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To: Members of the Executive Board

From: The Secretary

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

The attached report of the Executive Board to the Interim Committee on the Eighth General Review of Quotas takes into account the discussions on January 13, 1983 at Executive Board meetings 83/12 and 83/13. This report will be transmitted to the Members and Associates of the Interim Committee as ICMS/Doc/83/2.

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INTERNATIONAL MONETARY FUND

Report of the Executive Board to the Interim Committee of the Board of Governors on the International Monetary System on the Eighth General Review of Quotas

January 14, 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.
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> 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 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.

3. The Executive Board has discussed the Eighth General Review of Quotas in the light of the principle that quotas must provide the primary source for the Fund's financing. In this connection it 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

4. The Executive Directors have noted the view of the Interim Committee 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. The Executive Directors believe that the increase in quotas should enable the Fund to accommodate the likely needs for Fund resources in the 1980s, and that 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 by the Fund under its standing arrangements such as the General Arrangements to Borrow. Many Directors believe that the larger the size of the overall increase in quotas, the easier it will be to resolve some of the issues relating to the distribution of quotas; accordingly, they stress the importance of considering the issues of size and distribution in conjunction.

5. 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 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, following the exceptionally widespread adjustment efforts currently being supported by the Fund, payments imbalances that would require conditional financing by the Fund can be expected to moderate later in the decade.

6. In the light of these considerations, Directors' views on the size of the overall increase, which, in a spirit of compromise, have narrowed considerably since the last meeting of the Committee, may be summarized as follows.

(i) 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. All of them could accept an overall size of the Fund of SDR 100 billion as a minimum.

(ii) Other Directors have indicated that they could support an overall size of the Fund that lies within the range of SDR 85-100 billion, and some of these Directors believe that an increase in quotas of 50 per cent to the order of SDR 90 billion is a minimum,

(iii) In the course of discussion, most Directors have indicated that an increase in Fund quotas to SDR 100 billion would be acceptable.

7. A number of Directors believe that if the total of Fund quotas is less than SDR 125 billion, the interval between the completion of this Review and the start of the next (Ninth) General Review of Quotas should be shortened from the maximum period of five years. The view is also put forward that the acceleration in the timetable for completing the Eighth General Review, with a view to having the new quotas come into effect in late 1983 or early 1984, rather than late 1985, will have the result that the start of the period for the next review of quotas would be effectivelv advanced without a reduction in the five-year period between quota reviews.

III. Distribution of Overall Increase

8. In their discussion of the distribution of the overall increase in quotas, the Executive Directors have been guided by the Interim Committee which "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. Directors are 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. Furthermore, all Directors agree that the method used to distribute the increase in quotas should be one which applies uniformly to all members.

9. 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."

10. The Executive Board considered different methods that could be used to distribute the increase in quotas, taking into account the various aims noted in paragraph 8 above. After long deliberation, the Executive Board agreed that the element in the increase that is intended to better reflect the relative economic positions of member countries should be distributed in proportion to each member's share in the total of calculated quotas, and the element that is intended to assure a meaningful increase in quotas for each member, and to avoid abrupt changes in quota shares, should be distributed in proportion to each member's present quota.

11. The Executive Directors have not reached a consensus on the proportion of a given overall quota increase that should be devoted to effecting selective increases in quotas and the proportion that should be devoted to the equiproportional increase. The Tables appended to this report show alternative illustrative distributions between selective and equiproportional increases for four sizes of Fund--viz. SDR 85 billion, SDR 90 billion, SDR 100 billion, and SDR 125 billion. 1/

12. A number of Executive Directors stress that in view of the large and growing differences for a significant number of members between their shares in present quotas and in calculated quotas, and in view of what they consider to be the limited degree of adjustment under this method, it would be appropriate to distribute the entire increase in quotas in the form of selective adjustments. Each member would receive some increase in quotas under this method. On the other hand, a number of Directors believe that a significant part, of the order of three quarters, of the overall increase in quotas should be distributed as an equiproportional increase in quotas. A few other Directors favor, or can support, an equiproportional increase ranging between 50 to 75 per cent of the overall increase in quotas. These Directors stress the need to avoid abrupt changes in 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

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1/ The Tables also show for each calculation the extent to which quota shares are adjusted toward shares in calculated quotas (the adjustment coefficient) and the distribution of shares in the Fund between the major groups of countries, which have been classified as in <u>International Financial Statistics</u>. (The <u>IFS</u> 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.)

For ease of reference, the individual quota calculations that are summarized in the Appendix are shown in a separate document which is circulated concurrently.

