DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

MASTER FILES
ROOM C-130

0404

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Committee of the Whole on Review of Quotas

Meeting 88/6

10:00 a.m., July 11, 1988

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

Executive Directors	Alternate Executive Directors
A. Abdallah	
	C. Enoch
Dai Q.	
C. H. Dallara	
	J. Prader
A. Donoso	E. V. Feldman
	A. M. Othman
G. Grosche	
J. E. Ismael	J. Reddy
A. Kafka	J. Hospedales
	D. McCormack
Mawakani Samba	
Y. A. Nimatallah	I. A. Al-Assaf
	L. Filardo
	M. Fogelholm
	D. Marcel
G. A. Posthumus	G. P. J. Hogeweg
C. R. Rye	C.-Y. Lim
G. Salehkhou	
A. K. Sengupta	L. E. N. Fernando
K. Yamazaki	S. Yoshikuni
S. Zecchini	

L. Van Houtven, Secretary and Counsellor
K. S. Friedman, Assistant

Also Present

External Relations Department: D. D. Driscoll. IMF Institute: O. B. Makalou. Legal Department: R. H. Munzberg, Deputy General Counsel. Research Department: P. Isard, I. Zaidi. Treasurer's Department: F. G. Laske, Treasurer; D. Williams, Deputy Treasurer; P. B. Clark, S. I. Fawzi, O. Roncesvalles, A. J. Tweedie, G. Wittich. Personal Assistant to the Managing Director: H. G. O. Simpson. Advisors to Executive Directors: M. B. Chatah, W. N. Engert, K.-H. Kleine, P. Péterfalvy, M. Pétursson, G. Pineau, A. Vasudevan. Assistants to Executive Directors: N. Adachi, S. Appetiti, E. C. Demaestri, S. K. Fayyad, V. J. Fernández, B. Fuleihan, P. Gorjestani, M. Hepp, C. Y. Legg, V. K. Malhotra, C. Noriega, A. Rieffel, D. Saha, G. Schurr, G. Seyler, Yang J.

1. NINTH GENERAL REVIEW OF QUOTAS - SIZE AND DISTRIBUTION OF INCREASE IN QUOTAS - ALTERNATIVE CALCULATIONS

The Executive Directors, meeting as a Committee of the Whole, considered staff papers on alternative calculations of the size and distribution of quota increases under the Ninth General Review of Quotas (EB/CQuota/88/5, 6/17/88) and quota calculations with data ended in 1986 (EB/CQuota/88/6, 6/30/88).

Mr. Yamazaki made the following statement:

I welcome this continuation of our work on the Ninth Quota Review, which will provide us with the opportunity to take further steps toward the rectification of the discrepancies between actual quotas and underlying economic realities of member countries. I hope that today's discussion will give added impetus to this end.

At the outset, I would like to reiterate the importance that my authorities attach to rectifying the present quota shares in line with members' economic positions as well as reinforcing the Fund's quotas substantially. The quotas constitute the basis for determining rights and obligations of Fund members and are of fundamental importance in Fund activities. The large discrepancy between the quota share and relative economic strength of a member could lead to hindering the smooth functioning of Fund operations. On the other hand, the Fund needs to be adequately capitalized in order to respond to global economic developments that will take place in the coming years. The Fund has played a central role in solving international debt problems and needs to continue this role in the period ahead.

In view of these considerations, my authorities have strongly supported the substantial increase of Fund quotas with the largest possible adjustment coefficient, and are willing to make contributions commensurate with Japan's economic position.

As the Governor of the Fund for Japan stated in the spring Interim Committee meeting my authorities would like to propose a study on the possibility of an ad hoc increase of Japan's quota to reduce the long-standing divergence between Japan's actual quota and its economic strength. The discrepancy between Japan's present quota share (4.695 percent) and its calculated quota share (8.048 percent based on 1985 data, 8.999 percent based on 1986 data) clearly illustrates the urgent need to rectify its quota share. Looking back over the past 20 years, this discrepancy has widened since the Fourth Quota Review. At the time of the Fourth Quota Review, the actual and the calculated quota shares of Japan were 3.5 percent and 3.6 percent, respectively. However, at present, the actual quota share is

4.695 percent, while the calculated quota share increased to 8.999 percent (1986 data). This fact shows the limitation of the extent to which a general quota review rectifies the inequality among members. In this context, I would like to request the staff to present the list of members whose actual quota shares widely deviate from their calculated quota shares in absolute terms.

Despite this adverse situation, Japan has contributed to the strengthening of the Fund's resources on the grounds that the Fund should play a central role in the international monetary area. Judging from Japan's inadequate quota share in the Fund and Japan's pronounced contribution to the Fund, I conclude that Japan would be eligible for an ad hoc quota increase, as were Italy in 1963 and Saudi Arabia in 1981.

I reiterate my support for the substantial quota increase; that is, the quota increase of SDR 90 billion from SDR 60 billion to have the Fund size of SDR 180 billion from SDR 150 billion.

I generally endorse the staff's conclusion presented on pages 11-12 of EB/CQuota/88/5. However, I must stress that the quota increase should provide for the highest possible adjustment coefficient so as to realign quotas with the underlying economic reality of members. In this respect, I would prefer Method B, or Method C. I would think that Method C would have the best potential to attain the highest possible adjustment coefficient at any size of quota increase.

In a relevant vein, I support the staff's view that "selective increases in quotas would seem to have the potential to contribute more to the Fund's liquidity than would a general increase in quotas," as stated in EB/CQuota/88/1.

I continue to support the phasing out of the enlarged access policy and the elimination of the Fund's reliance on borrowing. I would also support the quota increase sufficient to preserve the present absolute level of access of every member. In this respect, because I believe that we should attain the highest possible adjustment coefficient, I would disagree with the assumption of an adjustment coefficient of 20 percent for the illustrative calculation presented in Table 3 of EB/CQuota/88/5. Therefore, I think the staff has underestimated the size of the Fund necessary for preserving the present absolute access, and I would support a larger quota increase than the staff's estimation. Moreover, I cannot support the suggestion to increase the quotas sufficient to replace the amount of borrowing presently outstanding. This is because, as the staff points out, such a suggestion would result in the reduction of the absolute level of access.

I concur with the staff that the quota review will have an implication for the distribution of voting power. Despite Japan's contribution to the Fund, which exceeds Japan's position in the Fund, Japan's voting power remains extremely low. This is one of the reasons why I propose an increase in Japan's quota share.

Since the review period of the Ninth Quota Review has been extended to April 1989, it would only be right to update the quota calculations to incorporate the latest available data. In this respect, I would like to request the staff to produce illustrative calculations of the quota distribution based on 1986 data.

I would like to again request the staff to prepare a work program on the Ninth Quota Review, since we have to assume full responsibility for completing our work in time.

The Deputy Treasurer, responding to a question by Mr. Nimatallah, explained that any member country could request an increase in its quota at any time, and the Fund was obliged to consider that request. Of course, the Fund was not obliged to recommend such an increase. There had been cases in which the Executive Board had not recommended ad hoc increases, but the Executive Board must report to the Board of Governors its reasons for doing so. In addition, there had been a number of cases--including the two important ones that Mr. Yamazaki had mentioned, namely, Italy in 1966 and Saudi Arabia in 1981--in which ad hoc increases had been considered in the normal way. In those cases, a committee had been established by the Executive Board, a report had been made to the Board of Governors, and the increases had gone into effect. The procedure for considering requests for ad hoc increases was indeed standard, and there had been many such increases in the history of the Fund. There had been very few ad hoc increases since 1969, probably for two reasons. First, any ad hoc increase inevitably reduced the share of all member countries in proportion to the share that they had prior to the time of the increase, and quota shares had become a somewhat more sensitive issue after 1969, because the First Amendment of the Fund's Articles of Agreement provided for allocations of SDRs to be made in proportion to quota. Second, the impact of quota increases on voting power had become more sensitive after 1969, as member countries experienced a loss in voting power more or less in proportion to their size of quota. Another reason why ad hoc increases had been fairly rare over the previous two decades was that, since the Fourth General Review of Quotas in 1965, quota reviews had tended to be more comprehensive than in earlier years in the sense that they included long lists of countries that were eligible for selective increases and there had been a general tendency for the Executive Board to ask member countries to have their requests for increases in quotas considered within the context of a general review, rather than have a large number of ad hoc increases. Perhaps the most important example of that trend occurred at the time of the 1959 increase in quotas, when there had been a special, or ad hoc, increase in the quotas of Canada, Japan, and Germany but within the context of the General Review of Quotas.

Mr. Rye made the following statement:

> The staff papers do not suggest that we have made much progress at all in the various meetings of this Committee so far. It seems to me that, if we are to meet even the extended timetable that the Governors have granted us, we will need to begin very soon--preferably today--to form a clearer consensus on some of the key questions that need to be resolved.
>
> In so doing, we should have clearly in mind the role of quota increases in ensuring that the Fund has appropriate resources, up to the mid-1990s, to fulfill its current and prospective role. It would clearly be very desirable to substantially reduce, if not eliminate altogether, reliance on borrowed resources, so that the possibility of renewed borrowing can be held in reserve against any sudden emergency situation which would require a major step-up in Fund activities.
>
> This exercise also needs to strike a balance between two competing considerations--on the one hand, the need to move toward a realignment of quotas which better reflects members' relative economic positions, and, on the other hand, the need to avoid large disruptions in quota shares.
>
> Compromise is inescapable here. I agree that realignment is a very important objective, in the interest, as Mr. Yamazaki says, of "the smooth functioning of Fund operations." But we have to acknowledge that, over time, the quota distribution has been allowed to depart very significantly from economic realities, and that this cannot be rectified in one quota review, or even in two or three. We also have to acknowledge that quota calculations are not free of fault, and that a quota distribution based on these calculations would contain anomalies, some of them large, of its own.
>
> My conclusion is that we should look at this review as an opportunity to take some significant steps toward a more rational distribution of quotas, but that it would be wise not to be too ambitious. The figure of 20 percent for the adjustment coefficient, which crops up several times in the staff paper, seems to be about right.

Neither I nor my Australian authorities are at all impressed by the references on pages 21 and 22 of EB/CQuota/88/5 to Fund liquidity as an argument for a particular redistribution of quotas. Liquidity considerations seem to me to be essentially irrelevant to this review.

There seems to be nothing in the staff paper to indicate that this chair's preference, expressed earlier, for an overall quota increase of about 50 percent, would be inconsistent with a resolution of the various concerns to which I have referred. This, therefore, remains our position, though I would personally be prepared to consider a rather larger increase--one which brought the Fund to a total size of, say, SDR 150 billion.

