EB/CQuota/83/3

February 17, 1983

To: Members of the Committee of the Whole on Review of Quotas

From: The Secretary

Subject: Eighth General Review of Quotas - Draft Report and Resolution

The attached draft report and proposed resolution on the eighth general review of quotas have been tentatively scheduled for discussion by the Committee on Thursday, February 24, 1983.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Eighth General Review of Quotas--Draft Report and Resolution

Prepared by the Legal and Treasurer's Departments

Approved by George P. Nicoletopoulos and Walter O. Habermeier

February 17, 1983

Attached is a draft Resolution for submission to the Board of Governors for adoption. The draft Resolution reflects the agreements reached concerning the size of the Fund, the distribution of this increase in quotas, and the mode of payment for the increases.

Also attached is a draft Report of the Executive Board that would accompany the Resolution when it is submitted to the Board of Governors.

The draft Resolution provides for members to consent only to the amounts proposed in the Annex, rather than to smaller amounts as had been the practice in the last three reviews (although in earlier reviews members were not able to consent to amounts smaller than the quotas proposed in the Resolutions). If the Board wished, however, to open the option for members to take up less than their full quota, the draft Resolution could include the text in the brackets at the end of paragraph 1 of the Resolution.

The brackets in the text of the draft Report and Resolution indicate choices available with respect to certain aspects of this quota exercise. Two of these are discussed below.

(a) Period for consent and possible extensions. The issue of the period during which members may consent is raised first in paragraph 12 of the draft Report and in paragraph 3 of the draft Resolution. To reflect the urging of the Interim Committee that the increase in quotas be made effective before the end of 1983, it is proposed in paragraph 3 of the draft Resolution that notices of consent be received by the Fund before January 1, 1984, that is, by midnight Washington, D.C. time, December 31, 1983. It should be noted that even if the Fund was able to determine by the end of December 1983, that the required level of participation had been recorded, under paragraph 4 of the draft Resolution, members would still have 30 days within which to pay their subscriptions, payments that must be made before the quota increases can become effective.

The other aspect of this period for consent is how the Resolution should provide for its extension. It has been customary for the Board of Governors to delegate to the Executive Board the power to extend the period for action under a Resolution of the Board of Governors if an extension were needed to accomplish the purpose of the Resolution.

(b) Participation requirement. In paragraph 14 of the draft Report and paragraph 2 of the Resolution, the participation requirement, which is normally expressed as a certain percentage of present quotas, is left blank, pending discussion of the matter by the Executive Directors. In the five general reviews that have led to proposals to increase quotas, the participation requirement has been set in three Resolutions at three-fourths of the quotas, and in one at two-thirds. In the other general review, the fifth, no participation requirement was included. It will be recalled that the fifth review of quotas provided the basis for the second and third allocations of special drawing rights during the first basic period.

The Resolution, as finally proposed by the Executive Board, would be sent to the Board of Governors in accordance with Section 13 of the By-Laws, with the request that Governors vote without meeting. When the Report and Resolution are ready for submission to the Board of Governors, the following decisions would be adopted by the Executive Board.

I. The Executive Board adopts the Report of the Executive Board to the Board of Governors entitled "Increase in Quotas of Fund Members--Eighth General Review", set forth in SM/83/___.

II. 1. The Board of Governors is requested to vote without meeting pursuant to Section 13 of the By-Laws upon the proposed Resolution entitled "Increases in Quotas of Fund Members--Eighth General Review: Resolution of the Board of Governors".

2. The Secretary is directed to send the Report of the Executive Board and the proposed Resolution, both entitled "Increase in Quotas of Fund Members--Eighth General Review", to each member of the Fund by rapid means of communication on or before [March 1, 1983].

3. To be valid, votes must be cast by Governors or Alternate Governors and must be received at the seat of the Fund on or before 6:00 p.m. Washington time on [March 31, 1983]. Votes received after that time will not be counted.

4. The effective date of the Resolution of the Board of Governors shall be the last day for voting.

5. All votes cast pursuant to this decision shall be held in the custody of the Secretary until counted, and all proceedings with respect thereto shall be confidential until the Executive Board determines the result of the vote.

