactorily in place.

A very limited number of quota adjustments should be taken into consideration and carefully dealt with. The ad hoc increase for Japan, to allow it to move to second position in the Fund, which my authorities support, would raise a number of issues of interest to the membership at large, such as those concerning the magnitude of the increase that would be required and the distribution of the burden of that increase among the membership, as mentioned in Mr. Cassell's statement. At the same time, however, it would also raise other more specific issues, such as the modification of relative positions within the group of major shareholders. Realistically, an ad hoc increase for Japan would necessitate an agreement on the relative positions of the major shareholders, which should be reached among the members of that group.

We support the maintenance of members' absolute access to Fund resources at the current level.

Like other speakers, I recognize the relevance of the problem of overdue financial obligations to the Fund and the need to take any opportunity to make progress on this issue and strengthen the Fund's present arrears strategy. In particular, we are prepared to support the U.S. proposal calling for the arrears question to be included in the agreement on the quota increase. More specifically, as Mr. Landau said, there is scope for reviewing the prolonged use of Fund resources, for strengthening the support group strategy, and for increasing both incentives and disincentives for countries in arrears to more actively participate in the cooperative strategy.

Finally, I consider that the period of the Ninth Review should be the five-year period that began March 31, 1988.

The Deputy Treasurer, in response to questions raised by Directors, made the following statement:

In connection with the amount of overall absolute access to the Fund's resources that would follow the coming into effect of the increase in quotas under the Ninth General Review, some Directors referred to the maintenance of the absolute amount of access on average for the membership as a whole, while some other Directors referred to the absolute amount of access to the Fund's resources being preserved for the member having the smallest increase in quota under the Ninth General Review. A number of

Directors requested information on the size of the cumulative access limits, expressed as a percentage of new quotas, that would result from these two approaches regarding the maintenance of absolute access for a range of Fund sizes. Lines 1 and 2 of Table 1 in the Appendix, indicate the band of cumulative access limits for an increase in quotas ranging from 35 percent to 67 percent. 1/ For example, the new lower cumulative access limit applicable to a 50 percent increase in quotas would be calculated as 440 percent (present cumulative limit) divided by 1.5, or 293 percent of new quota; the higher cumulative limit is calculated at 333 percent of new quota and is derived from the current absolute access of the member with the smallest increase in its quota (Equatorial Guinea) on the basis of an apportionment of the overall increase between 60 percent equiproportional increases and 40 percent selective increases, to be distributed by Method A, i.e., access of SDR 81 million (440 percent of present quota of SDR 18.4 million) divided by SDR 24.3 million, the illustrative increased quota.

With these two limits, a member's access would be broadly maintained by definition, but the exact amount of absolute access would depend on the distribution of the increase in quotas. In Table 1, the illustrative access calculations have been based on the assumptions of an equiproportional increase amounting to 60 percent of the overall increase with the remainder--40 percent--being distributed according to Method A.

The relationship between the size of the increase in quotas, cumulative access limits, borrowing, and the Fund's liquidity ratio is also shown in Table 1 of the Appendix. The illustrative cumulative access limits generally exceed the cumulative access limits determined by the self-financing ratio, which, as an historical average, is close to 250 percent of quota. As a consequence, certain amounts of borrowing would be required for different Fund sizes if the Fund's liquidity ratio were to be maintained at or close to 70 percent by the end of 1994 in the event that the absolute amount of access were to be maintained. The amount of borrowing ranges from SDR 24 billion to SDR 5 billion for increases in the size of the Fund varying between 35 percent and 67 percent. Table 1 also shows the possible evolution of the liquidity ratio with an amount of borrowing below the level outstanding at the time of the September 1988 Interim Committee meeting, and the ratio that would result without borrowing by the Fund.

1/ Reproduced in Appendix.

As the Managing Director indicated in his opening statement, the staff has projected a net increase for Fund credit of the order of SDR 27 billion for the period 1990-94. This projected demand would not in general be constrained if a two-tier approach to setting new cumulative access limits were adopted. The use of the lower cumulative limit alone may be expected, however, to act as a slight constraint because many potential debtors' access limits would fall by 5-10 percent, with remaining available access reduced somewhat more. If the coming into effect of the increase in quotas under the Ninth Review were delayed, the pressure on the Fund's present liquidity position would be substantially increased, in view of the strong projected demand for Fund credit. Directors will recall that in the most recent review of Fund liquidity, the staff projected new commitments under agreements, which are mainly extended arrangements, of SDR 9.6 billion for 1990. On a highly tentative basis, the demand for Fund credit is also likely to remain strong in 1991, with the prospect that the liquidity ratio could fall to about 30-35 percent by the end of 1991, if the quota increase does not come into effect by that time.

Table 2 of the Appendix has been prepared to show the recent evolution of Fund liquidity. The Fund's liquidity ratio since 1978 has generally been about the long-run average of 70 percent, except for 1978-79, 1982-83, and since 1987. The low liquidity ratio in 1978 and 1979, following the coming into effect of the quota increases agreed under the Sixth General Review and at a time of declining use of Fund credit, was due to the unusability of a number of major currencies, including the U.S. dollar. The liquidity ratio increased sharply after October 1980 when the U.S. dollar again became fully usable shortly before increases in quotas under the Seventh Review came into effect. The liquidity ratio did not change immediately following the coming into effect of the new quotas.

The low liquidity ratio of 1982 and early 1983, i.e., the period just before the increases in quotas under the Eighth Review came into effect, was also due to the unusability of many currencies (France, Italy, Australia, Venezuela, Mexico, Algeria, Nigeria, and Iraq, among others, were excluded from the operational budget during this period), as well as to an expansion in Fund credit outstanding. However, it is to be noted that a large proportion of the expansion of Fund credit that was under way at that time was financed from the substantial amounts of available borrowed resources, and which cushioned the fall in the Fund's liquidity.

The considerable rise in the liquidity ratio, which began in 1987, is partly accounted for by the sharp fall in the net use of Fund credit and partly by the return to usability of the currencies of virtually all the industrial countries, despite the heavy current account deficits subsequently incurred by a number of the these countries. The sharp fall in the liquidity ratio that is projected for 1990 is related to the projected strong demand for Fund resources and the exhaustion of uncommitted borrowed resources. The fall in the liquidity ratio would be greater if the total of usable currencies would be reduced, owing to balance of payments and reserve developments in some of the creditor countries, as has occurred in previous periods.

Mr. Jalan said that in the light of the staff's explanation of the relationship between access limits, borrowing, liquidity, and the size of the Fund, a desirable outcome of the quota review could not be achieved unless the size of the Fund was increased by a minimum of 67 percent. Therefore, the progress toward narrowing differences among Directors should center around that size of increase. His authorities' support for an increase of two thirds was a significant departure from its original preference for a doubling of the Fund's size, but they recognized that it might not be possible to achieve the broad support needed for an increase of that magnitude.