As to distribution methods, while my constituency--Korea apart--maintains a preference for Method A, it may be that more progress toward the distribution objective could be made without too much disruption if some part of the increase were set aside for selective increases. There is a suggestion to this effect in the first complete sentence on page 10 (EB/CQuota/88/5), and I would like the staff to elaborate on this for the next meeting of this Committee.

My own view, however, is that the number of countries so singled out should be kept small. The footnote on page 9 of that paper suggests a criterion by which such a list might be confined to 17 countries, and such a number is more in line with my own thinking than even the short list of 27 countries brought out elsewhere in the paper. Perhaps the staff would be able, next time, to elaborate criteria under which, say, 15-20 countries would be eligible for selective increases.

Meanwhile, of course, Mr. Yamazaki has made a plea for an "ad hoc" increase, which, he has explained, would be outside, or additional to, any selective increase for Japan. As I see it, the essence of his case rests on the following points. First, as indicated by calculated quotas, in relative terms Japan's weight in the Fund is disproportionately low and has been for a very long time. Second, so far as one can foresee future financial and economic developments, Japan's relative strength is likely to continue to endure, and even to advance. Third, it is widely recognized that it would be appropriate--indeed desirable--for Japan to play a larger role in world economic and financial affairs, and Japan itself wishes to do so.

Founded on these points, the case for an "ad hoc" increase in Fund quota for Japan is obviously very strong. However, at least as strong a case can be made, on similar grounds, for another Fund member--namely, the Republic of Korea. To take the same three points in turn, Korea's actual quota is even more out of line with its calculated quota than is Japan's. On the basis of 1985 data, Japan's calculated quota is 6.3 times its actual quota, and on the list of Fund members ranked by this measure it is number 12. The ratio for Korea is 7.8 and it is number six on the list.

Second, again making all the caveats that must be attached to such forecasts, it seems clear that Korea's enhanced relative standing in world output and trade is an enduring one and, indeed, that the Korean economy is likely to continue to advance strongly in relative terms.

Third, increasing attention is being paid to the newly industrializing Asian economies, of which Korea is the leading example, particularly as concerns the Fund. As an important recent instance, the communiqué of the G-7 Summit devoted a full paragraph to these economies noting, inter alia, that "with increased economic importance comes greater international responsibilities and a strong mutual interest in improved constructive dialogue and cooperative efforts in the near term between the industrialized countries and the Asian NIEs." Moreover, Korea itself is willing and anxious to assume a role in the councils of the world more in keeping with its economic size and strength and has signaled, in its participation in the enhancement of the structural adjustment facility, its particular eagerness to do so in the context of the Fund.

Accordingly, my Korean authorities ask that, if Japan's request for an ad hoc increase should find favor with the Board, similar consideration be given to Korea.

Trying to put all this together, one comes up with the possibility of a three-tier process: an ad hoc increase, limited to Japan, Korea, and other countries, if any, which can make an equally compelling case; the bulk of the remaining increase to be allocated under Method A, roughly equally (but not excluding 40/60 or 60/40) in proportion to actual quotas and to calculated quotas; and the rest of the increase to be allocated under Method B, with a small group of countries (certainly smaller than 38) to be eligible for a selective increase.

However, if Korea's application for an ad hoc increase were to be met positively, my constituency as a whole would probably be satisfied by the simple application of Method A.

A remaining question is the possible use of 1986 data. I am grateful to the staff for responding to Directors' requests for the updating. I note, however, the increase in reliance on estimated data, and the quite sharp revisions to some individual countries' shares. I wish for the time being to reserve judgment on this question.

In conclusion, I hope that as a result of our discussion today, the staff will be able to prepare a paper for the next meeting of this Committee which begins to focus, in a more precise way, on the key questions for us to address.

Mr. Prader made the following statement:

We continue to support an overall increase in quotas of 100 percent, which we regard as fully justified by the uncertainties about the international economic situation in the coming years. Above all, we must ensure that despite these uncertainties, the Fund will have the resources it needs to meet its policy objectives. The Fund must maintain its central role in the resolution of external imbalances. Moreover, there is a clear need for many member countries to pursue adjustment policies over longer periods than formerly was the case, a need which has been recognized with the reactivation of the extended Fund facility. Quotas must remain the preferred source of financing for the Fund's general activities.

As for today's discussion, I was surprised to learn that the staff is trying to reopen the discussion on certain issues in the quota debate that were already settled in earlier discussions. This applies in particular to the technique to be used for distributing selective quota increases: during our March 14, 1988 discussion (EB/CQuota/88/4), a large majority opted for Method A on the basis of this technique's merits of uniformity, simplicity, and fairness. Reopening discussion of this issue would be tantamount to ignoring the views of the majority and can only impede the progress of our discussions and create frustrations.

Since no explanation has been given, we can only speculate about the staff's reasons for bringing this issue back onto our agenda. For the sake of argument, let us assume that it was done in response to a perception that Method A would be a slow and inadequate means of accomplishing the desired goal of adjustment of quotas to changes in relative economic shares. While most Directors will admit that Method A will not be as fast as Methods B and C for large-scale reconciliation of present quota shares with the quotas justified by changes in actual economic shares, most Directors also feel that, measured against all the competing objectives and interests of the international financial community, of which the economic share issue is but one, Method A is superior to the others.

In addition, the staff paper itself demonstrates that Method B has its own drawbacks if applied to a short list of members and if the selective increase is rather large--drawbacks which would decrease or even extinguish the benefit of selective increases, namely, the reduction of discrepancies between actual and calculated quotas. In addition, Method B's higher adjustment factor tends in some cases to create or aggravate problems in multicountry constituencies, so that it is questionable whether the marginal increase in voting power of one or two members within a constituency is worth the overall loss of the stability in these constituencies.

Our chair has consistently argued for a gradual adjustment of quota shares by way of Method A. At the same time, we recognize that there are cases which cannot be solved with any one formula and therefore require special treatment; for these cases, Method A's adjustment coefficient is too small, while the results of Method B would be unsatisfactory in several respects. The quota calculations based on data ended in 1986 underline the case for extraordinary adjustments, and in March we indicated that we are prepared to base the quota calculations for this review on updated data.

Since the Fund has traditionally made its quota decisions in response to specific economic and social circumstances rather than repeatedly rigidly applying an unchanging set of formulas, we should seek an approach suited to the particular problems of the present. If I correctly interpret the situation at hand, this would involve a compromise between the large group of member countries whose discrepancies between actual and calculated quotas are average, and member countries whose quota discrepancies are exceptionally large and persistent.

In the context of the present discussions on the scope of the selective increases, this approach would imply combining Method A with discretionary ad hoc increases for one or two members requesting them. In other words, we could decide to continue making gradual quota adjustments based on Method A for the majority of members having discrepancies between calculated and actual quotas, while allowing for ad hoc increases for the very limited number of members whose quotas are spectacularly out of line with economic developments and which have played an exceptional role in the financing of the Fund.

To make this concept operational, I suggest using the following criteria as possible ways of narrowing the choice to one or two candidates, and that all three of the criteria I am about to mention should be met to qualify a member for an ad hoc increase: (1) members whose calculated quotas are roughly twice their actual quotas; (2) members whose ratios of calculated to actual quotas have been more than 150 percent over a period of more than two quota reviews; and (3) members that have made exceptional contributions to Fund operations, commensurate with their calculated quota share.

Criterion 2 is designed to take account of long-term changes in relative economic positions while excluding cases of large present discrepancies between calculated and actual quotas which may only be transitory. Criterion 3 would take account of some countries, notably Japan, which have made extraordinary financial contributions to Fund activities outside quota-financed operations but have not been given appropriate voting power in the Fund. These countries' desire to see their extraordinary financing contributions to international economic cooperation receive recognition in the form of increased quota shares is legitimate.

In expressing our willingness to accommodate the concerns and interests of some exceptional cases by way of discretionary quota increases, we must stress that changes in quota should address the demand to maintain stability in the share of country groups; it is particularly important to avoid having the economically strongest group in the Board obtain the majority of votes purely as the result of the mathematical application of formulas or discretionary quota increases. Of equal importance is the need to maintain the position of the smaller industrial countries as much as possible. In this connection, we are less concerned about the voting power implications than the need to preserve the mediating role these countries have traditionally played in the Fund; the role of basic votes might have to be re-examined, as is happening in the World Bank, where such a review is currently under way.

In other words, the room for discretionary quota increases must be seen as being circumscribed by the need for a balanced distribution of quota shares, even if this should require applying the symmetry principle to discretionary quota adjustments--for example, by reducing the quota increases of countries whose actual quotas are substantially in excess of calculated quotas.

On the issue of the apportionment of equiproportional and selective quota increases, we would prefer a large selective component, provided Method A is adopted for distributing selective increases. This would mean selective increases for all member countries. Our final position will of course be determined by the outcome of the decision on the overall increase.

We support Mr. Yamazaki's request for a work program on the Ninth Quota Review. Among other things, the presentation of a work program might help us avoid repetitious discussions of issues that have already been settled by a majority of the Board.

Mr. Nimatallah made the following statement:

The inclusion of 1986 data would lead to undesirable results for a large number of developing countries. The calculations, as I expected, would lead to a decrease in the overall share of the developing countries by taking away more than one full percentage point in favor of the industrial countries, which is not desirable at this time, as most Executive Directors, including myself, have already asserted. What bothers me most, unfortunately, is that Japan will not improve its chances of a higher selective adjustment with 1986 data than it does with 1985 data. In any event, the idea was to test the impact of the inclusion of the 1986 data in the calculations first, and then decide whether or not to include those data. The result of the test shows that 1986 data would do more harm than good. After all, 1986, as the staff explained, was truly an odd year, as it witnessed relatively small overall economic growth, sluggish world trade, a sharp decline in export revenue of primary commodity exporting countries, and, of course, relatively large-scale changes in exchange rate relationships. Therefore, the calculations should not include 1986 data.

I am aware that Japan's primary purpose is to improve its relative quota position, and, accordingly, it has been pushing through all sorts of unnecessary requirements, in my judgment, suggestions and changes that, unfortunately, if adopted, might end up hurting developing countries in general, and small countries in particular. I am glad that Japan is now going right to the point by requesting an ad hoc quota adjustment. Japan's message is clear, and there is no question that it deserves a special quota adjustment. What is needed is a quiet process of negotiation to determine how much of an increase Japan can receive during this round. I support Japan's request for an ad hoc increase, as well as Korea's request. At the same time, my primary concern is the certain negative impact on the small countries. To minimize that impact, I suggest that, instead of deducting ad hoc and selective increases equiproportionally from all members as usual, an increase should be granted to a few countries only, including Japan, two thirds of the increase of each country should be deducted from the countries above that country on the list of members by present quota size and one third should be deducted from the countries lower on the list . This method will mitigate the negative impact on very small countries, as the heaviest part of the burden of the change would be on the stronger countries on the list.

