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To: Members of the Executive Board

From: The Secretary

Subject: Draft Report to the Interim Committee on the Eighth General Review of Quotas

The attached draft of the report to the Interim Committee on the Eighth General Review of Quotas has been revised in the light of the discussion at Executive Board Meeting 83/3 on January 4, 1983, and has been scheduled for discussion on Wednesday, January 12, 1983.

Att: (1)

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INTERNATIONAL MONETAF' 'D

Report of the Executive Board to the a Committee of the Board of Governors on the Internat. monetary System on the Eighth General Review of Quotas

January 7, 1983

I. Introduction

1. The communique of the Interim Committee, issued after its 19th meeting held in Toronto, Canada in September 1982, stated that

> "There was widespread support in the Committee on the urgent need for a substantial increase in quotas under the Eighth General Review. The Committee reiterated its view that quotas must remain the primary source of financial resources for the Fund's operations and that, therefore, the Review should result in an increase in quotas that would be large enough to enable the Fund to perform its functions in an effective manner in the 1980s. The Committee also reiterated its view that the occasion of an enlargement of the Fund under the Eighth General Review should be used to bring the quotas of members more in line with their relative positions in the world economy, taking account of the case for maintaining a proper balance between the different groups of countries. The Committee also asked the Executive Board to assess the adequacy of existing arrangements to deal with major strains in the international financial system.
>
> The Committee 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."

2. In view of the possible advance in the timing of the next meeting of the Interim Committee to early February 1983, and also taking into account the views expressed by the Interim Committee on the Eighth General Review of Quotas at its last meeting, the Executive Board has given urgent consideration to the main issues relating to the Eighth General Review of Quotas. As requested by the Interim Committee the Executive Board has also made an assessment of 'the adequacy of

existing arrangements to deal with major strains in the international financial system."

3. In its assessment of the adequacy of existing arrangements, the Executive Board considered an extension and enlargement of the Fund's existing standing borrowing arrangements (the General Arrangements to Borrow). In view of the strains in the international monetary situation, the Executive Board considers that a major extension and enlargement of the standing borrowing arrangements would be useful to provide the Fund with additional resources needed to meet contingencies arising from exceptional increases in demand on the Fund's resources.

4. As regards the Eighth General Review of Quotas, it is agreed that quotas must provide the primary source for the Fund's financing, and 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 range of views of Executive Directors on these main issues has greatly narrowed since the last meeting of the Committee. As outlined below, some differences remain among the Executive Directors. The principal elements of an agreement are now available for the Interim Committee to resolve the remaining issues and provide an early conclusion of the Eighth General Review.

II. Size of the Overall Increase

5. The Executive Directors agree that the overall increase in quotas should be of a size that would enable the Fund to deal effectively

with the problems of financing and adjustment that are within its competence and are likely to be encountered in the 1980s. In particular, the increase in quotas should accommodate the likely needs for Fund resources in the 1980s, and borrowing by the Fund, which may be resorted to temporarily, or in exceptional circumstances, should not be a regular feature of its operations. Many Directors are of the view that some of the issues relating to the distribution of quotas, and in particular the size of the adjustment in quota shares to better reflect relative economic positions of members, would be more readily resolved if the size of the overall increase in quotas were larger rather than smaller.

6. In their discussion on the likely need by members for Fund resources during the 1980s, most Directors are of the view that the need for Fund support of members' balance of payments adjustment programs cannot be expected to diminish appreciably in the years ahead, especially in the light of uncertainties and difficulties in the financial system that are, inter alia, associated with the servicing of international debt and related capital flows. These Directors believe that the increase in quotas under the Eighth General Review needs to be sufficiently large for the Fund to finance an appropriate level of access to its resources to promote adjustment. Some Directors hold the view that the size of the payments imbalances that would require conditional financing can be expected to diminish later in the decade, implying a lesser need for the use of Fund resources.

7. In the light of these considerations, Directors' views on the size of the overall increase, which have narrowed considerably since the

last meeting of the Committee, may be summarized as follows: Most Directors believe that an approximate doubling of the Fund's quotas, from the present total of SDR 61.1 billion to SDR 125 billion, would be appropriate. Some of these Directors are of the view that more than a doubling of present quotas is needed. A few Directors believe that an increase in quotas of 50 per cent to the order of SDR 90 billion is a minimum. But, in the course of discussion, most Directors have indicated that an increase in Fund quotas to SDR 100 billion would be acceptable. However, the view is also held that an increase in quotas to SDR 85 billion would suffice.