Any conclusion of the Ninth Review that would involve a reduction in the absolute access of any member would be unacceptable to the group of developing countries, Mr. Jalan stated. Therefore, in future discussions concerning access limits, the maintenance of access should be defined both in terms of maintaining access limits on average and maintaining the absolute access of the member with the smallest increase in quota.

His chair strongly held the view that the period of the Ninth Review--from March 31, 1988 to March 31, 1993--should not be altered, Mr. Jalan continued. Aside from the changes implied by the U.S. proposal to begin the Tenth Review in 1995 with respect to the size of the actual increase agreed over time and the Fund's previous conventions, Directors had agreed that the formulas used to calculate quotas should be reviewed in connection with the Tenth Review. The clear need for such a review was urgent, and it called for an early resolution of the current review, to be followed as closely as possible by the beginning of the next review. Only with such a timetable could the needs of the developing countries finally be met.

He agreed with Mr. Landau that the cooperative approach currently followed by the Fund in handling cases involving overdue financial obligations was the most useful, although it could be modified as needed to adapt to developments in the world economy, Mr. Jalan went on. He agreed with Mr. Dawson that the success of support groups in helping to clear arrears had thus far been unsatisfactory, even with respect to those cases involving only small amounts of arrears. Nevertheless, while it was important to consider the procedural aspects of the intensified cooperative approach as well as the modifications to it that might be necessary, the Fund's approach to arrears must remain cooperative and positive rather than punitive. It was important to take into consideration the fact that members' administrations changed and to distinguish between the members that were cooperating with the Fund and those that were not. However, with respect to cases where member countries' governments were not cooperating, the people should not be deprived of their right to Fund membership. While the Fund could punish such members by no longer extending credit to them, it should continue to seek a balanced approach to the arrears problem; it should not hasten to suspend membership privileges, because the situations of members were subject to dramatic changes as governments changed. Therefore, while strong action was needed to clear arrears to the Fund, his authorities strongly supported the cooperative approach of the Fund. The Committee would have an opportunity to consider the arrears problem in detail early in 1990, when the U.S. chair would put forward its proposal on that problem, but Directors should remember to distinguish between current governments and member countries themselves.

The highly constructive and forward-looking proposal presented by Mr. Cassell on the distribution of the quota increase represented the kind of approach that had to be taken in order to resolve the issues related to the Ninth Review within a reasonable period, Mr. Jalan commented. While the position expressed in Mr. Cassell's opening statement was not very different from that taken by the U.K. chair on previous occasions, it reflected many of the points that had been made by Directors throughout the discussions on the Ninth Review, and it went a long way toward addressing the concerns of the developing countries. In particular, the U.K. offer to take the burden for any ad hoc quota increase for Japan that otherwise would have been borne by the developing countries was welcome. He fully supported the need for an ad hoc adjustment in Japan's quota, and the U.K. proposal should further the progress toward reaching a consensus on the question of ad hoc increases.

In general, his chair supported the position taken by Mr. Cassell with respect to the distribution of the quota increase, Mr. Jalan concluded. However, the equiproportional element of the distribution should at a minimum be 70 percent of the overall increase in quotas, instead of 60 percent as indicated by Mr. Cassell. A small portion of the selective element of the overall increase--5-7 percent--should be distributed according to Method B, with the remainder distributed according to Method A.

Mr. Grosche said that, as he had indicated on previous occasions, the time had come to undertake serious efforts to bridge the remaining differences among Directors in a spirit of compromise. Accordingly, his chair had somewhat changed its previously stated position on the Ninth Review.

With respect to the size of the overall increase in quotas, he continued to hold the view that an increase of about two thirds would be quite appropriate to broadly maintain access, reduce reliance on borrowing, and keep liquidity at safe levels, Mr. Grosche stated. However, his authorities were prepared to accept a smaller increase, and they urged Directors preferring the lower end of the spectrum of increases to move upward in order to reach a consensus on an increase visibly above 50 percent.

On the method of distribution, his authorities were aiming at an adjustment coefficient on the order of that achieved during the Eighth Review, or possibly higher, using an apportionment of 40/60 between the equiproportional and selective elements of the overall increase, with selective increases distributed according to Method A, Mr. Grosche remarked. However, they could be more flexible and would be satisfied if the adjustment coefficient approached the previous one. He continued to support a uniform method of distribution and preferred Method A, but his position was flexible with respect to the details. He supported an ad hoc increase for Japan in order to move it to second position in the Fund, and his chair was grateful to the British authorities for suggesting a solution to the distribution of the financing burden for that ad hoc increase.

As Directors would recall, his chair's preference was to somewhat scale down absolute access in line with a gradual phasing out of the enlarged access policy, Mr. Grosche went on. Nevertheless, at the present juncture, he was ready to accept that overall absolute access be maintained at the current level for a limited time to be specified. It would be necessary to take into account the liquidity ratio of the Fund and borrowing restrictions in considering access in individual cases. It was obvious that a small quota increase would tend to limit the Board's flexibility in granting the use of maximum access limits in individual cases.

The U.S. proposal on the participation requirement was acceptable to his authorities, Mr. Grosche stated. Nevertheless, in light of the expected deterioration of the Fund's liquidity position, all members, and particularly the United States, should be urged to do their utmost to get parliamentary approval as soon as possible.

Given the difficulties some members faced in getting the necessary authorization from their parliaments, and the concerns that other contributors to the Fund had repeatedly expressed about the consequences of the arrears problem on the financial position of the Fund, a further strengthening of the Fund's arrears policy had to become a part of the quota resolution, Mr. Grosche considered. In particular, a review of the questions concerning how best to avoid arrears cases from arising, how to convince members that there was nothing to be gained from continued arrears, how to further strengthen the reserve position of the Fund, and how to promote the resolution of cases in which the authorities had made convincing reforms was urgently needed. He was prepared to examine Mr. Dawson's suggestions very carefully and he looked forward to a thorough discussion of them in early January 1990.

At the present stage, the Fund should avoid attaching too much importance to the question of when to conclude the next quota review, thereby overcomplicating the difficult task at hand, Mr. Grosche noted. The Articles specified that the Tenth Review period would end on March 31, 1993, but as in the current quota exercise, the Board of Governors could be asked to continue the review beyond that date. At that time, all the factors affecting the financial position of the Fund would have to be carefully considered. After the current lengthy review, and provided the Fund's financial position was fairly comfortable, he would be inclined to propose a continuation of the Tenth Review beyond the established date, perhaps until end-March 1994.

The Chairman said that he wondered whether Mr. Grosche would agree that the interval between the Ninth and Tenth Quota Reviews could not be lengthened by one year unless the Fund obtained additional resources. It clearly would not be prudent to agree to an extension of the period of the Tenth Review at the present stage when very little was known about the economic situation that might prevail in 1994 and beyond.