As to selective increases, as I said during the previous discussion on this subject (EB/CQuota/88/3 and EB/CQuota/88/4, 3/14/88), such increases should be confined to the very few countries whose present quotas, when compared to their calculated quotas, are way out of line by a difference of several multiples, and I join Mr. Rye in asking the staff to come up with clear criteria that will keep the selective increases to a very small number, preferably below 10. Assuming that a compromise overall increase that will not exceed 25 percent of present quotas is adopted, it would be more equitable to effect most of that increase equiproportionally. Small countries should not lose any of their voting power; the burden of the effects of the quota adjustments should be borne by the larger countries.

Mr. Ismael made the following statement:

The remaining issues in the Ninth General Review of Quotas are indeed difficult issues. The main difficulty arises from the fact that we assign too many conflicting objectives to quotas--quotas are expected to ensure adequate liquidity for the Fund; quotas are expected to ensure adequate access to Fund resources for the borrowing members; and, at the same time, quotas determine the voting rights and representation in the Executive Board. Hence, our individual and collective preferences will have to take all these divergent objectives into account in reaching a final decision on the size and distribution of quota increases.

There are now essentially four interrelated issues to be addressed: whether the Ninth General Review should be based on 1985 or 1986 data; what the size of the quota increase should be; how the quota increase should be distributed between equiproportional and selective increases; and what technique should be used for distributing selective increases in quotas.

On the first issue, data, I believe that, in principle, it is better to use the latest available data in quota calculations, for two reasons: (1) we are living in a dynamic world with rapid changes, which can be captured only by the use of the latest data; and (2) the Executive Board has already agreed that, as far as possible, quotas must reflect the relative economic position of member countries, and this can be achieved in part through the use of the latest data. For these reasons, I believe that we should not only use the 1986 data for the quota exercise, but also consider using 1987 data, which should become available at the time the Ninth Review is completed.

With regard to the second issue of the size of the quota increase, I note that EB/CQuota/88/1, issued in February 1988, provides us with a convincing case for the doubling of Fund quotas, which this chair strongly supports. Among the considerations for a doubling of Fund quotas are the need for the Fund to be in a position to effectively meet its financial challenges in the 1990s, the unfavorable prospects for the world economy, which suggest a potentially large need for both adjustment and finance, and the important role that the Fund is expected to play in restoring confidence of private creditors in debtor countries, not only through the Fund's catalytic role, but also by providing substantial resources on its own account. In addition, this Board and the Interim Committee have reiterated time and again that quotas should remain the principal source of the Fund's liquidity. A doubling of quotas would, therefore, be necessary to phase out borrowing entirely and allow for a modest expansion in Fund credit.

On the third issue of how the quota increase should be distributed between equiproportional and selective increases, I believe that this will have to depend on the decision of the size of the quota increase. I can endorse the staff's view that a relatively small overall increase will make it more difficult to effect wide-ranging selective quota adjustments or help maintain the general adequacy of quotas for all members. I could, therefore, support a combination of general and selective increases along the lines followed for the Eighth General Review--namely, 40 percent equiproportional increase and 60 percent selective increase--on the assumption that a doubling of Fund quotas is agreed on and the same method is used for distributing selective increases as that used for the Eighth Review. If, however, the quota increase is smaller and a different method is used for distributing selective increases, I would prefer a somewhat smaller selective increase.

Many among us who would prefer a large equiproportional component of the quota increase realize that the selective component is essential for the Fund's liquidity. At the same time, however, we are concerned about the need to maintain adequate access to Fund resources and to retain our relative voting strength in the institution. One way of dealing with these conflicting objectives would be as follows.

First, we could address the concern regarding access by reaching an early decision to maintain the enlarged access policy during the period to the Tenth General Review of Quotas and to increase access under this policy. Such a decision will take care of the concerns regarding the need to maintain adequate access to Fund resources.

Second, in order to meet the concern regarding the erosion of the relative voting strength, the Fund could decide to increase the basic votes of member countries so that political concerns can be mitigated to some extent, if not removed altogether. I realize that it may be difficult to increase basic votes to the extent of re-establishing the ratio of total basic votes to total votes that existed in the 1950s and 1960s. Nonetheless, we should move in that direction by having at least a threefold increase in the basic votes.

Upon reaching an early agreement on the enlarged access policy and basic votes, it should become relatively easy to agree on a large selective increase, which should then be distributed only to those countries which are in a position to provide liquidity to the Fund now and in the next five years.

As far as the method for distributing the selective element is concerned, I note that there are advantages as well as shortcomings in both Method A and Method B. I also note from page 8 of the staff paper that if selective increases were given to all the 136 members whose calculated quotas exceed the actual quotas, then the distribution using Method A or Method B will not be materially different. Differences would arise only if it is decided to limit the distribution of selective increases to a relatively few countries.

My preference at this stage would be for Method A, which would avoid large and abrupt changes in the ranking of quotas and in quota shares and voting power. However, Method A combined with a relatively large selective increase in quotas could ensure a significant shift in quotas in favor of members whose share in calculated quotas is out of line with actual quotas.

Another method which might be considered and which could prove beneficial to the Fund's liquidity is to have a distribution which combines Method A with an ad hoc approach and a tripling of basic votes. Under this approach, the basic votes would be increased and a given proportion, say 80 percent of the quota increase, could be distributed on the basis of Method A, and the remaining 20 percent could be distributed on an ad hoc basis to those members which are willing and likely to provide liquidity to the Fund in the next five years. The ad hoc approach may require staff judgment on the current and prospective balance of payments for a limited group of countries. I believe that this approach will maximize the Fund's liquidity

> and will also meet the wishes of the Japanese and Korean authorities to have an ad hoc increase so that they can increase their financial support to the Fund. The proposal for ad hoc increases could also facilitate a larger quota increase than would otherwise be the case. I would appreciate it if the staff could provide the Board with quota calculations based on different quota sizes and different distribution between selective and equiproportional increases on the assumption that the basic votes are tripled, that 80 percent of the quota increase is based on Method A, and the balance of 20 percent is distributed to a very small group of countries which are able and willing to provide liquidity to the Fund in the period leading up to the Tenth General Review of Quotas. These calculations will help the Board to give further consideration to my proposal.

Mr. Marcel said that his authorities still had a strong preference for a doubling of quotas that would bring the Fund's capital up to SDR 180 billion. As was noted in the staff paper and by Mr. Yamazaki in his opening statement, a large increase was needed if two objectives were to be achieved, namely, the restoration of the Fund as a quota-based institution capable of financing its lending activity exclusively with ordinary resources, and the preservation of the present absolute level of access for all member countries--and not merely on an average basis. The precise size of the Fund that the staff considered consistent with those objectives was SDR 166 billion. As a fallback position, his authorities could accept a size of the Fund of SDR 160 billion, equivalent to an overall increase of roughly 75 percent.

The new staff calculations based on data ended in 1986 were clearly warranted in light of the one-year postponement that had been agreed for the completion of the Ninth General Review, Mr. Marcel said. Therefore, his authorities expected the calculations to be based on 1986 data. The staff paper made a very convincing case for such an updating on purely statistical grounds. In that connection, the absence of potentially disruptive effects on the structure of quota shares was particularly noteworthy for non-oil developing countries, which were most exposed to abrupt quota shifts. The use of data ended in 1986 should not raise major difficulties, and the staff should present a new set of calculations based on the updated figures.

As to the various methods of distributing the overall increase, the objective of promoting a structure of quotas that was more in line with the relative economic position of member countries must remain the highest priority, Mr. Marcel considered. That conclusion implied that Method A, used for the Eighth General Review, no longer seemed appropriate, given its potentially moderate impact on actual quota shares. If more significant realignments within the membership were to be made, the staff paper clearly showed that the selective component of any quota increase had to be confined to a subgroup of member countries. A criterion that naturally came to mind for selecting that subgroup was the existence of a calculated quota share that exceeded the actual one. His authorities therefore fully supported Method B, which involved 38 member countries. In addition, they could accept the staff's proposal for a 50/50 apportionment between equiproportional and selective increases, with a view to preventing excessively abrupt changes in members' relative positions.

The issue of a selective quota increase was particularly relevant for member countries whose quota shares were excessively out of line with their real economic and financial weight. Furthermore, the need to correct such misalignments was strengthened in cases in which the countries concerned were maintaining a very cooperative attitude toward the Fund.

Mr. Grosche made the following statement:

My authorities continue to consider that a strong increase in aggregate quotas is required. The Fund needs to be able, over the longer period up to the mid-1990s to properly perform its essential role in the international monetary system without relying on borrowing as a normal procedure.

During the previous discussion on the size of the Fund, I mentioned that a doubling of quotas seemed to be a little bit on the high side, and a 50 percent increase clearly on the low side. After further reflection, my authorities believe that a new Fund size of SDR 150 billion, an increase of two thirds, could present a reasonable compromise between two conflicting objectives, namely, keeping the Fund strong and gaining the necessary approval from legislative bodies for an increase in national contributions.

As to the methods for the distribution of such an increase presented in the staff paper, I do not think--for the reasons outlined by the staff--that Method B, with a very short list of members eligible for a selective quota increase, displays much inherent logic: the cut-off numbers for establishing the eligibility list have to be determined in a completely arbitrary fashion, and the adjustment coefficient begins to decline--or becomes even negative--when the proportion of the overall increase devoted to selective increases exceeds a certain point. We are, therefore, not in favor of this particular method; nor do we consider Method C--which was illustrated in an earlier staff paper (EB/CQuota/88/2)--to be well suited for building a consensus.

I detect, however, some merit in using Method B with 38 selective increases. That method displays a certain logic, as it allows all those members whose shares in calculated quotas exceed their shares in actual quotas to become eligible for selective increases.

As indicated at previous discussions, it would also be agreeable to us to use Method A, which involves several features that make it attractive: it is simple, easy to understand, and was already used in the implementation of the Eighth General Review.

In applying Method A, we would opt for a 40/60 apportionment of equiproportional and selective increases. We recognize--as Mr. Yamazaki so aptly described in his statement--that for several members there is indeed a need to narrow the gap between actual quotas and member countries' relative importance in the world economy. In choosing a higher selective portion in Method A, together with a strong overall increase in quotas, we would go a long way in not only ensuring a meaningful increase in quotas for all members, but also in restructuring the quota shares to better reflect members' relative economic positions.

