0404

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Committee of the Whole on Review of Quotas

Meeting 88/9

10:00 a.m., September 2, 1988

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

Executive Directors	*Alternate Executive Directors*
A. Abdallah	E. T. El Kogali
F. Cassell	
Dai Q.	Zhang Z.
C. H. Dallara	C. S. Warner
	P. Péterfalvy, Temporary
	R. Morales, Temporary
M. Finaish	
G. Grosche	
J. E. Ismael	J. Reddy
A. Kafka	
M. Massé	
	C. V. Santos
Y. A. Nimatallah	I. A. Al-Assaf
G. Ortiz	L. Filardo
J. Ovi	M. Fogelholm
H. Ploix	
G. A. Posthumus	
	I. Sliper, Temporary
G. Salehkhou	O. Kabbaj
	A. Vasudevan, Temporary
K. Yamazaki	S. Yoshikuni
S. Zecchini	

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

Also Present

Asian Department: S. P. O. Itam. European Department: M. Russo, Director. Exchange and Trade Relations Department: L. A. Whittome, Counsellor and Director; M. Nowak, S. Watanabe. External Relations Department: I. S. McDonald. Legal Department: H. Elizalde. Research Department: A. D. Crockett, Deputy Director; P. Isard. Secretary's Department: J. W. Lang, Jr., Deputy Secretary. Treasurer's Department: F. G. Laske, Treasurer; T. Leddy, Deputy Treasurer; D. Williams, Deputy Treasurer; O. Roncesvalles, J. A. Tweedie. Western Hemisphere Department: S. T. Beza, Director. Office in Geneva: E. Wiesner, Special Trade Representative and Director. Personal Assistant to the Managing Director: H. G. O. Simpson. Advisors to Executive Directors: N. Adachi, P. E. Archibong, M. Al-Jasser, A. R. Ismael, K.-H. Kleine, J.-C. Obame, M. Pétursson, G. Pineau, M. A. Tareen, D. C. Templeman. Assistants to Executive Directors: J. R. N. Almeida, Di W., E. C. Demaestri, B. R. Fuleihan, J. Gold, P. Gorjestani, J. Heywood, J. M. Jones, C. Y. Legg, V. K. Malhotra, T. Morita, D. V. Nhien, C. Noriega, L. M. Piantini, G. Seyler, Shao Z., C. C. A. van den Berg, R. Wenzel, Yang J.

1. NINTH GENERAL REVIEW OF QUOTAS - SIZE OF THE FUND, AND SHARE OF DEVELOPING COUNTRIES IN THE FUND

The members of the Executive Board, meeting as the Committee of the Whole, continued from the previous meeting (Committee of the Whole on Review of Quotas Meeting 88/8, 9/1/88) their consideration of an aide-mémoire (circulated on August 11, 1988) by the Managing Director on the size of the Fund and a staff report on the share of the developing countries in the Fund in connection with the Ninth General Review of Quotas (EB/CQuota/88/7, 8/9/88).

The Chairman made the following summing up:

The discussion yesterday of the aide-mémoire on the size of the Fund was instructive and helpful in clarifying our thoughts on the size of the increase in quotas.

The widespread support that has been expressed on earlier occasions for a substantial increase in quotas was repeated. Most Directors have suggested that an increase in quotas of an order that would increase the size of the Fund to between SDR 150 billion and SDR 180 billion would be appropriate. As Directors are aware, I share the view that a Fund size within this range is necessary to meet the uncertainties of the early 1990s. That view is, of course, not universally shared among Directors. By and large, Directors' views on the appropriate size of the increase in quotas remain unchanged from those that I summarized following our July 11 discussion in the Committee of the Whole in Buff Document 88/132 (7/15/88). Since that summing up will also be part of the documentation for the Interim Committee, I did not repeat here the full range of views expressed yesterday.

Most Directors have indicated that the potential difficulties facing the system in the 1990s, which are not likely to be less than those which we face now, would not readily permit a reduction in members' access to the Fund's resources from its present absolute level. We are also essentially agreed that the Fund should reduce and eventually eliminate its day-to-day reliance on borrowing. It has also been generally accepted that as a consequence of the elimination of borrowing, the broad maintenance of access can be financed only by a substantial increase in quotas. A relatively small increase in quotas would result in the reduction of the absolute level of access, which could be interpreted as indicating either a reduced role for the Fund, or continuation of an enlarged access policy with the probable accompaniment of Fund borrowing. I do not believe that Directors would favor either conclusion to this review of quotas.