8. A number of Directors believe that if the total of Fund quotas fell in the range of SDR 100-125 billion, or less, the interval between the end of this Review and the next (Ninth) General Review of Quotas should be shortened to less than the maximum period of five years. The view is also put forward that the acceleration in the timetable for completing the Eighth General Review can be expected to result in the new quotas coming into effect in early 1984, rather than late 1985, with the result that the normal period for the start of the next review of quotas would be effectively advanced.

III. Distribution of Overall Increase

9. In their discussion of the distribution of the overall increase in quotas, the Executive Directors are guided by the view of the Interim Committee that the overall increase in quotas under the Eighth Review should be used to bring the quotas of individual members more in line with their relative positions in the world economy. Directors are also

of the view that the distribution of the increase in quotas should not result in abrupt changes in quota shares and that all members should receive a meaningful increase in quotas. Furthermore, Directors agree that the method to be used to distribute the increase in quotas will apply uniformly to all members.

10. The quota calculations used for the purposes of this Review have been based on the revised quota formulas agreed by the Executive Board in August 1982. In its last Report to the Interim Committee on the Eighth General Review, the Executive Board noted that, "Whilst accepting the agreed quota calculations as reasonable indicators of the relative economic positions of countries in the world economy, some Executive Directors are of the view 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."

11. The Executive Board considered different methods that could be used to distribute increases in quotas, taking into account the various aims noted in paragraph 9 above. After long deliberation, the Executive Board agrees that a part or all of the overall increase hould be distr-buted on the basis of each member's share in the total of calculated quotas. This method directly reflects members' relative economic positions, as measured by the calculated quotas, in the distribution of quota increases. In order to assure a meaningful increase in quotas for each member, most Directors also agree that a part of the overall increase should be used for an equiproportional increase in quotas--i.e., each member's present quota should be increased by the same percentage.

12. The Executive Directors have not yet reached a consensus on the proportion of a given overall quota increase that should be devoted to the equiproportional increase and the proportion that should be devoted to effecting selective increases in quotas. The Tables appended to this report show illustrative alternative distributions between equiproportional increases and selective increases for four sizes of Fund--viz. SDR 85 billion, SDR 90 billion, SDR 100 billion and SDR 125 billion. The Tables also show for each calculation the extent to which quota shares are adjusted toward shares in calculated quotas and the distribution of shares in the Fund between the major groups of countries, which have been classified as in IFS. 1/ For ease of reference, the individual quota calculations that are summarized in the Appendix are shown in a separate document which is circulated concurrently.

13. A few Executive Directors stress that in view of the large and growing differences for many members between their shares in present and in calculated quotas, it would be appropriate to distribute the entire increase in quotas in the form of selective adjustments. This would imply that there would not be an equiproportional increase in quotas. On the other hand, a number of Directors believe that a significant part, of the order of two thirds to three quarters, of the overall increase in quotas should be distributed as an equiproportional increase in quotas. These Directors stress the need to avoid abrupt changes in

1/ The IFS classification is used for presentational purposes only and it is not intended to have operational significance for the purposes of the General Review of Quotas.

the quota shares of members and wish to ensure that each member receives a meaningful increase in its quota. These Directors recall that in the last communique of the Interim Committee it was stated that in bringing quotas better into line with relative economic positions, account should be taken of "the case for maintaining a proper balance between the different groups of countries." They believe that a large equiproportional component would help safeguard the position of the non-oil developing countries, taken as a group. On the other hand, many Directors continue to feel that quota increases should be based on members' individual positions and not on the positions of groups of members. However, between these two views, an intermediate position is held by other Directors who feel that 50-70 per cent of the overall increase should be devoted to effecting selective increases in quotas.

14. The Executive Board discussed the position in the Fund of the small quota countries. As regards the very small quota countries--i.e., those with quotas that are at present less than SDR 10 million--many Directors feel that on many grounds the share in the Fund of this group of countries should be raised slightly, after taking account of the increase in quotas and its distribution that will be agreed under the Eighth General Review. These Directors believe that in terms of the likely amount of the increase in quotas over the agreed overall increase, the cost of special quota adjustments for these members would be very small. But against this, most other Directors strongly hold the view that it is important to maintain uniformity of treatment of members in distributing increases in quotas. They also point out

that a special adjustment in very small quotas could result in these members satisfying their needs for Fund resources through use of facilities which do not involve upper tranche conditionality. Some Executive Directors suggest that the small quotas might be increased so as to effectively double the number of basic votes for such members. It is generally felt that such an adjustment in quotas would result in relatively high quotas for small countries. Some Executive Directors put forward the view that the issue of a possible increase in basic votes, which would need an amendment to the Articles, might be further examined. A few Directors thought it appropriate to examine the matter of small quotas later, and in the light of the increases in quotas that are agreed under the Eighth General Review, and particularly in the context of any rounding procedures that might be adopted as regards these increases.

