0404

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Committee of the Whole on Review of Quotas

Meeting 88/7

3:00 p.m., July 11, 1988

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

Executive Directors	Alternate Executive Directors
	E. T. El Kogali
	A. G. A. Faria, Temporary
	C. Enoch
Dai Q.	
C. H. Dallara	
	J. Prader
A. Donoso	
	A. M. Othman
G. Grosche	
J. E. Ismael	J. Reddy
A. Kafka	J. Hospedales
	D. McCormack
Mawakani Samba	
Y. A. Nimatallah	
	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

European Department: A. Schubert. 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. Personal Assistant to the Managing Director: H. G. O. Simpson. Advisors to Executive Directors: M. B. Chatah, W. N. Engert, K.-H. Kleine, M. Pétursson, G. Pineau, N. Toé, A. Vasudevan. Assistants to Executive Directors: N. Adachi, E. C. Demaestri, S. K. Fayyad, V. J. Fernández, B. Fuleihan, M. Hepp, K. Kpetigo, 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, continued from the previous meeting (Committee of the Whole on the Review of Quotas Meeting 88/6, 7/11/88) their consideration of staff papers on alternative calculations of the size and distribution of quota increases under the Ninth General Review (EB/CQuota/88/5, 6/17/88) and quota calculations with data ended in 1986 (EB/CQuota/88/6, 6/30/88).

Mr. Enoch said that he wondered how much 1987 data might be available if the quota review were completed on schedule, on April 30, 1989.

The Deputy Treasurer replied that the spring 1989 meeting of the Interim Committee was likely to be held near the end of March. All the preparatory work by the staff presumably would have to be completed by mid-January 1989 in order to give the Executive Board sufficient lead time. In those circumstances, the amount of estimation of 1987 data would probably be approximately 60 percent for GDP and approximately 30-35 percent for the balance of payments data.

Mr. Dallara commented that the staff's effort to respond to his suggestions made on previous occasions concerning analysis of the appropriate role of the Fund in the 1990s and the implications for the quota increase exercise had not been entirely adequate. He had made that point during the latest discussion on the work program, in May 1988 (EBM/88/75 and EBM/88/76, 5/13/88).

The Chairman made the following concluding remarks:

> We had another useful discussion on the size and techniques of distribution of the increase in quotas under the Ninth General Review. The staff's paper (EB/CQuota/88/5) has taken us through a number of rigorous statistical exercises. The exercises in the staff paper on the agenda illustrate the relatively large number of possible approaches to distribute an increase in quotas. But they also show how small is the room for maneuver in effecting selective adjustments when we take into account such factors as the desired level of access to the Fund's resources under the new quotas; the Fund's policy on borrowing; the distribution of quotas and voting power among individual countries and among the major groups of countries; and the Fund's liquidity position.
>
> While we are not in a position today to come to firm conclusions on either the size of the overall increase in quotas or on the technique of distributing the increase, I believe we have further improved our understanding of these issues, in particular the interrelationship between the size of the overall increase and the technique of distribution of the increase.

As regards the size of the overall increase in quotas, all but three Directors indicated that the size of the increase should be substantial, so that the Fund's resources are sufficient to enable it to carry out its purposes. Most of these Directors argued for a doubling of the total of present quotas while others focused on a future size of the Fund of SDR 150 billion or SDR 160 billion. Emphasis was placed on the need to maintain or increase members' absolute access to the Fund's resources without the Fund needing to borrow other than in exceptional circumstances.

Two Directors continued to hold the view that only a modest increase in quotas was needed, perhaps of the order of 25 percent. One Director continues to be in the position of not yet being able to indicate a view on the size of the overall increase.

As Directors are aware, I am of the view that the Fund should aim for a substantial increase in quotas, of the order of SDR 150-180 billion, and that the Fund should not in general rely on borrowing to finance its day-to-day business.

As regards the techniques of distribution that might be considered, the staff's paper clearly shows that they depend on the size of the overall increase. The size of the quota increase, in essence, comes down to a matter of judgment as regards the appropriate level of access to the Fund's resources that is likely to be needed in the 1990s and to what extent, if any, the Fund should finance that access through borrowing. A major factor in determining the technique of distribution is the extent to which quota shares are realigned to shares in calculated quotas. I believe these two factors--access and the quota structure--are critical in making the choice between various techniques of distribution. The difficult issue--and several Directors acknowledged this today--is how to reconcile the need to ensure adequate absolute access for individual members, which would call for a relatively large equiproportional increase or extensive use of Method A, and to effect some restructuring of quota shares, which calls for considerable selectivity in the distribution of the quota increase.