6. The Secretary is authorized to take such further action as he shall deem appropriate in order to carry out the purposes of this decision.

Attachments

INTERNATIONAL MONETARY FUND

Report of the Executive Directors to the Board of Governors:
Increase in Quotas of Fund Members - Eighth General Review

1. Article III, Section 2(a) of the Articles of Agreement provides 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 the members. It may also, if it thinks fit, consider at any other time the adjustment of any particular quota at the request of the member concerned." This report and the attached Resolution on increases in quotas under the current, i.e. eighth, general review are submitted to the Board of Governors in accordance with Article III, Section 2.

2. The Seventh General Review of Quotas was completed by Board of Governors Resolution No. 34-2, adopted December 11, 1978. To comply with the five year interval prescribed by Article III, Section 2(a), the Eighth General Review is to be completed not later than December 11, 1983. At its meeting in Helsinki, Finland, in May 1982, the Interim Committee urged the Executive Board to pursue its work on the Eighth General Review as a matter of high priority. At its meeting in Toronto, Canada, in September 1982, the Committee noted that "there was widespread support in the Committee on the urgent need for a substantial increase in quotas under the Eighth General Review" and "urged the Executive Board to pursue its work on the issues of the Review as a matter of high priority, so that the remaining issues on the size and distribution of the quota increase could be resolved by the time of the Committee's next meeting in April 1983."

3. At the meeting of the Interim Committee held in Washington in February 1983, which had been advanced from April 1983, understandings were reached on all major issues of the Eighth Review, as reflected in the relevant passages from the Committee's communique of February 11, 1983, as follows:

> 3. The Committee, noting the progress made by the Executive Board on the various issues of the Eighth General Review of Quotas, focused its attention on the remaining issues, and took satisfaction in being able to reach the following agreement on the subject of quotas:
>
> (a) The total of Fund quotas should be increased under the Eighth General Review from approximately SDR 61.03 billion to SDR 90 billion (equivalent to about US$98.5 billion).
>
> (b) Forty per cent of the overall increase should be distributed to all members in proportion to their present individual quotas, and the balance of 60 per cent should be distributed in the form of selective adjustments in proportion to each member's

share in the total of the calculated quotas, i.e., the quotas that broadly reflect members' relative positions in the world economy.

(c) Twenty-five per cent of the increase in each member's quota should be paid in SDRs or in usable currencies of other members.

The Committee considered the possibility of a special adjustment of very small quotas, i.e., those quotas that are currently less than SDR 10 million. It was agreed to refer this matter to the Executive Board for urgent consideration in connection with the implementation of the main decision.

4. The Executive Board has considered (i) the size of the overall increase in quotas; (ii) the distribution of the overall increase, including the position of countries with very small quotas in the Fund, and (iii) the mode of payment for the increase in quotas. The Executive Board also reviewed the customary method of calculating quotas.

5. In the Report of the Executive Board to the Board of Governors on Increases in Quotas of Fund Members--Seventh General Review, it was stated that:

> 5. The Executive Board will review the customary method of calculating quotas after the Seventh Review of Quotas has been completed. In the context of the next general review of quotas, the Executive Board will examine the quota shares of members in relation to their positions in the world economy with a view to adjusting those shares better to reflect members' relative economic positions while having regard to the desirability of an appropriate balance in the composition of the Executive Board.

The Executive Board agreed to certain changes regarding the quota formulas used for calculating quotas in connection with the Eighth General Review. First, it was agreed that the number of quota formulas to be used in making quota calculations in connection with the Eighth Review would be reduced from ten to five by eliminating those quota formulas that used trade as a proxy for the current account. Henceforward, quota calculations would be made on the basis of members' current account transactions. This reduction in the number of formulas simplifies the calculation of quotas while preserving in the quota calculations the considerable diversity in the structure of members' economies. The Executive Board also agreed to certain modifications in the definition of the variables used in the quota formulas and also to reduce the coefficient for variability in four of the quota formulas that contained relatively large weights for that variable. At the same time, the Executive Board agreed to give some weight to members' holdings of official reserves in those formulas in which the weight for variability is reduced and which did not include reserves. The Executive Board, while accepting the quota calculations based on the

revised quota formulas as reasonable indicators of the relative positions of countries in the world economy, also felt that they do not provide a wholly satisfactory measure of relative economic positions. It is understood that the changes that have been made do not preclude further appropriate changes in connection with future reviews.