Mr. Grosche stated that in principle he agreed with the Chairman, but at the present juncture, there was no certainty about developments in the world economy in the period to 1993 or about the liquidity position of the Fund at the end of that period. If there was a significant squeeze on Fund liquidity at the time the Tenth Review was to begin, that review would clearly need to be hastened. However, given the current uncertainties with respect to future events and the likely duration of the current quota review, he considered that if the financial position of the Fund was fairly comfortable, the conclusion of the Tenth Review could be extended beyond the deadline prescribed by the Articles.

Mr. Kafka suggested that, in the light of the uncertainty of future developments, it would be more appropriate to consider the timing of the Tenth Review at the end of 1992, when more would be known about whether or not there was a need for a further augmentation of the Fund.

Mr. Dawson recalled that at the time of the Eighth Review, some Directors had considered that an increase of less than a doubling of the Fund's size would necessitate an accelerated Ninth Review. However, it had been over six years since the resolution under the Eighth Review had come into effect, and the present liquidity ratio was 100 percent. In the light of that experience, it seemed that the gloomy forecasts presented in the context of the current review were exaggerated.

Mrs. Filardo remarked that the current very high liquidity ratio had evolved because members were making only very limited use of Fund resources. Thus, the membership had been forced to make sacrifices, owing to the current size of the Fund.

Mr. Mawakani said that the proposal put forward by the United Kingdom to facilitate a consensus on the quota increase under the Ninth Review was commendable. He hoped other members would emulate the spirit of compromise shown by the U.K. chair in reconsidering their views on the key issues related to the Ninth Review.

The position of his chair had recently become more flexible, in particular by supporting an increase in the size of the Fund to SDR 165 billion instead of to SDR 180 billion, as originally preferred, in order to facilitate the progress toward a prompt consensus, Mr. Mawakani noted. Nevertheless, it should be stressed that the Fund's prudent long-term liquidity ratio of 70 percent should be preserved. It was also important for Directors to give due consideration to the Interim Committee's recommendations that the Fund should borrow only in exceptional circumstances, that all members should obtain a meaningful increase in quota, and that a broad balance between different groups of countries must be maintained. In addition, his chair agreed with Mr. Landau and Mr. Jalan on the need to stress maintaining effective absolute access.

In the light of those considerations, and as the Managing Director's opening statement demonstrated, it would be very difficult to make further concessions, Mr. Mawakani commented. Nevertheless, he was prepared to consider any proposal that could lead to a substantial quota increase that would be sufficient to meet those considerations while strengthening the Fund's role in the international monetary system. However, it seemed that at a minimum the size of the Fund should be increased by two thirds, or 67 percent.

With respect to the method to be used in distributing quotas, his chair supported an equiproportional element of 70 percent and the use of Method A in distributing selective increases, Mr. Mawakani continued. In addition, if the financial burden of the ad hoc increase for Japan could be shared among the major industrial countries, as suggested by Mr. Landau, he would support Mr. Jalan's suggestion that 5 percent of the selective element of the overall increase could be distributed by Method B to effect significant adjustments for members with quotas most out of line, with the remainder of selective increases distributed according to Method A.

While the accumulation of arrears to the Fund was clearly a matter for concern, the need to link the payment of arrears or the implementation of sanctions against members to the Fund's Articles had not yet been demonstrated, Mr. Mawakani considered. Moreover, in connection with the basic votes of countries with small quotas, Directors had agreed that it would be cumbersome to embark on a discussion of the provisions in the Articles during the Ninth General Review of Quotas. Also in that connection, he held the view that the provisions made in the Articles concerning the period for quota reviews should be maintained. Therefore, the Ninth Review should continue to cover the five-year period beginning in 1988.

Mr. Yamazaki commented that the opening statements of Mr. Cassell and Mr. Dawson, which expressed the willingness of the United States and the United Kingdom to work toward a consensus, were welcome; he would join in the effort to compromise.

From the beginning of the Ninth Review, his chair had supported a substantial quota increase so as to equip the Fund with adequate resources to perform its role smoothly in the first half of the 1990s, Mr. Yamazaki recalled. However, his authorities had also expressed their willingness to join the consensus in order to facilitate the earliest possible completion of the Ninth Review. In that connection, they strongly hoped that a consensus on an increase of about 50 percent would soon be reached.

The position of his authorities on the distribution of the quota increase had been presented on previous occasions, Mr. Yamazaki noted. However, his authorities were ready to be flexible on that issue, provided Directors accepted the need for an ad hoc adjustment in Japan's quota share. In that connection, it was essential for the smooth functioning of the Fund that the quota shares of members should reflect economic realities.

In particular, the present quota share of Japan was far out of line with economic reality and that incongruity should be rectified as soon as possible, Mr. Yamazaki continued. In that context, the efforts of the United Kingdom to support an ad hoc quota increase for Japan so as to allocate the second largest share in the Fund to Japan were welcome, and he hoped that an arrangement that would be satisfactory for every member would soon be made to accommodate the ad hoc quota increase for Japan.

As to the other outstanding issues, he supported maintaining overall absolute access at the current level, and he was prepared to consider the use of mitigation for individual members, Mr Yamazaki stated. In addition, he supported in principle Mr. Dawson's comments on the issue of arrears to the Fund, and in particular on the need to take up the issue as soon as possible.

Mr. Ghasimi made the following statement:

> The views of my authorities on the various aspects of the Ninth General Review of Quotas have been expressed on many previous occasions. Therefore, for the current discussion, I will

briefly express our most recent position on the issues of the overall quota increase and the method of distribution for that increase.

On previous occasions, we have emphasized the importance of a substantial increase in quotas to facilitate a more effective functioning of the Fund during the first half of the 1990s. Indeed, maintaining the Fund's strength and its weight in the international monetary system requires the Fund to remain mainly a quota-based institution, having at its disposal ample usable resources, while sustaining a sufficient degree of liquidity. It is also important that the financial capabilities of the Fund should keep pace with major aspects of the financial growth of the world economy.

In addition to its normal activities, the Fund must also be able to help restore and enhance the creditworthiness of the indebted developing countries, through its initiatives in debt and debt-service reduction operations, and at the same time appropriately accommodate some of the financial needs of the Eastern European countries that are currently undergoing dramatic changes. To perform all these tasks efficiently, the Fund clearly should have the benefit of a relatively strong financial position.

Many Directors have correctly acknowledged that the preservation of a sufficient level of access for developing countries would enable the Fund to play a more effective role in fostering growth-oriented adjustment programs in these countries. Therefore, it is of paramount importance to sustain an absolute level of access that would be compatible with the financial needs of developing countries, while taking into consideration the present adverse environment of sharply reduced financial flows from private as well as official sources. In such a situation, an overall increase in the Fund's size of between 67 percent and 80 percent would be most appropriate.