Nevertheless, several Directors are not fully convinced by the arguments in my aide-mémoire on the size of the Fund, even though they draw different conclusions regarding the appropriate size of the quota increase. They stressed that in their judgment the role of the Fund in the early 1990s, the world economic environment in the medium term, and the likely financing needs of members, which would take into account the financing role of the Fund vis-à-vis that of the private markets as well as the need for Fund resources in relation to the strength of adjustment programs, remain unclear, and a few Directors take the view that these factors did not necessarily lead to the conclusion that a substantial increase in quotas is needed under the Ninth Review.

A number of Directors also stressed that the safeguarding of the cooperative character of the Fund requires that forceful action is needed now to develop and implement approaches to reduce and eventually eliminate arrears in payments to the Fund. I fully share the Directors' concern as regards the arrears situation, and we are all working hard to eliminate arrears.

Also, some Directors believe that the Fund's currently strong liquidity position will continue through the early 1990s, because it can be expected that the industrial countries would refrain from using the Fund's resources and that members currently in balance of payments difficulties will, after a period of adjustment, obtain renewed access to private sources of financing. Most Directors, however, felt that we should not assume either possibility in coming to a judgment on the size of the Fund for the early 1990s. A change in the overall economic environment could result in a marked increase in the demand for Fund resources, especially by particular individual countries, depending on the direction of change in the world economy. Furthermore, the Fund relies heavily on the usability of the currencies of the industrial members, which cannot be taken for granted over the medium term, and any significant reduction in the total of usable currencies would seriously affect the Fund's liquidity position.

Similarly, a return to market creditworthiness of debtor countries does not, of itself, necessarily result in a reduced need for conditional balance of payments financing from the Fund, a type of credit which the market cannot readily provide, nor can the market always be relied upon to continue lending even in association with Fund financing. Most Directors, therefore, concluded that the Fund must be in a position to respond to members' needs under changing market circumstances and, when necessary, stand as a conditional backstop to members. For the low-income countries, the structural adjustment facility and the enhanced structural adjustment facility resources are programmed for a limited period of time and will not be an ongoing source of credit into the 1990s. We must thus continue to make provision for the low-income countries to make use of the Fund's general resources.

It is of central importance, and indeed is among the Fund's purposes, that the Fund stands ready to give its active support to further trade liberalization. This is not only an important aspect of structural and macroeconomic adjustment in both developing and industrial countries, but it also helps support a stable international economic environment. The effort to support trade liberalization in individual countries, often in association with adjustment programs, is likely to involve balance of payments financing from the Fund. I believe that the Fund cannot hesitate to provide such financing, and we must be in a position to do so.

Some Directors noted that the size of the increase in quotas must be sufficiently large to permit an appropriate restructuring of quota shares, including the accommodation of possible ad hoc increases for countries, such as Japan and Korea, which were mentioned yesterday. As Directors will recall, the staff is preparing a paper on ad hoc quota increases in the context of the Ninth General Review. I also note the statement by Mr. Salehkhou regarding Iran's quota and about which I have invited him to circulate documentation to Directors.

I would very much hope that after further consultations in the near future, we can come to a working conclusion--or at least working hypothesis--on the size of the Fund. Much of our remaining work on the quota review after the 1988 Annual Meetings--in particular the distribution of the overall increase and the handling of the issue of ad hoc increases--hinges on resolving this issue quickly.

Mr. de Groote made a suggestion, which we should consider further in due course, regarding the modalities of payment for the quota increase and, in particular, the financing of an increase in Fund quotas and the helpful contribution in this respect of an allocation of SDRs.

The staff paper on the share of the developing countries in the Fund elicited wide-ranging comments. The issue is a difficult one, and we may need to come back to this topic in the context of a later discussion on the distribution of the overall increase. However, I believe that Directors provided some important pointers as regards the direction for further reflection.

A number of Directors were attracted by the possibility of seeking an amendment of the Articles to change the provisions on basic votes, but in view of the complexity of that procedure, it was not seen as a practical proposition at this stage, and no Director felt that completion of the Review should be held up to pursue an amendment of the Articles. A number of Directors felt that an increase in the number of basic votes would be appropriate. Other Directors felt that to avoid further future declines in the importance of basic votes, an amendment of the basic votes provision of the Articles could better take the form of maintaining the irrelative importance at some agreed level in terms of total votes. This latter approach would raise some issues regarding the basic principle that members' voting power is mainly related to the size of subscriptions paid to the Fund. As I noted earlier, we may need to come back to this issue later in the Review.