6. The Executive Board has considered the relevant economic variables which provide indicators of the growth of the world economy and have concluded that they, and in particular the growth and possible fluctuations in the value of international transactions, point to the need for a substantial increase in Fund quotas under the Eighth General Review. The Executive Board is also of the view that relatively large payments imbalances are likely to exist for many countries in the years ahead. Despite the exceptionally widespread adjustment efforts currently being supported by the Fund, the Executive Board believes that, while the need for Fund support of members' balance of payments adjustment programs may moderate, it cannot be expected to diminish to a great extent in the next few years. It holds this view especially in the light of uncertainties and difficulties in the international financial system that are, inter alia, associated with the servicing of international debt and related capital flows.

7. The Executive Board is of the view that the increase in quotas under the Eighth General Review should enable the Fund to accommodate the likely needs for Fund resources before the next general review of quotas is completed. Borrowing by the Fund, which should not be a regular feature of the Fund's operations, may be resorted to in exceptional circumstances, including borrowing under its standing arrangements such as the General Arrangements to Borrow.

8. In view of these considerations, and in accordance with the understandings reached by the Interim Committee at its meeting on February 11, 1983, the Executive Board proposes to the Board of Governors an increase in Fund quotas from approximately SDR 61 billion to SDR 90 billion.

9. As regards the distribution of the overall increase of quotas, the Executive Board has been guided by the view of the Interim Committee, expressed in its communique of May 1982, that "noting that the present quotas of a significant number of members do not reflect their relative positions in the world economy...reaffirmed its view that the occasion of an enlargement of the Fund under the Eighth General Review should be used to bring the quotas of these members more in line with their relative positions, taking account of the case for maintaining a proper balance between the different groups of countries." The Executive Board is agreed that a portion of the overall increase in quotas should be devoted to the objective of bringing members' quotas more in line with their relative economic positions, and is also of the view that the distribution of the increase in quotas should not result in abrupt changes in quota shares of individual members and that all members should receive a meaningful increase in quotas. It is also of the view that the method to distribute the increase in quotas should be

one which applies uniformly to all members. The Executive Directors are agreed, in accordance with the understandings reached at the meeting of the Interim Committee on February 10-11, 1983, that:

> Forty per cent of the overall increase should be distributed to all members in proportion to their present individual quotas, and the balance of 60 per cent should be distributed in the form of selective adjustments in proportion to each member's share in the total of the calculated quotas, i.e., the quotas that broadly reflect members' relative positions in the world economy.

10. In accordance with the understandings reached by the Interim Committee at its meeting on February 11, 1983, the Executive Board has considered the position of the 17 members with very small quotas--i.e., those with quotas that at present are less than SDR 10 million. The Executive Board is agreed that the quotas of these members should, after being increased in accordance with the manner described in paragraph 9 above, be further adjusted [to the next higher SDR 0.5 million] [as follows: quotas that are less than SDR 2.5 million will be increased to SDR 2.5 million; quotas between SDR 2.5 million and SDR 4.9 million will be increased to SDR 5 million; quotas between SDR 5 million and SDR 7.4 million will be increased to SDR 7.5 million; and quotas between SDR 7.5 million and SDR 9.9 million will be rounded to SDR 10 million.]

