

MASTER FILES
ROOM C-525

0401

EBD/90/33

January 23, 1990

To: Members of the Executive Board

From: The Managing Director

Subject: Size of the Overall Increase in Quotas and
Timing of the Next Review of Quotas

Mr. Posthumus has suggested that the Executive Board recommend to the Board of Governors a quota increase of about 67 percent, which would be the result of both the Ninth and Tenth General Reviews of Quotas. The Ninth and Tenth Reviews would be concluded simultaneously on March 31, 1990. As prescribed by the Articles, the Eleventh General Review would be completed by March 31, 1995 - and the Committee of the Whole on the Eleventh Review would be established, as required by Rule D-3, at least one year before that date.

Attached is a statement by the staff representative which considers the legal aspects of Mr. Posthumus' suggestion. It is concluded that the completion of the "accelerated" Tenth Review could coincide with the completion of the "continued" Ninth Review.

I would like to give you some personal views on this suggestion: First, let me express our gratitude to Mr. Posthumus for his imaginative response to accommodate the apparently conflicting concerns of the size of the increase and the timing of the next review of quotas. It is in the Fund's interest to try to help reconcile the financial needs of the Fund with members' political calendars. In this endeavor, I am concerned that we fully take into account the uncertainties of the period ahead.

Mr. Posthumus' suggestion consists of two elements, and it is not his intent that Directors would accept only one of the elements that they perceive to be the more attractive while ignoring the other. However, it will be recalled that a large majority of the Directors (19) have taken the view in our discussions over the last two years, and well before the recent developments in Eastern Europe, that an increase in quotas of 67 percent or more is warranted in the context of the Ninth Review. Furthermore, as would be called for by the Articles, Directors would reasonably expect to start discussions on the next--i.e., Tenth Review--by at least March 31, 1992, in order to complete that Review by March 31, 1993. Consequently, in coming to a conclusion on Mr. Posthumus' suggestion that an increase in quotas of 67 percent would last for five years to March 1995, Directors will need to consider that it would be an acceptable and appropriate risk for the Fund to take. Directors must feel that the risk is justified and one they can defend in the light of all the circumstances.

For reasons that are well known to Directors, an increase in quotas of the order of 67 percent in the context of the Ninth Review alone would seem to me to involve a risk that the increase might not be sufficient to meet the Fund's needs for usable resources over the early part of the 1990s. In my judgment, that risk increases substantially the longer is the period before the next review of quotas. Furthermore, if discussions on the next review of quotas were not to begin before April 1994, the Fund would lose an important element of flexibility that is otherwise afforded by a review starting in March 1992, in accordance with the Articles.

In coming to a conclusion along the lines suggested by Mr. Posthumus, the Directors must, in my judgment, take the view, at least implicitly, that the Fund will not reasonably have a need to replenish its resources through an enlargement of quotas over the next five years. In these circumstances, Directors might also want to bear in mind that consideration may need to be given to further borrowing by the Fund during that time.

Att: (1)

Other Distribution:
Department Heads

January 23, 1990

Statement by the Staff Representative on the
Timing of the Tenth Review of Quotas--
Committee of the Whole Meeting 90/10
January 24, 1990

At the Meeting of the Committee of the Whole on Review of Quotas on Friday, January 12, 1990 (90/5) a suggestion was made "that in the context of an overall increase in quotas of 67 percent the Ninth and Tenth Reviews would be concluded simultaneously" (Buff 90/14).

The relevant provision on the periodicity of general reviews of quotas is Article III, Section 2(a), which prescribes that "the Board of Governors shall . . . at intervals of not more than five years conduct a general review, and if it deems it appropriate propose an adjustment, of the quotas of members."

1. As explained in EB/CQuota/88/3 (2/22/88), the ninth review period has expired on March 31, 1988, i.e., five years after the adoption by the Board of Governors of the Resolution on Increase in Quotas of Members--Eighth General Review (Resolution No. 38-1, adopted March 31, 1983). The Board of Governors has no authority to extend the review period beyond five years. However, since the Board of Governors was unable to reach the required conclusion--in the form of a resolution--as to the adequacy of quotas in the Fund within the five-year period, it decided to continue its review after March 31, 1988. The completion of this review would be a delayed but valid completion of that process. Since there is no extension of the review period, and the continued review process is part of the Ninth Review, the final date of the ninth review period is not affected, and, thus, the beginning of the tenth review period has not been postponed.

2. The five-year period prescribed by the Articles is a maximum period. The tenth review period started on April 1, 1988 and cannot end later than March 31, 1993. Accordingly, the Board of Governors must conduct the Tenth Review within that five-year period. The Board of Governors would have to come to a judgment--in the form of a resolution--on the appropriateness of quotas.

3. However, the Board of Governors can conduct a general review at intervals shorter than five years. 1/ It could, therefore, decide to complete the Tenth Review earlier; such early completion of that Tenth

1/ See Sixth General Review of Quotas--Timing (SM/73/232, 10/2/73).

Review would start a new five-year period. Thus, if the Tenth Review were completed on March 31, 1990, the eleventh review period would start on April 1, 1990 and could not end later than March 31, 1995.

4. The completion of an "accelerated" Tenth Review could coincide with the completion of the "continued" Ninth Review. A single quota increase covering both the Ninth and Tenth Reviews could be proposed which could be attributed to the Ninth Review.

5. These legal considerations leave open the question of the appropriate size of the quota increase which should be considered on the basis of an assessment of the appropriateness of quotas for the period of the first full half of the nineties.