In opting for a formula approach, as our clear preference, it becomes obvious that we prefer a smooth adjustment in quota shares rather than swift shifts through ad hoc increases, particularly if they were to produce new inconsistencies. Although I am fully aware of the large gap, in particular in Japan's and Korea's quotas and would like to see these gaps reduced, we certainly could not go along with an approach which would, for example, have the effect of incorrectly presenting my country's position in the Fund, which is now appropriate, as reflected in the present ranking of actual and calculated quota shares as well as in nearly all the quota calculations before us.

I associate myself with those who strongly believe that the Fund should not normally rely on borrowing, and that the Fund should phase out its current borrowing over the next years.

I have nothing to add to what has been said in the staff paper about the overall impact of an increase of quotas on Fund liquidity.

At this stage, it is a little early to discuss the question of voting power in the Fund, although I noted Mr. Ismael's presentation with interest and would like to study it further.

I commend the staff for the background paper. I am sorry for the additional work load, but the results are worth it.

Although a number of data are still incomplete or prone to corrections, the results are already of such a quality as to be confidently used for updating the quota calculations.

Mr. Sengupta made the following statement:

Before discussing the issues raised in the staff paper, I would like to respond to the request made by Mr. Yamazaki. My authorities believe that the Ninth General Quota Review should be completed at an early date, and that all countries should have their quotas increased according to the method that is agreed. Nothing should be done to delay this process or to dilute the impact of these exercises for the membership as a whole. In general, therefore, we do not favor an ad hoc increase of quotas of individual members.

However, in the circumstances--there is going to be an inevitable delay in reaching agreement on the general increase of quotas--we see considerable merit in the Japanese suggestion. There is no doubt that the present quota of Japan does not reflect the relative strength of the country and the role it is playing in the international economy. Not only has the yen become a major international currency, but also Japan is playing a very active role in the international monetary system in assisting the Fund to play its role of maintaining orderly development of the system; of particular importance is the role that Japan is playing to help the developing countries. For all these reasons, we will be prepared to support an ad hoc increase in Japan's quota as a very special case. However, we would not like such ad hoc increases to be granted to any other country. The reason for my opposition of the extension of this ad hoc increase principle is not that others may or may not be able to make a proper case for such an increase. The only reason for my not favoring an extension is that once we start that process it may dilute the negotiations on the Ninth General Review, an effect I am sure none of us would be willing to entertain. The amount of the ad hoc increase of Japan's quota as a special case will of course have to be decided after a proper study, which Mr. Yamazaki has called for. We will discuss that issue when the study is prepared and submitted to the Board.

At this stage of the discussion on quotas, we wish to restate some of our general positions on the size and distribution of quota increases. The staff paper containing alternative calculations on this subject does not give any compelling reasons for changing our position.

It is clear from the exercises that the distribution of quota increases is very dependent on the size of the Fund. In general, a relatively small increase in the size of the Fund would mean that the scope for selective quota adjustments would be limited. The range of possible adjustment coefficients would increase as the size of the Fund increases, although, as the staff points out, they may turn adverse after a certain point, especially if the selective increases are limited to a small number of countries. A priori it is difficult to make a determination that a certain average adjustment coefficient would best reflect the relative economic positions of the membership at large. We should, therefore, try to agree first on a size of the Fund.

Whatever the size of the quota increase, it is necessary as a minimum to safeguard the existing quota structure. The share of developing countries under the Ninth General Review should be no less than the existing level of 37.6 percent. In fact, we have argued that it should increase to 40 percent, given the financing needs of developing countries. We have argued for the use of the criterion of poverty in these calculations. If that cannot be done now, we should at least ensure that the low-income countries' shares will not be adversely affected. The existing formulae give a highly skewed quota distribution against non-oil developing countries--so much so that their share would, according to the calculated quota distribution, decline by as much as 7 percentage points. To prevent this, a predominant emphasis has to be placed on the equiproportional element as a method of quota distribution.

Table 1-B in EB/CQuota/88/5 shows that Method A gives a share that is close to the existing share of developing countries and of non-oil developing countries, but still fails to protect the shares from declining from the present levels. Other options--Method B with 27 or 38 selective increases--do not help to get these shares anywhere close to the existing shares, unless the equiproportional element is high and the size of the quota increase is limited.

My rough calculations for countries eligible to use the structural adjustment facility show that their total share now is only about 9.725 percent, and it should not be at all difficult to protect this share. Unfortunately, even that level would decline to 9.132 percent under Method A, 8.683 percent under Method B with 38 selective increases, and 8.682 percent under Method B with 27 countries, if the size of the Fund were SDR 115 billion and the distribution between equiproportional and selective elements were 50:50. In these circumstances, the protection of the share of countries eligible to use the structural adjustment facility should be an explicit goal of the exercise.

While protecting the existing share of the developing countries, particularly the low-income countries, is the minimum required, efforts should be made to increase it further. Many of these countries face acute balance of payments difficulties and a shortage of market and official financing. A modest improvement in their share would hardly strain the Fund's liquidity. This was one of the main points that we made in our technical note on this subject. If absolute access for borrowing members should be raised, it would be necessary to improve their quota positions in the Fund, since access is always set in terms of quotas.

As to the questions of maintenance of the present absolute access and phasing out of borrowing by the Fund, we agree with the staff's assessment of the needed size of the Fund.

The use of 1986 data causes major shifts in the calculated quota positions within the country groupings and between countries. The degree of estimation too seems to be large. It would be difficult to make a final judgment, at this stage, that 1986 data would be more useful than the 1985 data. However, we have an open mind on this subject. If it is feasible to work with the 1986 data, we would not object to that.

Mr. Mawakani said that, despite the staff's additional work on the Ninth General Review, he was not yet in a position to have firm views on the substantive issues. During the previous discussions on quotas, his chair had emphasized that the Executive Board should give due consideration to the concerns of the poorest countries, which wished to increase or at least maintain their present quota shares. Accordingly, the quotas of those countries should be increased. It was important to draw special attention to the concerns of those countries during the discussion because those concerns had not been addressed in the staff papers. In fact, under each of the scenarios for developing countries presented in the staff papers, those countries, especially those in his constituency, would suffer a substantial decline in quota shares. That situation could not be allowed to prevail; it would have been corrected if Mr. Sengupta's proposal in EB/CQuota/88/4 had been taken into account by the staff, and that proposal should therefore be incorporated in future staff papers. Finally, he strongly supported Mr. Yamazaki's view on the size of the quota increase; given Japan's growing importance in the world economy, Japan should be eligible for an ad hoc increase. In addition, he sympathized with the Korean authorities, who wished to have an ad hoc increase in Korea's quota.

Mr. Fogelholm made the following statement:

As was stated on previous occasions, this chair has a clear preference for a substantial quota increase--roughly a doubling of overall quotas. As the reasons behind our position have been expressed in great detail at previous meetings, I will not reiterate them on this occasion. Instead, I will concentrate my remarks on the two specific issues to be addressed today: the distribution of increased quotas, and the data to be used in the calculations. It should, however, be noted that our position on the question of distribution depends largely on the ultimate size of the overall quota increase.

The Board faces some conflicting requirements with respect to the basic distribution alternatives. On the one hand, the quota structure should reflect to a greater extent than at present member countries' relative economic positions and thereby their rights and obligations with respect to the Fund. The divergence between present and calculated quotas has, for a number of countries, clearly become excessive. On the other hand, we would like to ensure that most countries receive at least a meaningful absolute increase in their quotas. Thus, a balance needs to be struck, and that is the reason we believe that it would be appropriate to apply a roughly equal split between the equiproportional and selective elements.

The choice of the method to distribute the selective element cannot be seen in isolation and depends not only on the overall size of the quota increase, but also on the general distribution between the equiproportional and selective elements. Nevertheless, we believe that the larger the overall increase, the more emphasis can be placed on an adjustment of the quota structure, which would speak for the use of Method B. In this context, we would like to see the list of countries eligible for a selective increase be limited through some appropriate and objective criteria. It is, however, important that this limitation be based on criteria that are generally applicable to all countries. The criteria must, nonetheless, be such that overshooting in the adjustment of quotas is avoided.

However, should the overall quota increase turn out to be considerably smaller than what this chair is aiming at, more weight should be given to the application of Method A in order to prevent a reduction of some member countries' access to Fund resources. If the Board were nevertheless to choose Method B or a combination of Methods A and B, the equiproportional element should be larger than the selective element.

It is natural that the Ninth Quota Review in general should lead to an overall average increase in actual access for member countries. However, at this stage we are not willing to exclude a reduction in actual access in some exceptional cases. In any event, it is logical to assume that once the quota increase has been completed, steps will be taken to phase out the enlarged access policy in such a way that at least a portion of the quota increase corresponds to the reduction in the current access limits.

During the previous meeting on quotas (EB/CQuota/88/5, 3/18/88), many Directors spoke in favor of using the latest data--for 1986--for quota calculations. We concur with that view, particularly in light of the fact that the Ninth Quota Review is being delayed; and since it would seem that the quality of the data base is broadly preserved, we would, if possible, even like to use 1987 data, provided that such use would not further delay the quota increase, and that the data base thereby would not deteriorate.

Mr. Enoch said that his position remained as he had stated it in March 1988: a quota increase of about 25 percent would be appropriate, as it would be sufficient to gradually repay borrowings and would enable the Fund to meet its lending commitments on the basis of almost any probable scenario.

He preferred Method A for allocating any selective distribution. That method went some way toward satisfying the demand for a quota structure that better reflected member countries' present relative positions but would do so in a gradual and relatively undisruptive way. Method A could be applied uniformly across the membership and was therefore fairer and less divisive than Method B, which would involve setting arbitrary eligibility criteria. As the staff had noted, Method B could produce extreme cases of individual adjustment that either overshot the desired adjustment or resulted in a widening of the disparity between member countries' calculated and actual quota shares. The staff had suggested on page 9 of EB/CQuota/88/5 that the extent of such difficulties might be limited ex ante either by increasing the overall quota increase devoted to an equiproportional increase, or by adopting a longer list of member countries eligible for selective increases. However, such approaches would apparently lead to further complications, and it therefore seemed better to use Method A, which was far simpler and guaranteed a uniform adjustment coefficient for all member countries.

During the previous discussion on quotas, his chair had suggested following the precedent of the Eighth General Review in determining the ratio between uniform and selective increases. While that approach would indicate a 40/60 ratio, he could go along with the 50/50 ratio illustrated in the staff paper. The outcome that he preferred would be very close to that illustrated in Table 2 of Annex II to EB/CQuota/88/5, which showed a Fund of SDR 115 billion, with quotas distributed according to Method A.