11. Article III, Section 3(a) provides that 25 per cent of any regular increase shall be paid in special drawing rights, but permits the Board of Governors to prescribe, inter alia, that this payment may be made on the same basis for all members, in whole or in part in the currencies of other members specified, with their concurrence by the Fund. Reflecting the understandings reached at the February 1983 meeting of the Interim Committee, paragraph 5 of the Resolution provides that 25 per cent of the increase in quotas proposed as a result of the current review should be paid in SDRs or in currencies of other members selected by the Fund, subject to their concurrence. The balance of the increase shall be paid in a member's own currency. A reserve asset payment will help strengthen the liquidity of the Fund and will not impose an undue burden on members because under the existing decisions of the Fund a reserve asset payment will either enlarge or create a reserve tranche position of an equivalent amount. In addition, the Executive Board has examined the possibility of ensuring that a member that does not hold sufficient reserves to make its reserve asset payment to the Fund could borrow SDRs from other members willing to cooperate, and such a member would repay the loan from the SDR proceeds of a drawing of its reserve tranche which had been established by the payment of the reserve asset.

12. Under the proposed Resolution, a member will be able to consent only to the amount proposed in the Annex, rather than to a smaller amount. A member will be able to consent to the increase in its quota at any time before [January 1, 1984]. A notice of consent will have to be received by the Fund before midnight, Washington time, December 31,

1983. Therefore, unless this period is extended by the Executive Board, members will have until December 1983 to take whatever action may be necessary under their laws to enable them to give their consent.

13. A member's quota cannot be increased until it has consented to the increase and paid the subscription. Under the proposed Resolution, the increase in a member's quota will take effect only after the Fund has received the member's consent to the increase in quota and a member has paid the increase in subscription, provided that the quota cannot become effective before the date on which the Fund determines that the participation requirement in paragraph 2 of the proposed Resolution has been satisfied. The Executive Board is authorized by paragraph 3 of the proposed Resolution to extend the period of consent.

14. The participation requirement in paragraph 2 will be reached when the Fund determines that members having not less than [ ] per cent of the total of quotas on February 28, 1983 have consented to increases in their quotas. In determining whether this degree of participation has been reached, the Fund will take into account all consents to increases. Payments would have to correspond to the increases consented to.

15. The proposed Resolution provides that a member must pay the increase in its subscription within 30 days after (a) the date on which the member notifies the Fund of its consent, or (b) the date on which the participation requirement is met, whichever is the later.

16. The Executive Board recommends that the Board of Governors adopt the attached Resolution. The Resolution is designed to enable the Board of Governors to vote at one time on all matters connected with the increases in quotas under the Resolution. The adoption of the Resolution requires positive responses from Governors having an 85 per cent majority of the total voting power.

Attachment

Proposed Resolution of the Board of Governors:
Increase in Quotas of Fund Members--Eighth General Review

WHEREAS the Executive Board has submitted to the Board of Governors a report entitled "Increases in Quotas of Fund Members--Eighth General Review" containing recommendations on increases in the quotas of individual members of the Fund; and

WHEREAS the Executive Board has recommended the adoption of the following Resolution of the Board of Governors, which Resolution proposes increases in the quotas of members of the Fund as a result of the Eighth General Review of Quotas and deals with certain related matters, by vote without meeting pursuant to Section 13 of the By-Laws of the Fund;

NOW, THEREFORE, the Board of Governors hereby RESOLVES that:

1. The International Monetary Fund proposes that, subject to the provisions of this Resolution, the quotas of members of the Fund shall be increased to the amounts shown against their names in the Annex to this Resolution [,provided that any member may consent to an increased quota that is smaller than the one shown in the Annex].

2. A member's increase in quota as proposed by this Resolution shall not become effective unless the member has notified the Fund of its consent to the increase not later than the date prescribed by or under paragraph 3 below and has paid the increase in quota in full, provided that no increase in quota shall become effective before the date of the Fund's determination that members having not less than [ ] per cent of the total of quotas on February 28, 1983 have consented to increases in their quotas.

3. Notices in accordance with paragraph 2 above shall be executed by a duly authorized official of the member and must be received in the Fund before [January 1, 1984,] provided that the Executive Board may extend this period as it may determine.

4. Each member shall pay to the Fund the increase in its quota within 30 days after the later of (a) the date on which it notifies the Fund of its consent, or (b) the date of the Fund's determination under paragraph 2 above.

5. Each member shall pay twenty-five per cent of its increase either in special drawing rights or in the currencies of other members specified, with their concurrence, by the Fund, or in any combination of special drawing rights and such currencies. The balance of the increase shall be paid by the member in its own currency.