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Concluding Remarks by the Chairman
Ninth General Review of Quotas
Committee of the Whole on the Review of Quotas
Meeting 90/5, January 12, 1990

This intensive series of meetings has been useful in clarifying a number of issues related to the Ninth General Review.

There has been further movement toward consensus on the distribution of the overall increase. This is a remarkable development, as you may recall that this was a matter that needed to be resolved by the Interim Committee in connection with the agreement on the Eighth Review in February 1983. In our discussions we have been very much helped by the constructive proposals of Mr. Cassell and the position taken by Mr. Dawson that the United States would be content to maintain its voting power at the present level, which would otherwise rise in the context of an overall increase in quotas. Many Directors can in general support distributing 60 percent of the overall increase in proportion to present quotas (the equiproportional element) and the balance of 40 percent in proportion to members' calculated quotas, i.e., by Method A. Nevertheless, some Directors would prefer a smaller equiproportional element, as indeed some others would prefer a larger equiproportional element, and some would have a preference for a limited use of Method B. Thus, we need further reflection and progress before we can settle the broad issue of distribution. I am confident that that may soon be possible on the basis of what appears to be the view of the very broad majority, and as suggested by Mr. Grosche, not regarding it as a precedent for the future.

With respect to the ad hoc increase for Japan, Directors agreed that Japan's ranking would be raised to second position in the Fund, and this change in ranking would be accommodated among the G-7 countries, as would any further adjustments among them. At the present stage, sufficiently broad support has not emerged to meet the requests of Korea and Iran for ad hoc increases in their quotas. However, this issue--like others in the package--is not closed, and we may hear further views of Directors on those requests. I believe we can have a short discussion early next week on the very small quotas to resolve any outstanding difficulties in that area.

The bulk of our remaining work on quotas concerns the issue of the size of the overall increase and the length of time before the Fund would take up the next quota review. These are difficult issues. Also, I do not underestimate the importance of making meaningful further progress on the problem of arrears.

The issue of the size of the Fund bears on its capacity to perform its duties in accordance with its purposes as spelled out in Article I of the Fund's Articles of Agreement. Nineteen members of this Committee have

firmly supported an increase of 67 percent or more. In that connection, it should be noted that Directors' views on the size of the quota increase were outlined well before the recent developments in Eastern Europe, which dramatically underscore the importance of the Fund in having the capacity to support and sustain members that intend to implement programs of macro-economic adjustment and far-reaching market-oriented reforms. An increase of the order of 67 percent would ensure, at the least, that we would avoid a shrinking of the relative size of the Fund. I am convinced that many Directors would feel uncomfortable with a decision that would result in a shrinking in the relative size of the Fund in the present circumstances, and I very much share that concern.

Furthermore, the membership must consider how the Fund would cope over the next few years in the event that the outcome of this Review would prove to fall short of meeting the objective to at least maintain its relative size. In particular, this question must be seen in the context of the proposals that have been made that the period of consent for the increase would extend to end-1991 and that the increase under the Ninth Review would last until March 1995. In connection with the latter proposal, Mr. Posthumus has put forward an imaginative suggestion to conclude the Ninth and Tenth Quota Reviews simultaneously. That suggestion will have to be carefully studied, particularly in light of its legal implications. Needless to say, these are all important issues that also bear on the size of the Fund and must be an integral part of the overall decision--a decision that in the present circumstances should have the full and convincing support of the entire membership, so that confidence in the institution would be maintained by the international community at large.

Apart from the size of the quota increase, we also need to discuss the issue of arrears. As a basis for that discussion, I look forward to the paper that has been promised by the Executive Director for the United States in time for discussion on January 22, 1990. In that connection, Directors should bear in mind the views expressed during this morning's discussion on Guyana's overdue financial obligations to the Fund, as they have a general applicability to the Fund's policy on arrears. I was particularly impressed by the very wide support expressed for the present policies embodied in the intensified cooperative approach. The validity and appropriateness of that approach were repeatedly and unanimously underscored. Nevertheless, there was agreement that the approach needed to be further strengthened, which is normal as an evolving strategy is adapted in the light of circumstances. First, we need to strengthen the Support Group mechanism through enhanced financial support. Second, we will need to reflect on ways in which the Fund's preferred creditor status can be enhanced and applied more effectively. Third, the remedial actions at the Fund's disposal in the context of the present strategy will need to be reviewed and strengthened in scope and application. I look forward to hearing your ideas in these and other related areas in our forthcoming discussions. I am certain that the cooperative spirit, which has prevailed in our discussions so far, should help us in resolving the remaining difficulties.