The staff paper showing the effects of using 1986 data was interesting, and he would not wish to stand in the way of their use if the Executive Board wished to do so. However, it seemed that, by the time the quota increase was finally agreed, the Executive Board would be close to being able to use 1987 data for some categories. Therefore, he would be interested in hearing from the staff how much 1987 data would be available in preliminary or actual form if the quota increase was agreed just before the deadline of end-April 1989.

The staff should propose a work program for the Ninth General Review, Mr. Enoch considered. With such a program, the Executive Directors could resolve the various issues that remained and complete the review by the current deadline.

Mr. Abdallah made the following statement:

> During the previous discussion on quotas, this chair emphasized certain basic concerns. First, the size of the Fund should be significantly increased to promote the process of adjustment through financing the prospective large-scale external imbalances of developing countries, without the Fund itself having recourse to borrowing. Second, these resources should be made available to developing countries through a need-based determination of quotas. Third, the integrity of the two sub-Saharan African chairs should be maintained both in structure as well as voting power.
>
> The two papers have moved the discussion further along in the sense of providing scenarios illustrating the interrelated consequences of five projected levels of the size and distribution of quota increases through different permutations or adjustment coefficients based on equiproportional and selective increases, and assuming historical access and usable assets ratios. However, a careful examination of the results leaves issues concerning the implications of reduced quotas and voting power still unresolved, and I do not expect that a satisfactory solution can be reached at this stage.
>
> In view of our basic concerns, our position can be summarized as follows. First, the size of the increase in the Fund should be established while paying due regard to the need to maintain the level of maximum absolute access for the member that would be expected to experience the largest reduction on its share in the Fund. Second, the Fund should become wholly self-reliant in the sense of financing its ordinary lending entirely through quota-based resources and without recourse, except on a very limited basis, to the General Arrangements to Borrow (GAB). Third, there should be a measure of selective increases given to a few members whose calculated quotas are grossly out of line with their actual quotas, but the predominant increase in quotas should be distributed on an equiproportional basis. Japan, Korea, and others in similar positions deserve an adjustment in their quotas to bring their actual

quotas more closely into line with their relative economic strength as reflected in their calculated quotas, but without causing any drastic realignments.

Accordingly, we favor the application of Method A, to provide a predominant equiproportional allocation for all countries, other than for a restricted subset of 17 countries whose ratios of calculated to present quota shares based on 1986 data exceed 1.5 and for which a restricted variant of Method B should be applied in the form of an appropriate ad hoc adjustment. This position is based on the full expectation that the major beneficiaries within this subset will recognize that with increased voting power goes an increased responsibility for their involvement in the activities of the Fund, particularly in helping developing countries--especially those outside the Asian region--in their efforts to promote growth and adjustment. In this context, I particularly note Mr. Yamazaki's observations in the second paragraph of his opening statement regarding the Fund's global responsibilities, especially in solving international debt problems.

Before our next discussion on the Ninth Review of Quotas, the staff should provide further information showing the application of quota formulas, particularly as they bear on the voting power of developing countries, through an updating of the analysis contained in the staff paper entitled "Participation of the Developing Countries in the Decision Making of the Fund: Questions Regarding Basic Votes" (SM/80/235, 10/17/80).

Mrs. Filardo made the following statement:

As a general principle and as a permanent condition, the Fund should be adequately endowed with usable resources to cope with its functions in the international monetary system. Evaluating the optimum amount of increase in quotas seems very difficult in view of the multiple considerations that have to be taken into account. However, three areas have to be assessed to define the size of the Fund we would like to have: the world economic outlook; the present and future liquidity of the Fund in the context of the economic environment; and the role that the Fund should play in coping with the problems facing the international monetary system.

It seems clear from recent analyses by the staff that present imbalances among industrial countries will remain for some time or, at least for the period of the next increase in Fund quotas, and that there will probably be uncertainty about the sources of balance of payments finance. These trends could adversely affect the economic growth prospects of other countries and could lead to possible use of Fund resources by these countries. Furthermore, the prospects for developing countries, especially those of Africa and Latin America, are no less pessimistic. Given their lack of access to private financial markets, many of these countries will be obliged to have greater access to official and multilateral institutions if they are to pursue policies to obtain adequate economic growth and a viable balance of payments.

The Fund's liquidity must be assessed in the light of the Fund's ability to provide an appropriate level of support to all members, including the larger ones. This underscores the importance of the relationship between quotas, access, and borrowing by the Fund. Although, as Mr. Yamazaki has emphasized in his statement--which we noted with sympathy--it is crucial that quotas reflect the economic importance of each member, avoiding continuous discrepancies between actual quotas and underlying economic realities. Their possible relative modification of quotas should be cautiously assessed in the context of the need to maintain a proper balance among different regions and their representation in the Board as well as their voting power, given the kind of decisions we are continuously dealing with. Since this consideration will imply an adverse change in the size of the quotas of many members, especially of those which most require the Fund's assistance, it will be crucial at least to preserve the present absolute level of access to Fund resources. The issue is whether the Fund should prefer to use only ordinary resources instead of borrowing resources. In our view, the Fund should rely on ordinary resources, in which event a period of phasing has to be envisaged, while substitution is pursued to avoid a change in the policy on enlarged access. By the same token, it would also be important to determine the means of quota payments and the selective increase to preserve the usability of resources at a high level, as at present.

It is clear that, given the uncertainty in the world economy and the present economic situation of highly indebted countries, including their lack of access to private financial markets, the Fund has a very important role to play not only in promoting active surveillance, but also in being able to provide its members with adequate resources to reasonably finance their needs. The Fund must therefore have ample resources at its disposal to respond swiftly to its members' requirements and to induce others--including the private sector--to provide financial resources. It is essential that the Fund be seen to be able to maintain an effective catalytic role at all times.

In light of these considerations, it seems obvious that the size of the quota increase should be large; apparently many

Directors agree that the size has to be doubled. In previous meetings we endorsed this criterion, and we would like to reiterate it. Nevertheless, in order to properly evaluate the optimum combination of the equiproportional and selective elements within the overall increase, the criteria to determine members eligible for a selective increase in quotas and the technique of distribution, it is essential, as Mr. Ismael and Mr. Sengupta have stated, to agree on the size of the quota increase and on the different issues posed by the staff in the text on page 13 of EB/CQuota/88/5, which assesses alternative quota calculations. With the Board's guidance the staff will be able to estimate illustrative quota calculations for both 1985 and 1986. Although the staff has made an excellent effort to present a different set of calculations, it is clear that the 1986 data are very preliminary; it will be necessary to update them to the extent that information is available.

Our final position on quotas will be expressed in future Board meetings, since the Board is still at a very preliminary stage of its discussion. In principle, we prefer Method A, but we are prepared to assess the study that will evaluate the requests of Japan and Korea. My Spanish authorities prefer the method used in the Eighth General Review of Quotas and to include a selective element for those countries whose ratio of calculated to present quotas is greater than one, using data for 1986.

Finally, we look forward to considering a work program for the present quota review.

Mr. Salehkhou made the following statement:

Before addressing the specific discussion topics, I would like to reiterate the general position of this chair on quota reviews. We feel strongly that the Fund has been and should remain a quota-based institution if it is to function effectively in promoting the cause of international financial stability and maintaining its international character and cooperative spirit. Accordingly, due consideration should be given to the Fund's liquidity, self-sufficiency, sufficient access to its resources, and members' quota shares being compatible with their economic weight as well as their balance of payments needs. The latter clearly calls for a delicate balance to be struck for the mutual satisfaction of both creditors and borrowing members.

The staff paints a rather gloomy picture of the global economy in the 1990s, which justifies the conclusion that the Fund's requirements will increase. Given the consensus shared by a large number of members, the Fund should phase out external borrowing and rely mainly on its own resources. In this connection, it is disturbing to note the call by some Directors to phase out enlarged access rather than agree to augment the Fund's own resources by way of a substantial increase in quotas. This will also strengthen the Fund in its catalytic role, as the Fund itself would become an active participant in the efforts to meet members' balance of payments needs.

Furthermore, by relying on its own resources, the Fund would help lower borrowing costs by not increasing the demand for loanable funds, thus bringing about more stability in the international financial system. Moreover, the Fund would better preserve its international character if it could truly become the lender of last resort. Likewise, by becoming financially more independent, the Fund could be better able to preserve its cooperative spirit. Finally, and in the same spirit, the developing country members' quota shares, which have remained relatively low in recent quota reviews, should be strengthened so as to better serve the interests and increasing needs of the developing country members. The staff should be encouraged to study ways and means to achieve this end, and efforts should be made at least to preserve the present quota shares of this group of members.

Before turning to the specific issues before the Board, I would like to note that there appear to be some ambiguities regarding both the source and bases of dates and the staff estimates for the calculation of quotas for the Islamic Republic of Iran. While communications on this matter with the authorities have been difficult, I have been and will continue to be in contact with the Treasurer's Department in the hope of reaching a satisfactory solution.

Against this background, I will address the issues raised in EB/CQuota/88/5.

On the combination of equiproportional and selective elements within the overall increase, my first preference would be for the staff's proposed calculation on the basis of Method B with a short list of members eligible for selective increase. This approach would, inter alia, reduce the disparity of those members whose calculated quota shares are most out of line with their present quota shares and would strengthen the Fund's financial position by enabling the Fund to acquire more usable currency, as the staff has clearly demonstrated.

Regarding the criteria to determine members eligible for a selective increase in quotas, I would opt for the short list of those members. Given the financial nature of the institution, I agree with the notion that members' representation and, accordingly, their participation, should be commensurate with their economic weight in the global economy.

Given the already low relative position of developing countries in the Board, care should be taken to minimize the adverse impact of any selective increase, ad hoc or otherwise, on this group of members. In this connection, I fully share Mr. Nimatallah's concerns about the use of 1986 data for quota calculations. While I sympathize with Japan and Korea's requests for increases in their quota shares, I wish to remind the Board of a basically similar request by my Iranian authorities submitted to the Board at EBM/84/41 (3/14/84). Specifically, my authorities, recognizing the necessity of a speedy conclusion of the Eighth Quota Review--in view of the central role envisaged at the time for the Fund in the debt crisis--did not wish to delay the Review's completion by requesting extensions. Instead, they requested the Board's sympathetic consideration once it was in a position to remedy the situation.