As we have indicated on previous occasions, it is also essential that any quota increases should take into consideration the relative economic strength of member countries in the world economy. In this connection, we continue to believe that a restructuring of the quota shares of member countries whose relative economic positions are most out of line compared with their present quota shares is essential. At the same time, safeguarding the already relatively small quota position of the developing countries, as far as possible, is also essential. Under these circumstances, it is necessary to strike a proper balance between these two objectives. In line with this approach, we would like to reiterate our preference for a large equiproportional element and the use of Method A in distributing the selective element, or a large equiproportional element and a selective distribution that would combine the use of Method A and Method B. In addition, we support Mr. Jalan's suggestion to use a distribution method that would combine a 75 percent equiproportional increase and a selective increase, of which 15 percent would be distributed according to Method A, 7 percent according to Method B, and 3 percent would be allocated among those members requesting ad hoc increases.

In that respect, on many previous occasions, I have expressed the intention of the Iranian authorities to request an ad hoc quota increase. Indeed, as I indicated during Committee of the Whole on Review of Quotas Meeting 89/14 (12/8/89), the Iranian authorities have recently shown a great deal of willingness to cooperate closely with the Fund, and in a few weeks, a staff mission will go Teheran to conduct an Article IV consultation-- something that has not been possible for a long time, owing to special circumstances. Therefore, I urge Directors to give sympathetic consideration to the Iranian request. In that connection, Directors should note that Iran was unable to participate in the Seventh and Eighth General Quota Reviews, owing to its parliamentary timetable and other special circumstances prevailing during those two reviews. It is hoped that the forgone quotas allocated to Iran during those two reviews could point to a reasonable distribution of the burden of the ad hoc adjustment expected in the context of the current review.

Mr. Kafka stated that the final position of his chair would depend on the combination of agreements that would be included in the approval of the overall increase in quotas.

With respect to the size of the overall increase, most Directors had originally favored a doubling of present quotas, Mr. Kafka recalled. However, when it became apparent that the broad support needed to approve such an increase was not forthcoming, most Directors changed their positions to support an increase of 80 percent. Again, it seemed that a majority vote could not be reached. At the present juncture, most Directors supported increases of either "visibly" above or "visibly" below 50 percent, which was ambiguous, owing to differences in perception. Nevertheless, his chair continued to consider that the increase must come closer to 80 percent than to 50 percent to be satisfactory.

From the beginning of the Ninth Review, his chair had supported a method of distribution that would entail distributing 70 percent of the overall increase equiproportionally and 30 percent selectively, according to Method A, Mr. Kafka noted. Nevertheless, if the current consensus was for an apportionment of the overall increase to be 60 percent equiproportional and 40 percent selective, using Method A, he could go along However, he was opposed to the use of Method B. As he had stated on previous occasions, his chair could accept a small ad hoc distribution to two or three countries; and the U.K. proposal on burden sharing for those increases would be very helpful.

In the light of the interdependent relationship between access, liquidity, and borrowing, he would not support any proposal for a quota increase that would not be sufficient to enable the Fund to preserve the current amount of absolute nominal access for each member, Mr. Kafka remarked. In addition, it was essential for the Fund to maintain its historic average liquidity ratio of 70 percent. The liquidity position of the Fund had been seriously weakened during the period preceding the most recent quota increase, and a recurrence of that situation was to be avoided. It was also essential for the Fund to reduce borrowing, because that type of financing was expensive and risky.

In order to solve the problem of overdue financial obligations to the Fund, the cooperative approach needed to be strengthened, Mr. Kafka considered. In that connection, the view of his chair on arrears would remain flexible until the U.S. proposal on that problem could be considered in detail--possibly in early 1990. While his chair was prepared to consider additional financial measures to deal with cases involving arrears, his authorities were not prepared to agree to any punitive measures.

It would be most appropriate to follow the provisions in the Articles on the period for quota review, Mr. Kafka stated. However, if in 1993 it seemed that an additional increase in quotas was not needed, the conclusion of the Tenth Review could be postponed. While he would have preferred to set the period of consent for the Ninth Review at end-1990, if the consensus was to set it at end-1991, he would go along with the majority opinion.

Mr. Lombardo recalled that in previous discussions on the Ninth Review, he had stressed that it was crucial for the countries of his constituency--all of them being heavily indebted--to at least maintain current access limits in absolute terms. The staff calculations showed that only a doubling of quotas would avoid a deterioration in the remaining available access, and that a sizable reduction in access would result from any increase of less than SDR 165 billion, if borrowing was to be phased out. Therefore, and in the spirit of consensus, the position of his chair had been made more flexible. While on previous occasions, his chair had supported an increase in quotas of about 80 percent--to SDR 165 billion--complemented by a certain amount of borrowing, the current position of his authorities was to go along with a consensus on an increase of less than 80 percent of present quotas, if such an agreement materialized. However, such an agreement should be tied to the maintenance of present absolute levels of access, which could be achieved by adopting a more gradual approach phasing out of borrowing, as suggested by Mr. Dawson.

With respect to the distribution of the increase, his authorities continued to favor a substantial equiproportional element, amounting to 70 percent of the overall increase, combined with a selective element of 30 percent, distributed according to Method A, Mr. Lombardo continued. The proposal by Mr. Cassell that the United Kingdom would bear the cost of the developing countries' share in accommodating the ad hoc increase for Japan was certainly welcome, and his authorities supported it. His position on the members with very small quotas was flexible, and he could support Mr. Evans's proposal to safeguard the quota shares of such members.

His chair was opposed to the implementation of additional sanctions against members in arrears to the Fund, as suggested by Mr. Dawson, Mr. Lombardo concluded. Such actions would not lead to a solution to the arrears problem, and, as a cooperative institution, the Fund should work to solve that problem through its cooperative measures.

Mr. Prader stated that he joined other Directors in welcoming the convergence of views among the major industrial countries on the issues related to the Ninth Review. The flexibility demonstrated by those countries during the current discussion represented an important step toward a possible consensus. Nevertheless, he wondered whether the positions taken with respect to the different elements of the eventual quota resolution were mutually consistent. The net effect of an increase in the size of the Fund of only 45 percent to 50 percent, together with a decision to maintain overall absolute access to Fund resources and to reduce borrowing, as agreed at the time of the 1988 Annual Meetings, would have serious consequences for the Fund's liquidity ratio. Given the likelihood of a very strong demand for Fund resources during the coming period, there could be a sharp decline in the level of Fund liquidity, as described by the staff. To be prudent, the Fund must preserve a liquidity ratio that would, at a minimum, be in line with the historical average of 70 percent. The need to meet that objective should receive at least the same priority as the need to strengthen the Fund's arrears policy. In the present situation, characterized by grave concerns about the sustain- ability of the current debt strategy, doubts about the liquidity and immediate usability of members' claims on the Fund could arise in the international financial community.

