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EB/CQuota/82/2

Correction 2 - *Inserted*

March 19, 1982

To: Members of the Committee of the Whole on Review of Quotas
From: The Secretary
Subject: Size of the Fund in the 1980s - Further Considerations

The following correction has been made in EB/CQuota/82/2 (3/12/82):

Page 18, para. 1, lines 15-16: for "could increase members' need"
read "could be altered in response to
changing economic conditions and to
the trend increase in members' need"

A corrected page is attached.

Att: (1)

Other Distribution:
Department Heads

Some guidance should, of course, be given to members, as well as to the staff, with respect to the extent to which recourse to the Fund's resources is appropriate under the circumstances prevailing from time to time. Such guidance can be provided more easily by adjusting the proportional quota limits set for various Fund facilities, which can be done by decisions of the Executive Board, than by general quota reviews, which require ratification by members in addition to a decision by the Board of Governors. Moreover, guidance through adjustment of quota limits is more flexible since these limits can be reduced as well as increased, whereas quotas can, in practice, probably only be raised but not lowered. For instance, a reduction in the principal quota limit--the one applying to drawings from the Fund under stand-by and extended programs by members making strong balance of payments adjustment efforts--was decided to accompany the entry into force in 1980 of the quotas agreed under the Seventh General Review. This and similar limits could be altered in response to changing economic conditions and to the trend increase in members' need to use Fund resources relative to quota in the course of the (typically quinquennial) period between quota reviews.

If the actual use of Fund resources were in part regulated through the periodic adjustment of quota limits, it would be appropriate for quotas themselves to be set at a level that prospectively covers foreseeable maximum needs to the end of the quota review period in question. This theme will be further elaborated in the following sections.

IV. Additional Influences on Quota Size

The estimates of the required size of Fund quotas discussed in Section II explicitly refer to the Fund's shorter-term need for resources--extending through the coming two financial years, the second of which ends April 1984. Salient features of the economic environment at the beginning of the second half of the present decade were sketched in Section III. In the present section, several other considerations relevant to the decision on the size of quotas in the period beyond end-April 1984 will be discussed.

Timing

Without giving detailed consideration to the precise period during which the quotas decided in the Eighth General Review would be in effect, it will be assumed that this period will extend for approximately five years commencing some time in 1984 or 1985. It will therefore cover approximately the second half of the decade of the 1980s.

Borrowing by the Fund

The next matter to deserve attention is the anticipated role of borrowing. Wide agreement now exists that main reliance should be placed at this time on quotas rather than borrowing as the source of the Fund's resources. This could be taken to mean that quotas should be large enough