As regards the technique of distributing selective increases in quotas, and notwithstanding the aforementioned, I share the staff conclusions in paragraph c. on page 12 of EB/CQuota/88/5. Accordingly, I support the distribution of quota shares on the basis of Method B, with the short list of members eligible for selective increases and the 50/50 apportionment of a Fund size of $180 billion.

Mr. Kafka said that he was convinced that the Fund required a very large increase in quotas. He supported Mr. Yamazaki's request for a timetable for the discussions on quotas.

The staff paper had the great merit of bringing out the manner in which various combinations of size and apportionment as well as formulas for distribution of selective increases interacted, Mr. Kafka continued. He would have no difficulty in accepting Method A with a relatively smaller overall increase, whatever the apportionment, or, in the event of a larger overall increase, with a more modest selective increase.

However, there was perhaps another way--a form of Method B--of dealing with the problems at hand. That form bore some relation to one of Mr. Nimatallah's suggestions. If there was a very small apportionment for some selective increases that was apportioned only to a few member countries with the largest excess of calculated over actual quota shares, there would be major improvements in the adjustment coefficient as well as in other important aspects of the quota distribution without upsetting that distribution excessively and unnecessarily. Even with that approach, there would still be a need to give one or two countries--such as Japan and Korea--ad hoc adjustments while distributing the rest of the increase on an equiproportional basis.

He wished to reserve his position on the issue of the base year, Mr. Kafka said. Finally, a convincing argument, on purely technical grounds, against changing the basic votes was that such action would require an amendment of the Fund's Articles of Agreement and would, therefore, further delay the coming into effect of the next quota increase.

Mr. McCormack stated that he favored a large increase in aggregate quotas. During the previous discussion on quotas (EB/CQuota/88/5), Mr. Massé had indicated that his Canadian authorities were inclined to favor an increase in the range of SDR 60 billion to perhaps SDR 90 billion. As to the distribution of the quota increase, his authorities continued to prefer Method A together with a sizable selective component--for example, one at least as large as that used for the Eighth General Review.

He recognized that there were some wide divergences between calculated and actual quota shares, with the former substantially exceeding the latter for some member countries, Mr. McCormack continued. However, as was demonstrated in the staff papers, Method A with a large selective component, in the context of a large overall quota increase, could produce sizable adjustments in member countries' relative quota shares while maintaining uniform adjustment coefficients. At the same time, that approach would tend to avoid very sharp changes in the overall distribution of quota shares. In addition, the impact of Method A on the Fund's liquidity, given the assumptions about the size and the selective element, would be acceptable, although judgment on the liquidity issue seemed to be particularly difficult to make.

On the other hand, Method B could result in relatively large adjustments of coefficients across countries, Mr. McCormack went on. Furthermore, decisions on which countries should receive special selective increases under Method B would necessarily be judgmental and potentially contentious. As the staff calculations in Appendix II of EB/CQuota/88/5 showed, quota distributions could be affected dramatically and, perhaps, arbitrarily, by the choice of member countries to receive special emphasis.

He did not have strong views on the issue of the possible use of 1986 data, but he had some reservations about incorporating 1986 data in the quota calculations, thereby deviating from the normal five-year pattern for updating data in quota reviews, Mr. McCormack commented. There was merit in maintaining continuity and consistency between successive quota reviews. Maintaining the five-year interval for data could contribute to greater assurance regarding quota calculations in the future and would help to avoid the risk of unnecessary delays in the completion of quota reviews. However, as to the current review, while 1985 data were less current than 1986 data, they were likely to be somewhat more reliable. However, as his authorities did not have strong preferences in that area, they could go along with the use of 1986 data if a consensus to that effect were to emerge.

He was not in a position to make substantive comments at the present stage on the proposals by Mr. Yamazaki and Mr. Rye for ad hoc quota increases, Mr. McCormack said. His authorities were still considering those proposals and the concerns underlying them.

Mr. Dai made the following statement:

> On the basis of the previous discussion of the Committee of the Whole (EB/CQuota/88/5), the staff has again put before us an analysis and a range of illustrative techniques for calculating increases in quotas. This chair has always maintained that we should first reach agreement on the guiding principles for determining the size of an overall increase and the distribution of the quota increase before considering specific methods and techniques. Since there has been no clear consensus yet on a number of essential principles relating to the present quota review, we find it difficult to take a position on the various methods and techniques of distribution. On the paper under discussion, I will make a few points on some matters concerning principle.
>
> According to the staff's analysis, it is obvious that the combination of equiproportional and selective elements within the overall increase depends largely on the size of the overall increase in quotas. The smaller the size of the overall increase, the more limited the scope for adjustment of quota shares to better reflect the shares in calculated quotas. In addition, it is difficult for those countries whose quotas are most out of line with calculated quotas to receive a substantial adjustment. Clearly, without a consensus on the size of the overall increases in quotas, it would be impossible to determine an appropriate combination of equiproportional and selective elements of the overall increase.
>
> In considering the size and distribution of the quota increase, one should bear in mind the purpose and objective of the Ninth Quota Review. It has been widely recognized that the size of the Fund should be adequate to maintain and strengthen the role of the Fund in safeguarding a stable international monetary system and to meet the potential financing needs of the majority of member countries. We prefer a doubling of quotas, and our consistent position has been that the Ninth Quota Review should not lead to a further decline in the quota share or the voting share of the developing countries as a whole, and that

the absolute level of members' access to Fund resources should be preserved. Therefore, I agree with the principle that, irrespective of the methods and techniques employed in the distribution, we should avoid unduly sharp changes in quota shares and the voting power among major groups of members while providing for an adequate quota increase for all members. Given this view, I generally favor the combination of a relatively large equiproportional element with a comparatively short list of members eligible for selective increases. We will be open to any methods and techniques for distribution if the principles I mentioned are maintained and the quota share and the voting power of developing countries as a whole are protected.

It has always been our view that, given the deficiency in the present quota formulas, it is not fair or reasonable to make a judgment on quotas based merely on these formulas and calculations. Other factors should also be taken into account. Due regard should be given to those members with very small quotas and those poorer members whose economies were hardest hit in the past few years. Political considerations, of course, should also be included.

Japan's request for an ad hoc quota increase is understandable. Given the growing economic and financial strength of Japan, its willingness and capability to make a contribution to the international institutions, and its actual actions in providing financial assistance, Japan's request for a more substantial adjustment of quota should be given favorable consideration. In this regard, we would like to have more information from the staff about the results of such an exercise, including the impact on the quota shares and voting power of the different country groups.

I support Mr. Ismael's proposal in the hope that the position of economically smaller and weaker member countries can be protected. Mr. Ismael's proposal deserves further consideration.

Mr. Othman said that his chair continued to favor a substantial increase in quotas. As his chair had stated on previous occasions, at least some of the members of his constituency considered that a doubling of the size of the Fund would not be excessive.

He continued to feel that the objective of bringing about a sizable reduction in the existing disparities between calculated and actual quotas should be the guiding principle for not only apportioning the overall increase between the equiproportional and selective elements, but also for choosing the method of distribution that would make a significant move in the direction of minimizing those disparities, Mr. Othman said. Of course, the larger the overall increase in quotas, the greater would be the scope for effecting an adequate equiproportional increase while making considerable progress toward reducing the disparities.

As for the criteria for selecting member countries that were eligible for selective increases, the relevant factor was the size of the disparities and the wish to minimize those disparities, Mr. Othman remarked. In that connection, he sympathized with the Japanese authorities, who felt that there was a need to rectify the long-standing discrepancy between Japan's actual quota and its economic position in the world economy. However, should the desired correction be effected through an ad hoc increase in Japan's quota, that should not lessen the importance of effecting, in the context of the present general review, a substantial increase in the size of the Fund or the need to use a method of distribution that would minimize the disparities between actual and calculated quota shares that would surely remain even if Japan's situation were rectified. He had noted Mr. Rye's proposal concerning Korea and wished to underscore the fact that, of the ten members with the largest disparities between actual and calculated quota shares, seven were in his constituency.

Data ended in 1985 should form the basis of the present review in order to avoid subsequent overlapping calculations and since in the past the Fund had not made updated calculations when quota reviews had been delayed, Mr. Othman considered.

Mr. Zecchini made the following statement:

> The two most recent papers prepared by the staff for the Ninth General Review of Quotas complete the analytic base for a final decision, in due time, on the two issues of the new size of the Fund and the distribution of the increase. The staff has already explored almost all the ground for a quota increase, and there does not seem to be any significant area left uncovered. Refinements of the data as well as of the analysis are always possible, but all the main elements for a decision are already in place. I will therefore comment on the recent additions to the analysis of quotas, namely, the updating of the calculations *with data ending in 1986, the estimation of the quantitative* impact of various options for the increase in the overall size of the Fund and for the distribution of this increase, and the use of a set of criteria for the assessment of these options.
>
> The results of the updating of calculations presented by the staff prove two main points. First, it is statistically possible to construct a set of quotas with more recent information than the set used previously, without involving greater uncertainty. In fact, the extent of estimation of data in the updated calculations is smaller than in those made one year earlier, and most likely by the end of the current year it will

be even smaller than that in the December 1987 calculations. Second, the updated calculations reflect much better than the previous ones current economic reality, as significant changes have occurred in the world economy since 1985. Therefore, there is no valid economic justification for basing the new quotas, which will most likely come into effect in 1990, on data ending in 1985. Consequently, we support the shift of the calculation base to end-1986.

The large misalignment that has emerged between present quotas and the needs of the world economy makes it urgent to proceed to a substantial enlargement of the Fund's size. Among these needs, three must be stressed particularly. First, the policy of enlarged access represents an exception that has to be scaled down without impairing the Fund's ability to support financially the adjustment programs of its members. To maintain the Fund's present impact on the adjustment of external imbalances worldwide, the current level of access cannot be reduced, but must be reabsorbed within normal margins as indicated by the extent of current and foreseeable external deficits. To this end, a significant expansion of quotas is required. Second, the recent expansion of Fund borrowing is an anomaly in a quota-based institution and must be corrected by reserving borrowing to meet only exceptional financing requirements. The financing needs that have been experienced in the past five years can no longer be considered exceptional after such a long time, and since they appear as an increasingly normal feature of today's economy, they should be met by adjusting the size of the quotas to more appropriate levels. Third, the Fund's liquidity could be strained if major industrial countries that are experiencing prolonged external deficits should draw on their reserve position in the Fund. Undoubtedly, a combination of equiproportional and selective increases in quotas can bring the Fund's liquidity to a more balanced and comfortable position. As a result of the above considerations, we reaffirm our position in favor of a substantial rise in the Fund's size, possibly up to 100 percent of the present level.