Many Directors affirmed their earlier positions that the distribution of quota increases should not be based on the voting share or quota share of particular groups of members (see Meetings 88/4, 3/14/88 and 88/7, 7/11/88). Indeed, a number of Directors reiterated their position that the method of distributing increases in quotas should be broadly along the lines of that of the Eighth Review, though noting that the smaller the size of the overall increase the larger the equiproportional element would need to be.

Nevertheless, many Directors expressed concern over the prospective fall in the shares of members with relatively small quotas, most of which are low-income developing countries. The extent of the fall in shares of total votes, and also of any decline in shares of total quotas, will, of course, depend on the size of the overall increase, its distribution into equiproportional and selective elements, and the method used to distribute selective increases. Directors will recall that we have already agreed to the request of a number of Directors to examine the position of the very small quotas (see Buff Document 88/128, 7/14/88). In the light of yesterday's discussion, we can return to the matter when we are finalizing the procedures to distribute the overall increase in quotas.

Mr. Dallara said that the text could usefully note that his chair was not yet in a position to express a view on the appropriate size of a quota increase.

The Chairman said that the present summing up, like his statement concluding the discussion on July 11, 1988, could state that two Directors maintained their view that only a modest increase in quotas--perhaps of the order of 25 percent--was needed, and one Director continued to be in the position of not yet being able to indicate a view on the size of the overall increase.

Mr. Dallara remarked that he agreed with the statement in the third paragraph of the summing up that it was generally agreed that the Fund should reduce and eventually eliminate its day-to-day reliance on borrowing, but the text also implied that the elimination of borrowing was an objective in the context of the Ninth General Review. As he understood it, there was a broad majority in favor of a gradual phasing out of borrowing, rather than the immediate elimination of borrowing. The statement that a substantial quota increase was needed in order to maintain current levels of access, seemed to be based on the assumption of an immediate elimination of borrowing. In addition, some Executive Directors had questioned whether maintaining the nominal level of access for all members was necessarily an appropriate objective of the Ninth General Review.

The Chairman said that the summing up could be amended to include the points that Mr. Dallara had described. The majority of Executive Directors seemed to feel that, if it were not feasible to eliminate borrowing in the near future, an intermediate step toward that end would be needed. Accordingly, the greater the increase in the size of the Fund above a certain level, the greater the reduction in the reliance on borrowing could be. Some Executive Directors preferred to reduce the reliance on borrowing to the greatest possible extent under the Ninth General Review, and others had said that a progressive phasing out of borrowing would be desirable.

The Deputy Treasurer remarked that Mr. Dallara's point concerning the timing of the elimination of borrowing was critical. If the Ninth General Review of Quotas were completed on time, the Executive Board would soon thereafter have to review the policy on enlarged access. At that time, the new access limits would have to be fitted to the new quotas, and the Executive Board would have to decide whether or not the enlarged access policy should be continued through borrowing. It might well be helpful to include in the Chairman's summing up a reference to the gradual or progressive elimination of borrowing.

Mr. Dallara remarked that there seemed to have been some interest in his suggestion to conduct further work on the catalytic role of the Fund, the means to ensure the revolving character of the Fund's resources, the potential implications for the demand for Fund resources of European monetary arrangements, and the relationship between Fund financing and commercial bank financing of member countries' balance of payments needs. It might be helpful to include that conclusion in the summing up.

The Chairman said that the reference that Mr. Dallara mentioned could be added to the text. In the months after the 1988 Annual Meetings, the Executive Board planned to consider a paper on recent developments in and the outlook for the EMS. On that occasion, Executive Directors could discuss the question of whether the strengthening of the EMS would increase or reduce the need for Fund financing. In his view, the need for Fund financing was likely to grow.

After further brief remarks, the Executive Directors concluded their discussion. 1/

APPROVED: February 10, 1989

1/ The Chairman's summing up on the discussion of the aide-mémoire on the size of the Fund and on the share of the developing countries in the Fund was subsequently distributed in Buff Document 88/175 (9/6/88).