Most Directors have broadly agreed with the staff's conclusion that, depending on the size of the overall increase, a relatively large equiproportional increase is, within limits, broadly substitutable for Method A in the staff's terminology, i.e., of distributing a relatively large part of the overall increase in proportion to members' shares in calculated quotas. Directors will recall that in the Eighth Review it was decided to combine the use of an equiproportional increase and the use of Method A, and many Directors again supported such a combination for the Ninth Review. In these circumstances, the final choice would be to decide how much of the overall increase should be allocated to the equiproportional increase and how much should be distributed in accordance with Method A. On this issue, Directors' views ranged quite widely. A number of Directors felt that the proportion of the selective increase to be allocated in accordance with Method A should be of the order of that allocated under the Eighth Review, but I am not able to be very precise, because the positions of the Directors were more qualitative than quantitative. While I do not see at this stage a final broad position on this matter, I hope that we will make progress on reaching a consensus over the coming months.

A few Directors suggested that the distribution of an increase in quotas should be based on a combination of Method A and Method B, which would include only a very limited number of members eligible for a selective increase, and some noted that by implication there should be no equiproportional increase. We will explore these alternatives. I note that there was very little support for reintroducing Method C into the calculations, as suggested by one Director, in view of the similarity of results with Method B, its lack of transparency, and the mathematical complexity of this method of computation. In this latter regard, I would ask Directors to be somewhat sparing in their requests for having more calculations issued to the Board, unless they illustrate some specific principles, in order to reduce the risk of adding to potential confusion. There has already been a large number of requests for additional calculations. We have already complied with most of these requests, but they have added greatly to the work load of the Treasurer's Department. We should now try to make up our minds and reach conclusions.

Some Directors concluded that the overall increase in quotas, irrespective of the size of the increase, should be distributed mainly in the form of an equiproportional increase with only a relatively few countries receiving selective quota increases whose quota shares are very much out of line. These Directors argued that the share in quotas of the developing countries should not, as a group, fall from its present level. In that context several Directors called for an increase in basic votes which, as noted, would need an amendment of the Articles of Agreement. Though there was no broad support for the view that the distribution of quota increases should be based on the quota shares of the country groups, some Directors felt that we should, as a matter of policy, preserve the share of SAF-eligible members. In this context, others mentioned the concept of poorest members of the Fund. The combination of a large equiproportional increase and few selective increases has been followed in the past, most recently in connection with the

Seventh General Review. While this combination would best preserve access and maintain the present quota structure, it could not effect a realignment of quota shares to reflect the changes in members' relative positions in the world economy that many Directors agreed is one of the purposes of a review of quotas, nor would it necessarily improve or secure the Fund's liquidity position over the medium term.

A few Directors argued that this review offers the opportunity to effect a decisive realignment of quota shares for those members whose present quotas are far out of line in relation to their positions in the world economy. These Directors have indicated that a realignment of the quota shares of those members whose quotas are most seriously out of line could be effected, for example, by allocating a share of the overall increase to such countries in the form of special increases in quotas and which would be distributed among them to raise their shares in quotas, or to consider ad hoc increases in quotas for such members within the context of the Ninth Review. Some Directors were willing to handle ad hoc increases outside the context of the review. I should hasten to add that these approaches in dealing with an ad hoc increase in quotas, for which there are precedents, would not substitute for the type of combinations that could be used to allocate quota increases under the Ninth Review that we have discussed today and which are illustrated in the staff's paper. Most Directors have commented on Japan's case for obtaining a quota increase that brings it more in line with underlying economic realities. Further consideration will be needed as regards the method and time horizon needed to achieve that objective. The case of Korea was also referred to by a number of Directors. I see broad agreement in the Executive Board to explore this matter further in the context of further staff work, which could include, if needed, some illustrative calculations.

I will report to the Interim Committee along the lines of these concluding remarks. In the meantime, the staff will issue a review of Mr. Sengupta's paper (EB/CQuota/88/4), and I would suggest that this paper, along with Mr. Sengupta's paper, the staff's paper on updated quota calculations (EB/CQuota/88/6) and further work to be prepared in the light of this meeting and from the guidance that we may receive from the Interim Committee, be discussed together early in the period after the Annual Meetings. The exchange of views on work priorities that we have on the agenda for July 20 will give us an opportunity to decide on our program on this matter with the view to having the Executive Board work in relation to the Ninth Review completed well before the Interim Committee meeting of spring 1989 and indeed the deadline of April 30, 1989.