A necessary complement to a large increase is an appropriate combination of equiproportional and selective quota enlargements. It is evident that a relatively large expansion of the Fund's size will make it easier to introduce selective adjustments in quotas, as it will allow all the members not to incur any reduction in their absolute quotas as a counterpart of the increase in the share of other members. Furthermore, it would make it possible to raise members' quotas in absolute terms even in cases where their relative quotas have to reflect the reduced relative weight of their economy.

As to the options considered by the staff to implement selective increases, we maintain an open position with regard to Method A, with a list of 38 members whose shares in calculated quotas are larger than their current shares, or Method B. Method B with a list of 27 members instead does not appear acceptable, since it leads after a certain point to distortions opposite to those which it intends to correct. Method A has the advantage of a direct relationship between the size of the Fund and the selective apportionment of the quota increase, on the one hand, and the adjustment coefficient on the other hand. Specifically, the higher the former variables, the larger the adjustment of the gap between calculated quota shares and current ones. Moreover, Method A entails uniformity in adjustment coefficients and widespread distribution of the selective component of the increase, both of which might have an appeal for the membership at large. However, if the increase in the Fund's size is not going to be large enough to accommodate the needs of members whose quotas are relatively the most out of line, then Method B with a list of 38 members might be more appropriate.

Some members are advocating an ad hoc increase in order to fill the particularly large gap characterizing their quota share compared to today's economic reality. There is no need to preempt the conclusion of the general quota review or rush to such exceptional methods before a decision is taken on the general increase. We must first see the results of our agreement on the equiproportional and selective enlargements of the quotas. Only after this exercise has been finalized can we consider whether there is a legitimate need to complement that exercise with ad hoc corrections. In this field, reliance on rules applicable erga omnes, i.e., to all the members, is preferable to ad hoc solutions, since the latter create dangerous precedents, namely, a tendency to deal with individual cases rather than with distortions that are affecting the entire system.

Mr. Donoso made the following statement:

One criterion to use for distributing quota adjustments could be to move the actual structure of quotas toward some optimum position. In all the analysis thus far, calculated quotas have been used as if they represented this optimal structure. We have indicated on previous occasions that we do not attach much value to these calculated quotas as an indication of a desired proportionality among quotas, as they fail to reflect important elements affecting the optimal size of quotas for individual countries. The most obvious example in this sense is the failure of calculated quotas to incorporate the variability of many elements of the current account of the balance of payments. Indebtedness of a country or the variability of interest payments are not relevant factors in calculated quotas, which thus fail to recognize the special need for access to Fund resources of those countries that have used them more heavily in the recent years. If the criterion is not need but only the economic relevance of the countries, then it is not clear why calculated quotas would include the variability of other elements of the current account of the balance of payments.

In addition, the direction of the changes being reflected in calculated quotas is strongly determined by transitory phenomena, especially for some subgroups of countries. Calculated quotas would be more useful if they reflected more permanent situations.

Still, at this stage, and to advance the discussion, we have to indicate preferences from among combinations of equiproportional and selective adjustments as determined by the calculated quotas, and among different sizes for the overall adjustment to move toward reaching a decision. In so doing we would like to keep in mind what we consider the following to be desirable characteristics of a quota structure. First, it has to be compatible with access in absolute levels for each member, in magnitudes which ensure that the Fund can play a meaningful role in relation to that country if the need to do so exists. This implies that no adjustment is appropriate if it leaves the quotas of some members at an insufficient level. Second, to be appropriate, the quota adjustment has to generate the level of financing that will enable the Fund to play its role. The only merit we would find in a selective component of the quota adjustment is that, as indicated by the staff, it would tend to result in a higher proportion of usable resources. Of course, this financial consideration would be more relevant if we could say that the present quota structure results in a level of usable resources that is not sufficient to finance the Fund's operations given the policies being applied, the present structure of quotas and the added effect of borrowing have persistently resulted in a sound liquidity position.

To the extent that we can count on the availability of borrowing, we consider that the operations of the Fund are well financed, and from this perspective we consider the actual structure of quotas appropriate. It would be necessary to depart from a totally equiproportional adjustment only if additional borrowing--to maintain the same proportion between owned and borrowed resources--was difficult to obtain or for some reason inappropriate, or if it was decided to reduce the present level of borrowing while preserving the financial position of the institution. On the other hand, at present, access for many members is constrained and generally below the levels that would allow the full impact of the Fund's role to be felt.

On balance, therefore, we strongly favor a relatively large adjustment of quotas to be distributed in an equiproportional manner. We reiterate our support for a doubling of quotas distributed as much as possible on an equiproportional basis. If, because of financial considerations, part of the adjustment has to be selective, we would prefer Method A, as the alternative seems to us excessively arbitrary.

On the requests by Japan and Korea for ad hoc adjustments, it is our view that those adjustments would reflect economic realities. They are also attractive because they would imply a very positive financial contribution to the institution. The difficulty we could have with these ad hoc adjustments is their impact on the share of countries being negatively affected by the review. Thus, we would like to reserve our opinion on the requests for ad hoc adjustments until we know the degree of equiproportionality of the basic adjustment and can therefore estimate the extent of the reduction in the shares of the countries about which we are concerned.

Mr. Dallara said that he was not yet in a position to take a definitive view on the size of the Fund. The data and assessments in the staff papers advanced the discussion, but there was still a need for a broader and perhaps a somewhat different kind of assessment of the appropriate size of the quota increase.

He was somewhat concerned about the use of various arbitrary ratios and objectives in the discussion in the staff paper, Mr. Dallara continued. He understood that, in a sense, noting objectives such as preserving the absolute level of access or the maximum access for any member country helped in the assessment of the various issues, but it was his understanding that, as part of the background to the previous one or two quota discussions, the maintenance of nominal access limits that had evolved out of the recent Interim Committee discussions would not be used as an argument for a larger quota increase. In a sense, however, that argument was made by the staff presentation, because the staff's argument that the absolute level of access should be maintained was connected with the argument that access limits should be maintained and a relatively larger quota increase should therefore be approved. That might well have not been the staff's intention, but it had drawn the attention of his authorities and was of some concern to them.

On previous occasions, he had mentioned his wish for a broader assessment of the need for a quota increase and the appropriate size of that increase within the context of developing a clearer view of the role of the Fund in the international monetary system during the coming decade, Mr. Dallara recalled. The issue that he had in mind had been touched upon by Mrs. Filardo in her remarks during the present discussion; she had noted--from a different perspective than his own--the need to assess the appropriate financing and adjustment role of the Fund and how it could be reconciled with the Fund's wish to catalyze private financing and to preserve the Fund's monetary character in the context of the continuing strains created by the international debt problems. In addition, it would be useful to assess the implications, if any, of the non-use of Fund resources by industrial countries over the previous decade for the role of the Fund in the 1990s. His authorities' position on the quota issues was obviously constrained by a number of factors, including the political timetable under which they were operating, but his authorities had been generally surprised by the speed at which many Executive Directors seemed to have moved toward favoring a relatively large increase in the Fund's resources without the benefit of the useful work in the areas that he had mentioned.

It was also useful to factor into the analysis the role of the GAB, which had been substantially expanded in conjunction with the previous general quota increase, Mr. Dallara remarked. In addition, it was important to consider any implications of the establishment of the enhanced structural adjustment facility for the appropriate size of the quota increase. The availability of substantial resources under the GAB in a broader range of circumstances than had been the case prior to 1983 was a relevant consideration in the context of ensuring the Fund's ability to play an effective role in handling any serious strains that might emerge in the international monetary system.

His comments on the distribution of the quota increase were preliminary and were based on the assumption that data for 1985 would be used in the calculations, Mr. Dallara said. Using 1986 data, or even 1987 data, as some previous speakers had suggested, would clearly affect his views on the possible distributional technique, particularly his willingness to consider a significant selective component under Method A or any approach under Method B.

He continued to see merit in Method A, Mr. Dallara continued. He understood the arguments that had been made for considering Method B as well. However, he agreed with Executive Directors who had argued strongly that Method B, with a rather limited and narrow group of countries receiving selective quota increases, would not be appropriate and would produce anomalous, if not perverse, results. Therefore, he would be willing to consider Method B only if the distribution were made fairly broadly, as under the proposal to use Method B with a list of 38 member countries.

There seemed to be significant support for Method A, Mr. Dallara remarked. If the Board were to move in the direction of that method, some weight should be given to the argument that the selective component might be somewhat larger than the equiproportional proponent, although that would obviously depend partly on how ad hoc increases were to be handled. The question of ad hoc increases was clearly related to the broader questions of the size and distribution of the quota increase, and at the present stage he was not in a position to say anything more than that the requests by Japan and Korea merited serious consideration.

As he understood it, Mr. Dallara remarked, the circumstances in which the Islamic Republic of Iran had considered a quota increase during the period of the previous general review were not similar to the present circumstances. Apparently the Iranian authorities had expressed an interest in taking up a quota increase that had been made available by the Fund in its quota decisions, but they had not done so until after the deadline for agreeing to quota increases had passed.

He understood the argument for advancing the base date for the data for the quota calculations, Mr. Dallara remarked. At the same time, he had been impressed by the fact that, as some speakers had noted, delays in concluding previous general quota reviews had not led to an updating of the data base. Indeed, on the assumption that the present quota review would be concluded by the end of April 1989, as was currently scheduled, the time between the end of 1985 and the conclusion of the present quota review would be very similar to the time frame for the Sixth General Review of Quotas, namely, three and one quarter years between the end of the data base year and the conclusion of the quota review. While it was in a sense always desirable in theory to ensure that quotas reflected the most recently available economic data, there seemed to be an underlying strong interest in doing so at present, partly because of the significant exchange rate changes during 1986. There were also significant exchange rate changes during 1981, as the dollar had rebounded sharply, appreciating by double-digit figures against the SDR; but his authorities at that time had not strongly encouraged updating the data base, although a strong argument could have been made at that time that 1981 data should have been included. Over time, the relevant factors tended to balance out; at present, an underlying implicit argument was that the dollar had been unusually, perhaps excessively strong in 1985. That argument understandably seemed to influence a number of Executive Directors. At the same time, one could have argued that the dollar had been excessively weak in 1980. Since the relevant factors seemed to balance out over time, he favored using 1985 data for the quota calculations under the present general review.

He continued to believe that much more persistence, urgency, and success on the part of the Fund in dealing with its arrears problem were essential before moving ahead to the conclusion of the Ninth General Review, Mr. Dallara commented. In that connection, he looked forward to the coming discussion on arrears.