Given those considerations, his chair could not revise its previous position in support of a substantial quota increase, of about 67 percent, Mr. Prader remarked. Like Mr. Jalan, he strongly considered that the period for the current quota review should end in 1993, and he agreed with the Managing Director that any extension of that period would call for a larger quota increase.

The proposal put forward by Mr. Cassell led to a biased conclusion because it failed to consider one very serious factor, Mr. Prader commented. While the United Kingdom was concerned about maintaining the quota share of developing countries, it failed to consider the quota positions of small industrial countries. With respect to Mr. Cassell's suggestion that the industrial countries should bear the financing burden of Japan's ad hoc increase, he wondered whether the small industrial countries were to be included in that burden sharing. The merits of the U.K. offer to pay for roughly half of the ad hoc increase for Japan could have been acknowledged more readily if it had started from the essential point that realignments of quotas among the G-5 countries should be accommodated by only the group of countries that would actually benefit most from that realignment, namely, the G-5 countries. He did not consider that the representation of all the other industrial countries, whose influence in the decision-making process of the Fund had recently been substantially reduced, owing to the emergence of even smaller informal country groupings outside the Fund, should be further weakened by reductions in quotas that were made to accommodate the internal concerns and primary interests of the G-5 countries. Therefore, he could not agree with Mr. Cassell's proposal on the burden sharing for Japan's ad hoc quota increase.

Mr. Clark noted that the flexibility expressed by many Directors indicated that encouraging progress was being made toward a consensus, in particular on the overall size of the quota increase. Although differences of view remained among Directors, the discussions had progressed to a stage that called for Directors to consider whether they could be even more flexible in order to agree over the coming weeks to a resolution that probably would not be seen as ideal by any constituency, but, nevertheless, could be accepted. At the present juncture, the Committee should consider all of the issues related to the Ninth Review, including the size of the overall increase, the method of distribution, the question of access, and the problem of arrears in order to arrive at a total package that could be recommended to the Board of Governors. He strongly considered that it was in the interest of the Fund to reach a compromise soon, because any further delay in concluding the Ninth Review could only be damaging to the Fund's credibility. With events in Europe unfolding so rapidly, and debtor countries still in difficulties, it was essential for the Fund to provide reassurance of its ability to continue its leadership in the international system.

In light of the urgent need to reach a consensus on the Ninth Review, his chair was willing to accept an increase in quotas on the order of 50 percent, although its preference was for a somewhat larger increase, Mr. Clark said. With respect to the method of distribution, he continued to consider that quotas should broadly reflect the relative economic positions of countries and, therefore, that there should be an appropriate selective element in any increase. However, in the spirit of compromise, he was prepared to be flexible with respect to the distribution of the increase.

Like other Directors, he considered that final positions on the questions concerning future access to Fund resources and overdue financial obligations to the Fund had to be taken in the context of agreements concerning other related issues, Mr. Clark commented. Nevertheless, at the present stage, he agreed with other Directors that there should be no reduction in overall absolute access. The implications of the quota resolution for individual member countries should be assessed when the Committee was closer to a consensus on the overall size of the quota increase and the formula to be used in distributing it.

In the spirit of compromise and with a view to arriving at an early consensus, Mr. Clark said that he hoped that Directors could be flexible with respect to the quota review period and the related proposals that had been put forward by Mr. Dawson, Mr. Kafka, and Mr. Grosche.

Mr. Ismael said that, like other speakers, he supported the U.K. proposal, under which it would bear half of the financing burden for an ad hoc quota increase for Japan to bring it to second position in the Fund, with the remainder to be borne by the other industrial countries in proportion to their quota shares to ensure that no developing country would experience a lower quota or quota share as a result of that increase.

As he had indicated on previous occasions, his authorities agreed with the Managing Director that quotas needed to be increased to the extent that would be sufficient to preserve on average the current amount of absolute access, which was what would be required for the Fund effectively to carry out its responsibilities as the central institution in the international monetary system, and at the same time, to reduce the Fund's reliance on borrowing, Mr. Ismael stated. His chair continued to consider that a doubling of present quotas would be the best means to achieve those objectives. However, as he had indicated during Committee of the Whole on Review of Quotas Meeting 89/14 (12/8/89), in order to reach a timely consensus, his chair was willing to go along with a quota increase of at least two thirds. An increase of 50 percent would clearly be unsatisfactory. Furthermore, to maintain a broad balance between different groups of countries, the increase in quotas should be distributed based on an equiproportional element, amounting to 70 percent of the overall increase, combined with a selective element of 30 percent to be distributed according to Method A. Moreover, if necessary, he would be willing to accept a small use of Method B, but not to exceed 5 percent of the overall increase, as a means to achieve some additional adjustment in the shares of the 39 members with calculated quota shares in excess of their current quota shares.

He could not agree to either the proposal to postpone the conclusion of the Tenth Quota Review to March 1995 or the proposal to link quota increases with the problem of overdue financial obligations to the Fund, Mr. Ismael commented. The conclusion of the Tenth Quota Review should be scheduled according to the Articles, namely, for end-March 1993, in order to avoid the necessity for a large quota increase, which was one of the major difficulties involved in the current review. The Fund had recently adopted a set of policies that enabled it to effectively deal with the problem of overdue financial obligations to the Fund. As those policies had just been introduced, it would be premature to change them at the present juncture; instead, it was most important--and more appropriate--to implement the present policies in a faithful and determined manner.

Mrs. Filardo said that her constituency had not changed its conceptual approach to the quota review, because size was a function of access and liquidity. As she had stressed on previous occasions, the position of her authorities on the maintenance of access and the liquidity ratio was not negotiable. The current consensus of the industrial countries seemed to be for an increase in the size of the Fund of about 50 percent, while the developing countries supported an increase of two thirds. As the Managing Director's opening statement made clear, even with a 60 percent increase of present quotas, the Fund would have to continue to rely on borrowing, if the minimum absolute effective access of each member was to be maintained. Therefore, in the spirit of compromise, she would continue to maintain some flexibility in negotiating the size of the overall increase in quotas, but the minimum acceptable was 67 percent of present quotas.

The U.K. proposal on the distribution method and burden sharing for ad hoc increases was welcome, Mrs. Filardo commented, and she supported it. She agreed with Mr. Cassell that the industrial countries should accommodate the ad hoc increases for a small number of countries. She hoped that the U.K. chair would be as willing to work toward a consensus on the size of the increase as it had been on the distribution method.