Interim Committee it was stated that in bringing quotas more in line with relative economic positions, account should be taken of "the case for maintaining a proper balance between the different groups of countries." They noted that under all alternative illustrative calculations in the Tables attached to this report, the share of the non-oil developing countries, taken as a group, declines and they believe that a large equiproportional component would help to minimize the deterioration in the relative position of this group of countries. 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. Between the views of those Directors who hold that the entire increase in quotas should be devoted to effecting selective increases and those who feel that a significant part of the increase should be distributed in the form of an equiproportional increase, many Directors have indicated that they favor, or can accept, in the light of the Executive Board discussion, an equiproportional element of 50 per cent or a lower figure, going for some to 20 per cent of the overall increase, depending on the size of the Fund.

13. The Executive Board has also considered the position of the very small quota members--i.e., those with quotas that at present are less than SDR 10 million, and who account for only about 0.1 per cent of total quotas. Many Directors feel that the special economic problems of these countries, including very limited access to capital markets, narrow productive and export base, and transportation difficulties, are not, and possibly cannot be, adequately comprehended by the quota formulas, and that a case exists for some special adjustment of their quotas, after taking account of any increases that might be agreed under the Eighth General Review. Adjustments, which would be meaningful from the point of view of the small countries concerned, would be relatively very small in aggregate (perhaps no more than SDR 20 million, depending on the precise method of adjustment chosen). They could be based on a single minimum quota, or rounding-up of quotas to say, a maximum level in each of a number of classes (e.g., SDR 5, 7.5 and 10 million), or a straight percentage increase (based either on present or new quotas), other methods could also be used. But against this, most other Directors hold the view that it is important to maintain uniformity of treatment of members in distributing increases in quotas. These Directors do not believe that the small SDR cost of such special adjustments is a relevant consideration, and they do not consider the case has been made out that the economic problems of these countries are unique, which would argue for special adjustment in their quotas. Therefore, these Directors do not favor a special adjustment in the quotas of the members referred to above. Some of these Directors 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. A few Directors thought it appropriate to examine the economic problem of small countries further in the light of the increases in quotas that are agreed under the Eighth General Review.

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.

IV. Payment for Increases in Quotas

14. 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."

15. Almost all Directors agree in principle that 25 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 20 per cent of the total SDRs allocated are presently held by the General Department of the Fund and approximately 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.

16. Directors recognize that many members may face difficulties in making reserve asset payments and that some might need to borrow to make the payments to the Fund. Several Directors are thus of the view that members should have the option of paying the increased subscription wholly in their own currency. 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 in making the payments to the Fund. In the light of the assurances that have been provided by the staff regarding the technical 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.

17. 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.

18. In the light of these considerations, those Directors who have expressed reservations on the payment of 25 per cent of the quota increase in reserve assets could also agree to such payments 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, with a view to facilitating consideration at the next meeting of the Interim Committee as to whether a new allocation of SDRs would find broad support.

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As noted at the beginning of this Report, the Interim Committee requested the Executive Board "to assess the adequacy of existing arrangements to deal with major strains in the international financial system." In its discussions devoted to this matter, the Executive Board considered, inter alia, that a major enlargement and extension of the Fund's standing borrowing arrangements (General Arrangements to Borrow) could be very useful in providing the Fund with access to additional resources to help it deal with an inadequacy of resources and with a threat to the stability of the international monetary system. The Executive Board stressed that a revision of the GAB should not adversely affect the appropriate increase in the size of the Fund, its decision making process and independence, and its nondiscriminatory and cooperative character.

Table 1. Alternative Illustrative Distributions of Quotas (Fund of SDR 85 Billion)

(In per cent)

	Present quota shares (1)	Illustrative 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)	20/80 (8)	0/100 (9)
1. Overall increase		39.3	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	7.9	—
		(30.4)	*(27.4)*	*(21.5)*	*(18.0)*	*(15.6)*	*(14.5)*	*(10.9)*	*(3.8)*
Selective increase, per cent of present quota 2/		9.8	13.1	19.6	23.6	26.2	27.5	31.4	39.3
2. *Adjustment coefficient 3/*		*7.0*	*9.4*	*14.1*	*16.9*	*18.8*	*19.7*	*22.6*	*28.2*
3. Distribution of shares (per cent of total)									
Industrial countries	61.3	61.7	61.8	62.0	62.2	62.3	62.3	62.5	62.8
Developing countries	38.7	38.3	38.2	38.0	37.8	37.7	37.7	37.5	37.2
Of which									
Major oil-exporting countries	10.9	11.1	11.2	11.4	11.5	11.5	11.6	11.7	11.8
Non-oil developing countries	27.8	27.2	27.0	26.6	26.3	26.2	26.1	25.9	25.4

1/ Figures in parentheses show the smallest increase, which includes an equiproportional increase, allocated to the member with the lowest ratio of calculated to present quota.

2/ This is a weighted average for all members and is the ratio of total selective increases to total present quotas. Selective increases are allocated in absolute amounts in proportion to members' shares in calculated quotas.

3/ This figure is the percentage reduction of the difference between a member's share in 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.