He was willing to see the development of a work program, as some previous speakers had suggested, Mr. Dallara said. He hoped that, as part of the program, further analysis could be made of the role of the Fund in the 1990s.

Mr. Posthumus said that, as he had stated on previous occasions, in a general sense he supported a very substantial quota increase. As he understood it, Mr. Dallara wished to have the staff study the effects on the quota increase exercise of the possibility that the industrial countries would not draw on the Fund in the future, just as they had not done so in recent years.

Mr. Dallara commented that in making his suggestion for a possible staff study, he had not meant to imply that the industrial countries should forgo potential use of Fund resources in the 1990s. Nor was he suggesting that the staff should simply analyze the coming period on the basis of the assumption that there would be no further use of Fund resources by industrial countries. He hoped that the staff would examine the implications of the industrial countries' non-use of Fund resources in the 1980s; in that connection the staff might wish to consider the possibility that the non-use might continue, and the possibility that the nonuse might cease in the 1990s, should the industrial countries resort again, as they had during each of the previous decades of the Fund, to Fund financing.

Mr. Zecchini considered that the field of inquiry that Mr. Dallara wished to be the subject of a new staff study was very broad. After all, the decision by industrial countries not to use the Fund's resources over the previous decade was based on a number of factors. The EEC countries had developed schemes of financial cooperation and support that were similar to the Fund. Since the EEC's cooperative scheme involved sources of financing, it might be concluded that there was no need to strengthen the financial resources of the Fund--a conclusion that would certainly be paradoxical and entirely inconsistent with the concept of the Fund as the lender of last resort for all member countries, whether or not there was a de facto practice of industrial member countries to not draw on the Fund in certain periods. The staff should therefore be very cautious when entering into the exploration that Mr. Dallara had requested.

Mr. Nimatallah remarked that, based on the position of the industrial countries over the previous decade and the outlook for the coming five or six years, it was indeed unlikely that they would use the Fund's resources in the coming period. However, he agreed with Mr. Zecchini that that behavior should not be assumed to be a trend that must be taken into consideration at all times. Care should be taken to avoid basing decisions at the present stage on arguments that might either exaggerate the need for an increase in the size of the Fund or unrealistically underestimate the need to increase the size of the Fund. As Mr. Dallara had suggested, there were some positive developments in the system that had created a greater sense of security. Should an emergency arise that threatened the system, he was confident that member countries would quickly agree to take action to bolster the availability of Fund resources as necessary.

Mr. Grosche commented that the issue that Mr. Dallara had raised had to do partly with the appropriate size of the Fund in the future, and views on that matter depended greatly on whether one had an optimistic or pessimistic outlook. On the basis of the present world economic outlook, including the tensions in the system that the staff felt would likely be evident in coming years, it was conceivable that even a doubling of quotas at the present stage might not be sufficient. Hence, Directors were embarking along a somewhat dangerous road in trying to convey at the present stage optimistic or pessimistic feelings about the future. If the staff were to undertake such an exercise, it should certainly take into account the world economic outlook and the dangers that appeared to loom ahead.

Mr. Dallara said that he agreed with Mr. Zecchini that the staff should treat the issue of industrial country use of Fund resources very cautiously. At the same time, Directors should be willing at least to acknowledge the potential implications of developments outside the Fund for the potential demand for Fund resources. The credit arrangements that had been developed over the previous decade in the EEC might well have implications for the potential need for Fund resources. He was not suggesting that the desirability of the formulation of those arrangements should be questioned; instead, it was important to recognize what seemed to be the fact that their existence had certain implications for the potential use of Fund resources.

The Chairman noted that the financing arrangements among the European countries to which Mr. Zecchini and Mr. Dallara had referred had been in existence for some time and should not be seen as a new element in the present situation and the outlook for the coming period. At the same time, it was of course necessary to take into account new elements in considering the appropriate size of the Fund. For example, as Mr. Grosche had stressed, the world economic outlook should be taken into account. In that connection, some factors, such as the limited availability of financing by commercial banks, clearly did not call for a very limited increase in the size of the Fund. As to the likelihood that industrial countries would use Fund resources, it was very difficult to predict; the cooperative character of the Fund always had to be borne in mind, and one always had to remain open to the possibility that even the largest member countries might wish to use Fund resources. As manager of the system, the Fund had to be prepared for that possibility.

Mr. Posthumus said that he agreed with the comments made by the Chairman, Mr. Zecchini, and Mr. Grosche. Given Mr. Dallara's clarifying remarks at the present meeting, he was somewhat less concerned about Mr. Dallara's proposed study than he had been previously. Still, the fact that actual quotas were considerably smaller than calculated ones remained a cause for concern. Care should be taken to avoid strongly advancing arguments that would significantly further reduce the Fund's already limited capacity to provide financial assistance to member countries. Such arguments might be taken by the larger member countries as a reason not to support a large increase in quotas. It was for that reason that the clarifications of Mr. Dallara's request were especially welcome.

He supported Mr. Yamazaki's proposal for a work program for the Ninth General Review, Mr. Posthumus commented. He also supported Mr. Yamazaki's request to study the consequences of a possible ad hoc increase for Japan. He himself would wish to see the results of that study before taking a final position on an ad hoc increase for Japan. However, Mr. Yamazaki's request for such an increase was clearly based on some strong arguments. At the same time, a number of other member countries had a relative position in the Fund that was even more out of line than Japan's. The study that Mr. Yamazaki had requested should include the possibility of an ad hoc increase for Japan and a selective increase that would include Japan, thereby meeting Japan's request in two steps. He was pleased by Mr. Yamazaki's comments in his opening statement that the Fund should play a central role in the international monetary system.

A substantial share of the distribution of quotas should be equiproportional in nature, Mr. Posthumus considered. To the extent possible, the selective components should be distributed according to a system, perhaps along the line of Method B with a list of 38 member countries.

Mr. Zecchini stated that he could go along with Mr. Yamazaki's request to study the possibility of an ad hoc increase for Japan. However, the first step should be to make the calculations for the equiproportional and selective increases; the calculations of ad hoc increases should follow. In making its quantitative estimations, the staff should take into account all the various options that had been mentioned by Executive Directors, who would be in a better position to assess the implications of the estimations if the kind of three-step exercise that he had described was undertaken.

Responding to a question, Mr. Zecchini recalled that there was some interest in seeing the results of a first estimation of an ad hoc increase for Japan. In making that calculation, the staff would have to make certain assumptions that would be both delicate and crucial for the results. The staff should have an open mind in selecting those assumptions and should take into account the result of an ad hoc increase for Japan after the equiproportional and selective increases had been carried out. Mr. Yamazaki might wish to see estimates based on, first, an ad hoc increase for Japan, followed by estimations of the selective and equiproportional components.

Mr. Nimatallah considered that the Fund should be able to meet the demand for resources when it arose, no matter what the size of the Fund might be. Accordingly, an important question to consider was what would happen to the Fund's resources when the demand fell. In that connection, one possible option was to seek augmentation of the GAB.

The Chairman remarked that the resources of the GAB were clearly not a substitute for quotas. They were in effect a safety instrument.

Mr. Nimatallah commented that during the discussion on the augmentation of the GAB there had been some question as to whether to add the additional resources to the Fund's quotas in defining the amount of available usable currency. It had been agreed that the GAB resources should not be so defined but that they would be usable in the event the system was in danger.

Mr. Grosche considered that the GAB was a safety net for the Fund and should not be considered as a means of avoiding what would be, in his view, a substantial increase in quotas.

Responding to Mr. Zecchini's comments on calculations of quota increases, Mr. Grosche said that the Fund had never before received a request to study an ad hoc increase at the same time that it was undertaking a general quota review. There was no way of avoiding taking into account the repercussions of an ad hoc increase in the course of conducting the normal procedures of the present general quota review. In considering any ad hoc quota increase the Executive Board should take into account its effects on the outcome for the general quota review.

Mr. Salehkhou remarked that the requests that had been made with respect to the Islamic Republic of Iran had been basically of the same nature as Japan's request for an ad hoc increase. The records of the relevant Executive Board meetings showed that there had been similar understandings for sympathetic consideration of requests for ad hoc increases in connection with the Fourth and Fifth General Reviews of Quotas in 1968 and 1972, respectively. On those occasions, no specific deadline had been set for the sympathetic consideration of the requests for quota increases, which were to be consistent with the amounts envisaged in both reviews. In that connection, he reserved the right of his authorities to come to the Executive Board at any time that they were ready to make such a request.

Mr. Yamazaki commented that in requesting a study of a possible ad hoc increase for Japan, whose quota was greatly out of line with present economic realities, he had not mentioned any specific method for making the relevant calculations. There appeared to be a number of possible ways of making the calculations, including those mentioned by Mr. Zecchini and Mr. Posthumus. He was pleased that there appeared to be overwhelming majority support for his suggestion of the need for an ad hoc increase for Japan.

The Chairman remarked that there appeared to be overwhelming sympathy to give serious consideration to correcting the discrepancy that Mr. Yamazaki had described with respect to Japan's quota. Several Executive Directors had expressed warm support for an ad hoc increase at the present stage, but there was not obviously an overwhelming majority for that position. The Executive Board should not be too precipitous in drawing conclusions on that matter, especially as Mr. Yamazaki himself had not pressed for the adoption of a decision on that matter at any particular time, and instead had said that he wished to make the case for an ad hoc increase; there was recognition that the case that Mr. Yamazaki had made was very valid.

Mrs. Filardo said that she agreed with the Chairman. The majority of the Executive Directors had expressed sympathy for Mr. Yamazaki's proposal to evaluate the possibility of an ad hoc increase. In that connection, a number of issues would have to be examined. As Mr. Grosche had stressed, the evaluation of Japan's request should be undertaken together with the general quota review.

The Deputy Treasurer, responding to some of the points that Mr. Dallara had made, noted that the staff had tried to avoid addressing quota issues in the context of country groupings. The staff thought that a number of the points that Mr. Dallara had raised had been addressed by the staff in earlier staff papers on the size of the Fund and on the considerations leading to an increase in quotas. The staff had also addressed Mr. Dallara's points in the present papers in terms of quantitative criteria. For example, if it was assumed that 60 percent of all quota increases were usable, it was also assumed ipso facto that the industrial countries were not using the Fund's resources. Similarly, if it was assumed that absolute access should be maintained for countries suffering the greatest loss in quota shares, and assuming no additional borrowing by the Fund, the size of the quota increase should be about 70 percent. If it were decided to maintain present absolute access only on average for the membership as a whole, the size of the increase in quotas would be smaller.

The Executive Directors agreed to continue their discussion in the afternoon.

APPROVED: January 13, 1989