The U.S. proposal on the period of the quota review was a function of the financial position of the Fund, Mrs. Filardo noted. Therefore, any extension of the period before the conclusion of the Tenth Review must be combined with a larger increase in quotas; otherwise, the previous practices of the Fund should be adhered to. Nevertheless, she supported Mr. Kafka's suggestion to reconsider the overall financial position of the Fund and the need for a further increase in quotas closer to the time the Tenth Review was to begin.

She fully agreed with Mr. Jalan that the discussion of overdue financial obligations to the Fund should not be linked to the negotiation of a quota increase, Mrs. Filardo stated. The Fund should seek to convince its members to clear arrears through the cooperative approach, rather than through punitive measures.

Mr. Hassan said that he hoped the needed consensus on the Ninth Review could be reached in the Executive Board without having to make recourse to a special meeting of the Interim Committee.

His chair continued to support a sizable increase in quotas, and the only way to reduce the Fund's reliance on borrowing, while maintaining an acceptable level of liquidity and without curtailing access, was to implement a large increase in quotas, Mr. Hassan considered. Therefore, his authorities supported an overall increase in quotas in the range of 80 percent. They would find it difficult to accept an increase of less than two thirds, and a 50 percent increase would be grossly inadequate.

His authorities continued to support an apportionment of the overall increase in quotas that would include an equiproportional element of at least 70 percent and the use of Method A in distributing the selective element, Mr. Hassan continued. If there was broad support for a small use of Method B, he could go along with the consensus, provided that the portion to be distributed according to Method B did not exceed 5 percent. He supported Mr. Cassell's proposal that the United Kingdom would bear the full cost of the developing countries' share in accommodating an ad hoc increase for Japan sufficient to take it to second position in the Fund. Indeed, the approach suggested by Mr. Cassell was welcome, and all major shareholders in the Fund should be urged to emulate the example set by the United Kingdom in order to safeguard the share of developing countries from further reductions that could result from ad hoc increases for the other countries that could put forward similarly justifiable requests.

His authorities were in favor of maintaining the current effective absolute access to Fund resources, Mr. Hassan went on. In fact, the most appropriate course of action would be to increase the current access limits, given the growing financing needs of members and their increasing recourse to Fund resources. In that connection, he could not support any erosion of the present level of absolute effective access.

He was strongly opposed to the suggestion to link the discussion of overdue financial obligations to the Fund to the quota review, particularly in the context of amending the Articles of Agreement to impose sanctions on countries in arrears, Mr. Hassan stated. The arrears problem had to be examined as a separate problem in the context of regular policy reviews, taking into consideration the various factors related to arrears, as was being accomplished in the context of the Fund's present intensified cooperative approach. He agreed with the comments made by Mr. Jalan on that issue. In addition, the Fund should follow the existing provisions concerning the timing of the next quota review.

Mr. Dai commented that Mr. Cassell's opening statement demonstrated the more pragmatic and positive stance taken by the U.K. authorities with respect to the Ninth Review. In particular, its willingness to help facilitate Japan's strong demand for an ad hoc increase by ceding its present position in the Fund to accommodate Japan's desire for a quota increase sufficient to raise it to second place was commendable. He hoped the other major industrial countries would follow suit by sharing the cost resulting from that shift in the present ranking. He especially appreciated the emphasis Mr. Cassell had placed on safeguarding the position of the developing countries. He hoped that Mr. Cassell's proposal would help to narrow the differences among Directors with respect to the Ninth Review. In that connection, the indication that the United Kingdom was prepared to move from its earlier position on the size of the Fund in order to facilitate the achievement of a consensus on that issue was noteworthy.

During the Committee of the Whole on Review of the Quotas Meeting 89/14, he had stated that his authorities were willing to negotiate an early consensus on the Ninth Review, Mr. Dai recalled. Accordingly, if the broad consensus needed to support a doubling of present quotas could not be achieved, he could go along with an increase in the size of the Fund to the range of SDR 150 billion to SDR 165 billion, which would be the minimum necessary to maintain a strong Fund. With respect to the distribution of the increase, the apportionment of the overall increase should include an equiproportional element of the order of at least 70 percent, with the selective increase distributed according to Method A. In any event, the decline in the combined share of the developing countries should be limited to less than 1 percentage point. As he had stressed on many previous occasions, any decline in the share of developing countries should be avoided in the current review, since their share had declined significantly in the context of the Eighth Review. In addition to the ad hoc increase for Japan, he could support ad hoc increases for individual developing countries whose current quotas were seriously out of line with their actual economic situations, owing to special circumstances.

He disagreed with the proposal that overdue financial obligations to the Fund should be linked to the current quota review, Mr. Dai stated. In addition, he disagreed with the suggestion to change the five-year interval between quota reviews provided for in the Articles. Therefore, he considered that the Tenth Quota Review should take place in 1993.

Mr. Hogeweg made the following statement:

> I have little to add to the previous statement made by this chair. We have not taken an extreme position, which would naturally necessitate amendment in order to move in the direction of consensus. We continue to consider that quotas should be increased considerably, and as we indicated at Committee of the Whole on Review of Quotas Meeting 89/14, an increase of 60 percent would represent a reasonable compromise. In that connection, it should be stressed that, for the time being, the Fund should stick to the provisions in the Articles concerning the timing of the Tenth Review.
>
> We base our support for a substantial quota increase on the need to maintain the Fund's position in the international monetary system, rather than on certain projections of the demand for Fund resources--an approach taken by the Managing Director in his opening statement. We consider the need to maintain the liquidity position of the Fund essential. In the light of that fundamental

consideration, it is unfortunate that, given a reduced reliance on borrowing, the access that can be made available to individual countries will have to depend on the size of the increase agreed. In that connection, we consider the staff assessment of the long-term self-financing ratio of 250 percent to be on the high side.

With respect to the Board decision that is to be taken on the enlarged access policy in 1990 by the close of business today, given the present uncertainty on the outcome of the Ninth Review--which would be concluded in the first quarter of 1990--that policy should be extended for a period of less than one year, so that access limits can be reviewed at an early date following the outcome of the Quota Review.

We support a uniform method of distribution that would allow the adjustment coefficient to approach the level reached in connection with the Eighth Review, and that would also make it possible to limit to the utmost the need for and the size of an ad hoc increase. As I have indicated on previous occasions, this chair supports Japan's request for an ad hoc quota increase that would move it to the second position in the Fund. Like other Directors, I appreciate the willingness of the U.K. authorities to provide about half of the amount needed to finance that ad hoc increase, thereby contributing to an eventual solution of the ranking problems among the largest members. In a multilateral istitution, such as the Fund, all members should be willing to contribute to the ad hoc increases they support. At the same time, however, if a particular group of countries takes it upon itself to settle mutual ranking problems, their decisions should not affect other members. Therefore, it would have been more appropriate for Mr. Cassell to present his offer to pay for a sizable part of Japan's ad hoc increase, without at the same time linking it to certain relative contributions of other members, although understandably he has in this way assured the support of certain chairs. I consider that in principle the outcome for country groupings, as mentioned in the Interim Committee communique, should result from the agreed uniform methods of distribution.

