

December 7, 1988 - 88/64

Statement by Mrs. Ploix on the Review of the
Decision on "Principles of Burden Sharing"
(Preliminary)
Executive Board Meeting 88/174
December 7, 1988

Let me say at the outset that we would have preferred to discuss both burden-sharing and the Fund's income position at the same time; the recent buff issued by the staff on the Fund's income position makes it clear that the two subjects are closely related.

1) Before focusing on the specific topics proposed for today's discussion, I would like to make some general remarks.

First, we are very concerned by the steady erosion of the concessional element of the rate of charge and its present level. The recent information given by the Treasurer in his buff statement on the Fund's income position is worrisome in this regard, since it is now envisaged to set this rate at around 7.5% because of the recent rise in the SDR interest rate.

It is clear that this element, among others, has contributed to decreasing the Fund's attractiveness, and has discouraged countries from seeking the Fund's support when problems are at an early stage. As Mr. Reddy rightly pointed out during our last debate on burden-sharing, one can fear that this will continue and even worsen in years to come, as a result of the significant decline in the net amount of Fund credit, which implies that the various costs will have to be spread over a smaller volume of Fund credit. We should keep this problem in mind during our discussion today.

Second, this chair is strongly in favor of equitably sharing the cost of arrears among all Fund members, which is fully consistent with the cooperative character of the Fund. Indeed, it would be paradoxical and unfair for the countries which discharge their obligations to the Fund in a timely manner to assume an excessively large share of the burden. Furthermore, we strongly believe that burden-sharing is fully in keeping with the cooperative strategy approved by the last Interim Committee; my authorities are clearly of the opinion that both are closely related.

Third, if the responsibility of arrears is borne by all members, it will increase the general awareness of this problem and as a result encourage all of us to find appropriate ways to solve it. It would therefore be wrong to consider burden-sharing as a sign of our preparedness to accept the continuation of this problem, when, on the contrary, it is aimed at increasing the membership's responsibility in the matter.

2) In light of these considerations I will now briefly touch upon the specific topics proposed for discussion.

- First, it is clear that the 85% limit will not affect the implementation of burden-sharing during the second quarter of this fiscal year. Furthermore, the latest figures available suggest that this limit will not lead to a significant shortfall by the end of the fiscal year. I note, en passant, that the discrepancy between the latest figures and those included in the staff report clearly shows how difficult it is to make very precise estimates in this area. As you know, this chair considers that we should not hesitate to reduce this floor if necessary, in order to preserve full symmetry between debtors and creditors. However, I can sympathize with those who fear that such a decision could be interpreted by the international financial community as a sign of our increasing difficulty in dealing with the arrears problem. In this context, given that there is no urgency, it may appear advisable not to put an unnecessary strain on the existing consensus. However, I would like to stress that we should be ready to take appropriate action within a reasonable time frame in order to avoid having to make a decision under pressure. It would be advisable to signal today our preparedness to go into this direction at a later stage, if necessary, in order to preserve full symmetry in the adjustment of both the rate of charge and the rate of remuneration.

- With regard to the SCA, I have already expressed our position on various occasions. I can only repeat that this chair has never been enthusiastic about this account; indeed, we consider that this method looks like provisioning and therefore may give the impression that the Fund is prepared to accept losses or reschedulings. We continue to think that the advantages of this account, i.e., greater flexibility and easier refundability, are not decisive and I must say in this regard that we have never been very convinced by the arguments developed by the staff.

My authorities agreed to join the consensus on the SCA in a spirit of compromise but they are not prepared at all to envisage any further additions to this account beyond the 5% target already decided upon. Indeed, it would be somewhat inconsistent to accrue further precautionary balances and make the rate of charge more dissuasive, while beginning implementing our cooperative strategy with the view to reduce the arrears problem.

As far as possible reductions in the SCA are concerned, I strongly favor maximum flexibility, in accordance with our decision of last January. Therefore I do not think it appropriate to establish criteria or indicators to determine when the Board might consider the reduction or dissolution of this account.