

MASTER FILES
ROOM C-525

0443

GRAY/96/138

July 18, 1996

**Statement by Mr. Mirakhor
on Options for Achieving Greater Equity
in Cumulative SDR Allocations
(Preliminary)
Executive Board Informal Session 96/6
July 19, 1996**

We welcome this opportunity to discuss informally the Managing Director's proposal. Our comments will only be preliminary, pending clarifications that will hopefully emerge from today's deliberations.

As of now, we see no sufficient justification for us to change the position our Governors held so steadfastly in Madrid, namely, their full and unequivocal support for the Managing Director's 1994 proposal for a general allocation of SDR 36 billion. Specifically, we have difficulty understanding how and why the circumstances have changed as to call forth a dramatic switch from the 1994 proposal and even from the Managing Director's March 1995 proposal (Buff/95/20, 3/15/95) elaborated on April 12, 1995 (Buff 95/30). We look forward to any clarification in this regard.

From our perspective, we believe that, if anything, the case for a general allocation is stronger today than two years ago or even last year. The case for a general allocation was made eloquently by the Economic Counsellor and other participants in the recent seminar; there is no need to repeat the specific justifications enumerated on that occasion. The conditions have evolved enough, however, to add more urgency to the need for an allocation under the present Articles. For one thing, as a direct lesson learned from the Mexican experience, this institution has, appropriately, placed considerable emphasis on strengthened surveillance, improved data collection and dissemination and increased transparency, capital account liberalization and enhanced emphasis on the soundness of banking system in member countries. For its part and in the spirit of the cooperative nature of this institution, the membership has welcomed these initiatives, all of which are meant hopefully to shepherd the membership away from the use of conditional resources and toward reliance on markets. Under these circumstances, it seems that the challenges of globalization and greater openness would call for significant strengthening of member countries' own reserves.

Such strengthening would improve the conditions that would allow them enhanced access to international capital markets and to join the march of globalization. By some estimates, as many as 78 members of this institution are denied access to international capital markets or can do so only by paying very high risk premiums. Even if one assumes rapid progress in improving the conditions that permit better access to markets, it will take considerable time before the needed liquidity is available to these members at reasonable costs. Moreover, as participants in the SDR seminar pointed out, even when

this access is obtained, market failure arising from inaccurate perception of developing countries' creditworthiness, herd behavior on the part of investors, and contagion effects could rapidly cut off these countries' access to financial markets. Even in the case of Mexico where substantial, timely, and commendable help was provided by the United States and Canada, the Fund played an immensely crucial role. No matter what some may wish to call this role, I venture to guess that history will record it as the role of a lender of last resort designed to contain the contagion effects of future Mexico-like crises.

We firmly believe that any proposal for an allocation that relies wholly on an amendment of the present Articles of Agreement would place in jeopardy any future general allocation by creating a dangerous precedent. Such an amendment would, for all intents and purposes, change the character of the SDR as a central international monetary asset. It would also run the enormous risk of impairing the ability of the Fund to supplement the reserves of members, should the need arise, by establishing the precedent that no allocation will be possible without an amendment.

While we all agree that the equity question should and must be addressed, we believe that the most appropriate way to do so is through a general allocation under the provisions of the present Articles of Agreement. We do not see any justification for addressing the equity question, an extra constitutional consideration, by an amendment of the Articles of Agreement, if it means risking the demise of an institutional instrument enshrined in the Articles of Agreement. How could one explain to the Governors of this institution that a concern that could easily be addressed within the present framework of the Articles of Agreement can only be dealt with through an amendment that runs the risk of destroying a "central pillar" of this institution? Absent convincing arguments addressed to these concerns, we prefer that the integrity of the general allocation, as envisioned in the present Articles of Agreement, be fully preserved.