Although some Directors have linked a strengthening of the arrears strategy to the current quota review, I consider that the Fund's approach to solving the arrears problem should be judged on its own merits, and I do not see a linkage between the arrears strategy and the quota review.

Although I have some sympathy for Mr. Evans's desire to correct some significant discrepancies in the quota shares of the countries with very small quotas, I do not agree with the argumentation put forward in his proposal. In particular, I differ with his argument that some of those countries are reluctant to seek

Fund adjustment assistance because Fund conditionality is not warranted by their meager access to its resources. I consider that the Fund's conditionality is very much in the interest of all its members, including those countries.

Mr. Evans said that as the Chairman had not asked him to comment on the statement he had distributed to Executive Directors on December 11, 1989 on members with very small quotas, he assumed that that topic would be taken up in some detail at a later date. Therefore, he would not respond fully to Mr. Hogeweg's comments at the present stage. Nevertheless, he fully agreed that Fund conditionality was in the interest of all members; indeed, he had intended to indicate that it was essential to the use of Fund resources.

With respect to the outstanding issues related to the Ninth Review, he agreed with the comments that had been put forward by Mr. Prader on the size of the Fund, Mr. Evans continued. In that connection, the comments Mr. Dawson had made with respect to the importance of the Fund's role in the strengthened debt strategy and the recent events in Eastern Europe, in particular in Poland and Hungary, merited further consideration. Indeed, during the discussions on the strengthened debt strategy, many Directors had expressed some reluctance to agree to the policy, primarily owing to uncertainties about the Fund's long-term financial position. Those uncertainties were still a cause for concern, and in the coming weeks the Board would take up extremely important questions about the financial programs of Poland and Hungary--again, in advance of the quota resolution, which would have to be approved by the Board of Governors. While he recognized the importance of the matters Mr. Dawson had highlighted, the consideration of such matters had led him to the conclusion that the Fund could not accept a quota increase as small as that proposed by the U.S. chair. On the contrary, the consideration of such issues had confirmed the initial inclination of his authorities that an increase of the order of 67 percent should be agreed under the Ninth Review.

The proposal put forward by the United Kingdom on the distribution of the quota increase and in particular the burden sharing for ad hoc quota increases was commendable, Mr. Evans went on. During Committee of the Whole on Review of Quotas Meeting 89/14, Mr. Jalan had also presented a viable compromise proposal on distribution issues, which went a long way toward meeting the concerns of all members, and his support for the recent U.K. proposal was noted. Therefore, it seemed that significant progress could be made toward reaching a consensus on the Ninth Review if Mr. Cassell's opening statement was used as a starting point for the Committee's further deliberations. He fully supported all of the principles put forward in that statement, and, like other Directors, he welcomed the generosity demonstrated by the United Kingdom, which was in keeping with its long-standing role in second position in the Fund. In particular, the U.K. proposal addressed the question of providing for ad hoc quota increases, which was one of the major concerns of his constituency. While the principle that ad hoc increases approved by the membership should be financed by the membership as a whole was undeniable, the effect of the departure made from that principle by the U.K. proposal would be borne only by the United Kingdom. As he had indicated on several previous occasions, the case put forward by Korea for an ad hoc quota increase was at least as strong as that made by Japan. In that connection, he fully supported Japan's request for an ad hoc quota increase.

He agreed with other Directors that there was no natural link between the problem of overdue financial obligations to the Fund and the Ninth Review of Quotas, Mr. Evans concluded. Nevertheless, as that linkage had already been made, there was an urgent need to take up the questions related to the arrears problem in order to reach a satisfactory conclusion to the Ninth Review before the established deadline. Accordingly, his authorities were prepared to consider any proposals the United States might wish to put forward at the earliest possible date. Indeed, the sooner such a proposal could be presented, the sooner a conclusion to the Ninth Review could be reached.

Mr. Finaish stated that he was willing to consider an increase in the size of the Fund of about two thirds. His constituency continued to support an apportionment of the overall increase that would emphasize the selective component. Therefore, he would prefer to distribute the overall increase along the lines followed in the Eighth Review. However, in the spirit of consensus, his constituency might be willing to accept an apportionment of the overall increase that would comprise an equiproportional element of 60 percent and a selective element of 40 percent, part of which--5 percent--would be distributed according to Method B. However, it should be noted that he would have considerable difficulty with a distribution technique that provided for an equiproportional component of more than 60 percent.

While he could in principle support the requests for ad hoc quota increases, his chair continued to consider that such increases should not detract from the need either to effect a general sizable quota increase or to use a method of distribution that would minimize the disparities between calculated and actual quota shares in general, Mr. Finaish continued. In the light of that consideration, any distribution scheme that combined an ad hoc component with a very large equiproportional component, including the schemes proposed by Mr. Jalan and Mr. Ghasimi, would be unacceptable.

As he had stressed on previous occasions, there were a large number of countries with quota shares that were out of line compared with their calculated quota shares that had not requested ad hoc increases, Mr. Finaish went on. Therefore, he was opposed to schemes that would grant ad hoc increases at the expense of a broader correction of disparities, such as, for example, the scheme presented in the supplement to EB/CQuota/89/11. In that connection, it should be noted that 6 of the 10 members with the largest discrepancies between actual and calculated quotas were in his constituency. Moreover, seven members of his constituency had larger discrepancies than those of Japan and the Islamic Republic of Iran. He had already expressed his views on Japan's request, and some of his authorities could support an ad hoc increase for the Islamic Republic of Iran. He supported the U.K. proposal on the distribution of the burden for Japan's ad hoc increase.

He supported the proposal and the reasoning put forward by Mr. Evans on the position of members with very small quotas, Mr. Finaish stated. Like other Directors, he was opposed to any reduction in nominal absolute access for any Fund member, and he doubted the usefulness of linking the question of overdue financial obligations to the Fund to the Ninth Review. However, he would, of course, be prepared to consider proposals to strengthen the arrears strategy in the context of a full review of the intensified cooperative approach. While he was not in favor of extending the period for the Tenth Review, he would be willing to consider such an extension if the size of increase agreed was at least two thirds.

Mr. Fogelholm commented that although the current discussion had been fruitful, it was doubtful whether further progress had been made toward reaching a consensus, particularly in light of the additional issues introduced by the U.S. chair, which seemed to widen the differences among Directors.