IV. Payment for Increases in Quotas

15. The Executive Board has discussed the mode of payment for the increases in quotas. The Articles of Agreement provide that each member which consents to an increase in quota shall "pay to the Fund twenty-five per cent of the increase in special drawing rights, but the Board of Governors may prescribe 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, or in the member's own currency... The balance of the increase shall be paid by the member in its own currency."

16. Almost all Directors agree that twenty-five per cent of the increase in quotas should be paid in reserve assets. Most of these

Directors would prefer that the reserve asset payment be in SDRs. A reserve asset payment made in SDRs provides the greatest enhancement of the liquidity of the Fund, improves the Fund's income position when the rate of remuneration is lower than the SDR rate, as at present, and it also promotes the use of the SDR in Fund operations and transactions. However, approximately one-fifth of the total SDRs allocated are presently held by the General Department of the Fund and over 60 per cent are held by the industrial countries. Furthermore, approximately 90 members do not have at present sufficient SDRs to pay to the Fund 25 per cent of an increase in quotas of the order presently discussed. In these circumstances, a relatively large number of members would need to buy SDRs, perhaps mainly from the Fund itself, to pay them to the Fund. Consequently, many Directors believe it may be appropriate to give members an option to pay 25 per cent of the increase in quotas in SDRs or in the currency of another member prescribed by the Fund, with the concurrence of the issuer. The granting of the option requires a decision of the Board of Governors taken by a 70 per cent majority of the total voting power.

17. Directors recognize that a member may face difficulties in making its reserve asset payment and might need to borrow to make the payment to the Fund. Some of them believe that in such circumstances members should not be required to pay 25 per cent of the increase in quotas in reserve assets. Others point out that under existing decisions a reserve asset payment to the Fund either creates a reserve tranche position for a member, or enlarges the paying member's existing reserve tranche, by an amount equal to the reserve asset payment. Thus, a

reserve asset payment to the Fund results only in a change in the composition of a member's reserves, and does not represent a net drain on them. Furthermore, a member can draw on its reserve tranche without challenge to its representation of balance of payments need. Directors also noted that in the event that members would experience difficulties in making the reserve asset payment because they do not hold sufficient official foreign assets (SDRs and foreign exchange), arrangements could be put in place to assist such members to engage in very short-term bridging finance to make the payment to the Fund. In the light of the technical assurances that have been provided by the staff regarding the feasibility of such arrangements, Directors agree that members that engage in such arrangements and that need to do so could repay promptly the reserve assets used in payment of 25 per cent of the quota increase by drawing on their reserve tranches. Many Directors also feel that the question of an allocation of SDRs in the fourth basic period should be addressed urgently. In this connection, whilst noting that a decision to allocate SDRs would facilitate a payment of 25 per cent of the quota increase in SDRs, these Directors consider that the decision on SDR allocations has to be examined on its own merits, which they believe are strong. In the light of these considerations, almost all Directors agree to the payment of 25 per cent of the quota increase in reserve assets on the understanding that the Interim Committee would request the Executive Board to review the latest trends in world inflation and liquidity as a matter of urgency, so that consideration could be given at the next Annual Meeting as to whether a new allocation of SDRs would be called for at that time.

Table 1. Alternative Illustrative Distributions of the Overall Increase in Quotas (Fund of SDR 85 Billion)

(In per cent)