Table 2. Alternative Illustrative Distributions of Quotas (Fund of SDR 90 Billion)

(In per cent)

	Present quota shares (1)	Illustrative 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)	20/80 (8)	0/100 (9)
1. Overall increase		47.5	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 *(36.7)*	31.6 *(33 2)*	23.7 *(26.0)*	19.0 *(21.8)*	15.8 *(18.9)*	14.2 *(17.5)*	9.5 *(13.2)*	— *(4.6)*
Selective increase, per cent of present quota 2/		11.9	15.8	23.7	28.5	31.6	33.2	38.0	47.5
2. *Adjustment coefficient 3/*		*8 0*	*10 7*	*16 1*	*19.3*	*21.5*	*22 5*	*25.7*	*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	62.7	63.0
Developing countries	38.7	38.3	38.1	37.9	37.7	37.6	37.5	37.3	37.0
Of which Major oil-exporting countries	10.9	11.2	11.3	11.4	11.5	11.6	11.7	11.8	12.0
Non-oil developing countries	27.8	27.1	26.9	26.4	26.1	25.9	25.9	25.6	25.0

1/ Figures in parentheses show the smallest increase, which includes an equiproportional increase, allocated to the member with the lowest ratio of calculated to present quota.

2/ This is a weighted average for all members and is the ratio of total selective increases to total present quotas. Selective increases are allocated in absolute amounts in proportion to members' shares in calculated quotas.

3/ This figure is the percentage reduction of the difference between a member's share in 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.

Table 3. Alternative Illustrative Distributions of Quotas (Fund of SDR 100 Billion)

(In per cent)

	Present quota shares	Illustrative apportionment of overall increase into equiproportional/selective increases							
		75/25	66.7/33.3	50/50	40/60	33.3/66.7	30/70	20/80	0/100
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. Overall increase		63.8	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	12.8	--
		(49.4)	*(44.6)*	*(35.0)*	*(29.3)*	*(25.4)*	*(23.5)*	*(17.7)*	*(6.2)*
Selective increase, per cent of present quota 2/		16.0	21.3	31.9	38.3	42.6	44.7	51.1	63.8
2. *Adjustment coefficient 3/*		*9.7*	*13.0*	*19.5*	*23.4*	*26.0*	*27.3*	*31.2*	*39.0*
3. Distribution of shares (per cent of total)									
Industrial countries	61.3	61.8	62.0	62.3	62.5	62.7	62.7	63.0	63.4
Developing countries	38.7	38.2	38.0	37.7	37.5	37.3	37.3	37.0	36.6
Of which									
Major oil-exporting countries	10.9	11.2	11.3	11.6	11.7	11.8	11.8	11.9	12.2
Non-oil developing countries	27.8	27.0	26.7	26.1	25.8	25.6	25.4	25.1	24.4

1/ Figures in parentheses show the smallest increase, which includes an equiproportional increase, allocated to the member with the lowest ratio of calculated to present quota.

2/ This is a weighted average for all members and is the ratio of total selective increases to total present quotas. Selective increases are allocated in absolute amounts in proportion to members' shares in calculated quotas.

3/ This figure is the percentage reduction of the difference between a member's share in 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.

Table 4. Alternative Illustrative Distributions of Quotas (Fund of SDR 125 Billion)

(In per cent)

	Present quota shares (1)	Illustrative 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)	20/80 (8)	0/100 (9)
1. Overall increase		104.8	104.8	104.8	104.8	104.8	104.8	104.8	104.8
Of which.									
Equiproportional increase, cent of present quota 1/		78.6	69.9	52.4	41.9	34.9	31.4	21.0	--
		(81.1)	*(73.3)*	*(57 5)*	*(48.0)*	*(41 7)*	*(38.6)*	*(29.1)*	*(10.2)*
Selective increase, per cent of present quota 2/		26.2	34.9	52.4	52.9	69.9	73.4	83.8	104.8
2. *Adjustment coefficient* 3/		*12.8*	*17 1*	*25.6*	*30.7*	*34.1*	*35.8*	*40.9*	*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	63.5	64.0
Developing countries	38.7	38.0	37.8	37.3	37.1	36.9	36.8	36.5	36.0
Of which·									
Major oil-exporting countries	10.9	11.3	11.5	11.8	11.9	12.0	12.1	12.3	12.6
Non-oil developing countries	27.8	26.7	26.3	25.6	25.2	24.9	24.7	24.3	23.4

1/ Figures in parentheses show the smallest increase, which includes an equiproportional increase, allocated to the member with the lowest ratio of calculated to present quota.

2/ This is a weighted average for all members and is the ratio of total selective increases to total present quotas. Selective increases are allocated in absolute amounts in proportion to members' shares in calculated quotas.

3/ This figure is the percentage reduction of the difference between a member's share in 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.