After a further brief discussion, the Chairman remarked that the reference in his concluding remarks to developing countries should meet the concerns of Mr. Nimatallah and Mr. Sengupta. Mr. Sengupta had stressed the importance of preserving the quota share of the member countries that were eligible to use the structural adjustment facility, and Mr. Nimatallah had stressed the somewhat broader concern that the quota shares of developing countries--including smaller countries--as a group should not fall from its present level. As to Mr. Dallara's suggestion for further study on the role of the Fund in the 1990s, the Executive Directors could discuss the usefulness of an additional staff paper on that subject when they discussed on July 20, 1988 the work program for the period following the 1988 Annual Meetings.

Mr. Enoch said that he supported Mr. Dallara's request for a technical analysis of how the overall quota increase fit the Executive Board's view of the role of the Fund in the 1990s. His authorities had studied the matter carefully and felt that an increase of quotas of 25 percent would be consistent with the size of the financing gaps that could be expected in the coming years and the Fund's contribution to filling those gaps.

Mr. Nimatallah recalled that during the recent discussion on fiscal aspects of Fund-supported programs (EBM/88/81 and EBM/88/82, 5/20/88) he had suggested that ad hoc discussions by small groups of Executive Directors and staff members on selected subjects might well be helpful. The size of the Fund and the role of the institution in the 1990s might well be an appropriate topic for an informal discussion among Executive Directors and the relevant staff members; the staff need not prepare any paper for the discussion. That discussion could take place any time before or after the scheduled discussion on July 20, 1988 of the work program after the 1988 Annual Meetings.

The Chairman remarked that the possibility of holding a discussion could be examined during the meeting on July 20, 1988. It might be useful to have a short staff paper, since there was additional information available on the likely outlook for the early part of the 1990s. At the recent meeting of aid donors--the so-called Tidewater Meeting--participants had noted that in 1987, for the first time in 27 years, there had been a decrease in real official development assistance; some participants had felt that the decline in 1987 might be the beginning of a trend. There already seemed to be strategies in the commercial banking community to withdraw business from developing countries. The present cooperative strategy included occasional efforts by commercial banks to contribute financing, but he wondered how long the banks would continue to make an effort to participate in financing.

Mr. Nimatallah remarked that the informal discussion that he had suggested could help to pave the way for the preparation of the paper that the Chairman had suggested. The discussion, which could be as brief as an hour, would give the staff a good idea of Executive Directors' thinking. Executive Directors should come to such a discussion with an open mind on the role of the Fund in the coming period.

Mr. Posthumus commented that a technical paper on the role of the Fund in the 1990s would be helpful. There was considerable discussion already on the role of the Fund in several different areas, including the debt strategy, the international monetary system, and during the 1990s. Some of the discussion might well be overlapping, and an effort to clarify the various issues involved would be helpful. To that end, the first step perhaps could be taken during the discussion on July 20, 1988 on the work program for the period after the 1988 Annual Meetings.

The Chairman remarked that the staff paper on the role of the Fund could be in the form of an aide mémoire. In wording the paper and in presenting positions, care would have to be taken to avoid giving the impression that the objective was to provide a bail out through an increase in quotas. It was for that reason that he had preferred the traditional approach of examining the size of the Fund, the state of the world economy, and the need to progressively reduce borrowing by the Fund. The more that argument centered on such areas as aid and commercial bank financing, the greater the chance that the impression would wrongly be given that an increase in quotas was meant to be a bail out.

Mr. Zecchini said that, while he had no objection to holding a frank discussion on some of the issues raised by Mr. Nimatallah and others on the size of the Fund, Mr. Posthumus's point about the several papers on the role of the Fund and the need for consistency and to avoid redundancy in analyzing them was well taken. In the final analysis, he doubted whether such a frank discussion would be useful at the present stage. The kind of discussion that Mr. Nimatallah had suggested would perhaps be more helpful at the beginning of 1989, when Executive Directors would be negotiating the final outcome of the Ninth General Review. Executive Directors might not be ready for such a discussion at the present stage. Some of them were not free of preconceptions about the final outcome of the quota exercise.

The Executive Directors concluded for the time being their discussion of the size and distribution of quota increases, and quota calculations with data ended in 1986.

APPROVED: January 13, 1989