	Present quota shares (1)	Apportionment of overall increase into equiproportional/selective increases						
		75/25 (2)	66.7/33.3 (3)	50/50 (4)	40/60 (5)	33.3/66.7 (6)	30/70 (7)	0/100 (8)
1. Overall increase		39.3	39.3	39.3	39.3	39.3	39.3	39.3
Of which.								
Equiproportional increase, per cent of present quota 1/		29.4	26.2	19.6	15.7	13.1	11.8	--
Selective increase, per cent of of present quota 2/		9.8	13.1	19.6	23.6	26.2	27.5	39.3
2. *Adjustment coefficient 3/*	--	[illegible]	[illegible].4	14.1	[illegible]	[illegible]	[illegible]	[illegible]
3. Distribution of shares (per cent of total)								
Industrial countries	61.3	61.7	61.8	62.0	62.2	62.3	62.3	62.8
Developing countries	38.7	38.3	38.2	38.0	37.8	37.7	37.7	37.2
Of which:								
Major oil-exporting countries	10.9	11.1	11.2	11.4	11.5	11.5	11.6	11.8
Non-oil developing countries	27.8	27.2	27.0	26.6	26.3	26.2	26.1	25.4

1/ The equiproportional increase plus the increase allocated to the member with the lowest ratio of calculated to present quota (Lao, P.D.R.) provide the smallest increase, in per c[illegible] of present quota, of 30.4, 27.4, 21.5, 18.0, 15.6, 14.5, and 3.8 per cent, respectively, in Cols. 2 through 8 in the table.

2/ The figure shown in this table is a weighted average for all members and is the same as the percentage ratio of the aggregate of selective increases to the total of present quotas. Selective increases, by definition, vary across members and are allocated in absolute terms in accordance with members' shares in the total of calculated quotas.

3/ This figure represents the percentage reduction for each member of the difference between its share in the total of present quotas and its share in calculated quotas. The adjustment coefficient is the same for each member and it measures the degree to which quota shares are adjusted to reflect members' relative economic positions as indicated by the calculated quotas. The degree of adjustment could also be expressed as a proportion of the maximum that can be effected, i.e., if the entire overall increase were distributed selectively (see footnote 2), in which case it would be identical with the apportionment of the overall increase into selective increases as indicated at the heading of the table.

Table 2. Alternative Illustrative Distributions of the Overall Increase in Quotas (Fund of SDR 90 Billion)

(In per cent)

	Present quota shares (1)	Apportionment of overall increase into equiproportional/selective increases						
		75/25 (2)	66.7/33.3 (3)	50/50 (4)	40/60 (5)	33.3/66.7 (6)	30/70 (7)	0/100 (8)
1. Overall increase		47.5	47.5	47.5	47.5	47.5	47.5	47.5
Of which								
Equiproportional increase, per cent of present quota 1/		35.6	31.6	23.7	19.0	15.8	14.2	--
Selective increase, per cent of of present quota 2/		11.9	15.8	23.7	28.5	31.6	33.2	47.5
2. Adjustment coefficient 3/	--	[illegible]	[illegible]	[illegible]	19.3	[illegible]	22.5	32.2
3. Distribution of shares (per cent of total)								
Industrial countries	61.3	61.7	61.9	62.1	62.3	62.4	62.5	63.0
Developing countries	38.7	38.3	38.1	37.9	37.7	37.6	37.5	37.0
Of which.								
Major oil-exporting countries	10.9	11.2	11.3	11.4	11.5	11.6	11.7	12.0
Non-oil developing countries	27.8	27.1	26.9	26.4	26.1	25.9	25.9	25.0

1/ The equiproportional increase plus the increase allocated to the member with the lowest ratio of calculated to present quota (Lao, P.D.R.) provide the smallest increase, in per cent of present quota, of 36.7, 33.2, 26.0, 21.8, 18.9, 17.5, and 4.6 per cent, respectively, in Cols. 2 through 8 in the table.

2/ The figure shown in this table is a weighted average for all members and is the same as the percentage ratio of the aggregate of selective increases to the total of present quotas. Selective increases, by definition, vary across members and are allocated in absolute terms in accordance with members' shares in the total of calculated quotas.

3/ This figure represents the percentage reduction for each member of the difference between its share in the total of present quotas and its share in calculated quotas. The adjustment coefficient is the same for each member and it measures the degree to which quota shares are adjusted to reflect members' relative economic positions as indicated by the calculated quotas. The degree of adjustment could also be expressed as a proportion of the maximum that can be effected, i.e., if the entire overall increase were distributed selectively (see footnote 2), in which case it would be identical with the apportionment of the overall increase into selective increases as indicated at the heading of the table.