While there seemed to be some agreement among Directors that the resolution on the Ninth Review would involve a "package" agreement on various issues related to the Ninth Review, it was not clear which issues would be included in such an agreement, Mr. Fogelholm noted. He certainly hoped that if a "package" decision was to be reached, the elements involved would be clearly defined. Moreover, a decision on the period of the Tenth Review certainly should not be included in such a package. He agreed with other Directors that, for the time being, the Fund should follow the provisions of the Articles concerning the timing of quota reviews, and that, if for some reason the Fund's liquidity ratio or its financial position in general was very good at the time the Tenth Review was to begin, the conclusion of that review could be postponed.

With respect to the central and clearly interrelated issues concerning the size of the increase in quotas, the maintenance of access and liquidity, and the reduction of Fund borrowing, the fundamental objective should be to maintain a strong Fund that would have a high liquidity ratio throughout the review period, perhaps including the period just prior to the next quota increase, Mr. Fogelholm considered. Emphasis should also be placed on the need to maintain access in absolute terms, and at the same time to avoid a resumption of Fund borrowing. The position of his chair was that the size of the Fund was needed as a residual to those primary objectives.

Therefore, given the illustrative calculations prepared by the staff, the achievement of those objectives would call for an increase in the size of the Fund of visibly more than 50 percent. In that connection, he agreed with Mr. Kafka that "visibly" should be defined as about 15 percent to 17 percent above 50 percent.

He needed to confer with his authorities before he could take a final position on the proposal put forward by Mr. Cassell on the method of distributing quota increases, Mr. Fogelholm concluded. However, he assumed the views of his authorities would be similar to those of Mr. Prader. The position of his authorities with respect to other issues related to the Ninth Review was unchanged.

Mr. Cassell said that, in response to the questions Mr. Prader had raised, the U.K. proposal on the distribution of quota increases had not taken the position of the smaller industrial countries into specific consideration. That proposal was intended to address the concerns of the developing countries, and in particular to prevent any undue decline in their quota share that might result from financing an ad hoc increase for Japan. He had assumed that the rest of the membership, which had supported an ad hoc increase for Japan, was naturally willing to participate in sharing the burden for it. It would be a serious cause for concern if members were willing to support Japan's ad hoc increase only on the condition that they would not have to pay their share toward financing it.

In the light of the comments Directors had made during the current discussion, he supported an increase in the size of the Fund that was visibly below 50 percent to the extent that some Directors had favored one that was visibly above that figure, Mr. Cassell stated. In that connection, it should be noted that his authorities' agreement to a substantial increase in the size of the Fund was, of course, contingent on a satisfactory resolution of the other outstanding issues related to the current quota review. He agreed with Mr. Grosche that, at the present juncture, it would be premature to make a judgment on the timing of the next quota review.

With respect to the "package" of agreements Directors had referred to during the current discussion, his authorities considered that the size of the increase in quotas was very closely linked to the future level of access to Fund resources, Mr. Cassell commented. In that connection, they could not support any proposal to increase the overall level of absolute access. In addition, he agreed with Mr. Dawson that an effective policy on overdue financial obligations to the Fund should be part of the resolution on the Ninth Review and that there was a need to limit the prolonged use of Fund resources. He looked forward to the presentation of the specific proposals of the U.S. chair on the arrears problem.

Although the proposals outlined in the statement that had been distributed by Mr. Evans would be examined in detail at a future date, his authorities did not have any difficulty in supporting them, Mr. Cassell concluded.

Following a further brief discussion, the members of the Committee concluded for the time being their consideration of the main outstanding issues in connection with the Ninth General Review of Quotas.

APPROVED: August 31, 1990

Table 1. Illustrative Sizes of Fund, Cumulative Access Limits, *and Borrowing* 1/

	Alternative sizes of Fund				
	SDR 121.5 billion *(35 percent increase)* (1)	SDR 126 billion *(40 percent increase)* (2)	SDR 130.5 billion *(45 percent increase)* (3)	SDR 135 billion *(50 percent increase)* (4)	SDR 150 billion *(67 percent increase)* (5)
			(In percent of new quota)		
1. Cumulative access limit that preserves absolute access on average	326	314	303	293	263
2. Cumulative access limit that preserves absolute access for the member with smallest quota increase 2/	360	350	342	333	309
			(In billions of SDRs)		
3. Fund borrowing needed to maintain liquidity ratio at end-1994 at 70 percent	24	21	18	15	5
4. Fund borrowing needed to maintain liquidity ratio at end-1994 at 65 percent	21	18	15	12	2
			(In percent)		
5. Memo: Liquidity ratio at end-1994 without Fund borrowing	*35*	*40*	*44*	*48*	*62*
Liquidity ratio at end-1994 with Fund borrowing of SDR 7 billion	*45*	*50*	*54*	*58*	*72*

1/ Based on Fund liquidity exercise and projected increase in outstanding Fund credit of SDR 27 billion in 1990-94.
2/ Based on Method A (60/40). This cumulative limit reflects the increase (from line 1) needed to compensate for the fall in quota share of the member (Equatorial Guinea) with the smallest quota increase.

Table 2: Evolution of Fund Liquidity (1978-90)

(In SDR billions, except as indicated)

	1978 1/	1979	Memo: Oct.31 1980 2/	1980 3/	1981	1982	1983 4/	1984	1985	1986	1987	1988	1989 (est)	1990 (proj)
1. Selected balance sheet data (end of period)														
a. Usable ordinary resources (adjusted and uncommitted)	5.3	4.0	9.5	12.8	15.8	11.2	28.6	30.6	28.6	28.7	30.5	30.7	26.6	16.6
b. Total liabilities	14.9	11.8	12.6	16.8	21.5	25.9	40.3	42.8	41.7	38.3	32.9	28.3	26.3	29.7
Of which: Outstanding borrowing	6.4	3.9	4.0	4.2	6.4	8.2	13.0	14.0	14.7	13.5	10.3	6.7	3.7	4.7
c. Liquidity ratio (in percent)	35.6	33.9	75.4	76.2	73.5	43.2	71.0	71.5	68.6	74.9	92.7	108.5	101.1	55.9
d. Ratio of quotas of creditor members to total quotas (in percent)	59.4	57.7	67.5	62.5	54.3	50.2	62.6	71.1	68.9	65.8	67.9	69.1	67.7	...
2. Selected flows of resources (calendar year basis)														
a. New commitments (gross)	1.9	2.2	...	7.0	15.2	6.5	11.3	4.1	3.3	3.7	2.6	2.9	9.6	9.6
b. Net use of Fund credit (GRA)	-2.8	-2.3	...	0.5	4.9	5.8	10.6	5.0	0.4	-1.9	-4.6	-4.0	-2.4	3.4

1/ The Sixth Review of Quotas came into effect on April 1, 1978.
2/ The budget quarter following the inclusion of the U.S. dollar in the operational budget.
3/ The Seventh Review of Quotas came into effect on November 28, 1980.
4/ The Eighth Review of Quotas came into effect on December 11, 1983.