Table 3. Alternative Illustrative Distributions of the Overall Increase in Quotas (Fund of SDR 100 Billion)

(In per cent)

	Present quota shares (1)	Apportionment of overall increase into equiproportional/selective increases						
		75/25 (2)	66.7/33.3 (3)	50/50 (4)	40/60 (5)	33.3/66.7 (6)	30/70 (7)	0/100 (8)
1. Overall increase		63.8	63.8	63.8	63.8	63.8	63.8	63.8
Of which:								
Equiproportional increase, per cent of present quota 1/		47.9	42.6	31.9	25.5	21.3	19.2	--
Selective increase, per cent of of present quota 2/		16.0	21.3	31.9	38.3	42.6	44.7	63.8
2. *Adjustment coefficient 3/*	--	*9.7*	*13.0*	*19.5*	*23.4*	*26.0*	*27.3*	*33.0*
3. Distribution of shares (per cent of total)								
Industrial countries	61.3	61.8	62.0	62.3	62.5	62.7	62.7	63.4
Developing countries	38.7	38.2	38.0	37.7	37.5	37.3	37.3	36.6
Of which								
Major oil-exporting countries	10.9	11.2	11.3	11.6	11.7	11.8	11.8	12.2
Non-oil developing countries	27.8	27.0	26.7	26.1	25.8	25.6	25.4	24.4

1/ The equiproportional increase plus the increase allocated to the member with the lowest ratio of calculated to present quota (Lao, P.D.R.) provide the smallest increase, in per cent of present quota, of 49.4, 44.6, 35.0, 29.3, 25.4, 23.5, and 6.2 per cent, respectively, in Cols. 2 through 8 in the table.

2/ The figure shown in this table is a weighted average for all members and is the same as the percentage ratio of the aggregate of selective increases to the total of present quotas. Selective increases, by definition, vary across members and are allocated in absolute terms in accordance with members' shares in the total of calculated quotas.

3/ This figure represents the percentage reduction for each member of the difference between its share in the total of present quotas and its share in calculated quotas. The adjustment coefficient is the same for each member and it measures the degree to which quota shares are adjusted to reflect members' relative economic positions as indicated by the calculated quotas. The degree of adjustment could also be expressed as a proportion of the maximum that can be effected, i.e., if the entire overall increase were distributed selectively (see footnote 2), in which case it would be identical with the apportionment of the overall increase into selective increases as indicated at the heading of the table.

Table 4. Alternative Illustrative Distributions of the Overall Increase in Quotas (Fund of SDR 125 Billion)

(In per cent)

	Present quota shares (1)	Apportionment of overall increase into equiproportional/selective increases						
		75/25 (2)	66.7/33.3 (3)	50/50 (4)	40/60 (5)	33.3/66.7 (6)	30/70 (7)	0/100 (8)
1. Overall increase		104.8	104.8	104.8	104.8	104.8	104.8	104.8
Of which:								
Equiproportional increase, per cent of present quota 1/		78.6	69.9	52.4	41.9	34.9	31.4	--
Selective increase, per cent of of present quota 2/		26.2	34.9	52.4	62.9	69.9	73.4	104.8
2. Adjustment coefficient 3/	--	19.3	17.1	25.6	30.7	34.1	35.8	51.2
3. Distribution of shares (per cent of total)								
Industrial countries	61.3	62.0	62.2	62.7	62.9	63.1	63.2	64.0
Developing countries	38.7	38.0	37.8	37.3	37.1	36.9	36.8	36.0
Of which								
Major oil-exporting countries	10.9	11.3	11.5	11.8	11.9	12.0	12.1	12.6
Non-oil developing countries	27.8	26.7	26.3	25.6	25.2	24.9	24.7	23.4

1/ The equiproportional increase plus the increase allocated to the member with the lowest ratio of calculated to present quota (Lao, P.D.R.) provide the smallest increase, in per cent of present quota, of 81.1, 73.3, 57.5, 48.0, 41.7, 38.6, and 10.2 per cent, respectively, in Cols. 2 through 8 in the table.

2/ The figure shown in this table is a weighted average for all members and is the same as the percentage ratio of the aggregate of selective increases to the total of present quotas. Selective increases, by definition, vary across members and are allocated in absolute terms in accordance with members' shares in the total of calculated quotas.

3/ This figure represents the percentage reduction for each member of the difference between its share in the total of present quotas and its share in calculated quotas. The adjustment coefficient is the same for each member and it measures the degree to which quota shares are adjusted to reflect members' relative economic positions as indicated by the calculated quotas. The degree of adjustment could also be expressed as a proportion of the maximum that can be effected, i.e., if the entire overall increase were distributed selectively (see footnote 2), in which case it would be identical with the apportionment of the overall increase into selective increases as indicated at the heading of the table.