

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

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Room 904

#11

(1)

December 16, 1969

To: Members of the Executive Board

From: The Secretary

Subject: Report of the Executive Directors and Proposed Resolution
On Increases in Quotas of Members - Fifth General Review

Attached for consideration by the Executive Board is a draft of the Report of the Executive Directors to the Board of Governors on increases in quotas as a result of the Fifth General Review, together with the draft of a proposed Resolution. The draft is intended to show what the content of the Report could be and at this stage, therefore, can be regarded as illustrative. In addition, it should be noted that in certain matters on which the Executive Board has not yet reached consensus, alternative formulations have been offered in the text of the drafts of the Report and Resolution. These alternatives are not intended to imply that other solutions are to be excluded. For example, paragraph 14 of the draft Report and paragraph 5 of the draft Resolution refer to two ways in which the Fund could reduce the gold payments for increases under Article III, Section 4(a). The first would permit a member that qualifies under that provision to pay the full amount of the quota increase in its currency, and the second would permit a member to pay in gold that percentage of the 25 per cent gold payment which is represented by the ratio of its monetary reserves to the new quota. Many other arrangements are possible which would reduce gold subscription payments by amounts which lie between those resulting from the two alternatives indicated in the text of the attached drafts.

Att: (2)

Other Distribution:
Department Heads
Division Chiefs

INCREASES IN QUOTAS OF MEMBERS--FIFTH GENERAL REVIEW

REPORT OF THE EXECUTIVE DIRECTORS TO THE BOARD OF GOVERNORS

1. At its 1969 Annual Meeting in Washington, the Board of Governors adopted the following Resolution:

WHEREAS the Executive Directors have been considering the question of an appropriate adjustment of the quotas of Fund members; and

WHEREAS the Executive Directors have been considering this question in relation to the allocation of special drawing rights; and

WHEREAS the Board of Governors has adopted a Resolution on the allocation of special drawing rights for a first basic period of three years beginning on January 1, 1970, and

WHEREAS the Fifth Quinquennial Review of Quotas is to begin not later than the end of 1969; and

WHEREAS Governors have expressed their views on the Fifth Quinquennial Review and the adjustment of quotas;

NOW, THEREFORE, the Board of Governors hereby RESOLVES:

That the Executive Directors proceed promptly with the consideration of the adjustment of the quotas of members of the Fund and submit an appropriate proposal to the Board of Governors not later than December 31, 1969.

2. Pursuant to the foregoing Resolution the Executive Directors have considered the adjustment of the quotas of members and recommend that the Board of Governors propose to members the increases in quotas set forth in the Annex to the proposed Resolution which is attached to this Report. The reasons for this recommendation are discussed in this Report.

3. Article III, Section 2, of the Articles of Agreement states that:

"The Fund 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."

The periodic general review of quotas which is required by this provision facilitates an adjustment of the size of the Fund to the growth of the

world economy; it also offers an opportunity to adjust individual quotas to reflect changes in the position of members in the world economy.

4. The increase in Fund quotas which may be appropriate from time to time must be assessed chiefly on the basis of factors affecting the need for international liquidity in general and the need for conditional liquidity in particular. In connection with the Managing Director's Proposal on the Allocation of Special Drawing Rights for the First Basic Period, certain quantitative studies were undertaken with the aim of projecting the need for reserves over the coming years. As was noted in the 1969 Annual Report of the Executive Directors, conditional and unconditional liquidity, although serving to some extent the same broad purpose, cannot be freely or fully substituted for each other. The two types of international liquidity should develop, therefore, in an appropriate balance over time. For this reason, it is proper to base a judgment concerning the need for conditional liquidity on much the same criteria as were used for a projection of the future need for reserves, such as trends in imports and payments imbalances.

5. In the Managing Director's Proposal on the Allocation of Special Drawing Rights for the First Basic Period, required reserve growth for the period ahead was projected at \$4 to \$5 billion per annum. This amounts to 5.5 to 6.9 per cent per annum of adjusted world gross reserves (of about \$73 billion) at mid-1969. The proposed Resolution would permit a total increase in Fund quotas of about ___ per cent, if all members were to avail themselves of the opportunity to consent to the quota increases proposed to them, or an annual rate of increase equivalent to about [6] per cent. This is about the middle of the range envisaged for the growth rate for reserves. Broadly speaking, therefore, an increase in Fund quotas by the amount proposed would tend to preserve the present balance between conditional liquidity provided through the Fund and world reserves as presently projected.

6. The individual quota adjustments that are recommended have been determined on the basis of criteria which have been applied customarily by the Fund but are being kept under review for the purpose of future adjustments. The adjustments reflect the changed economic and financial position of members. In addition, due regard has been paid to the desire to maintain a balanced distribution of quotas within the whole membership of the Fund.

7. ^{Under proposed} If the Resolution is adopted, a member will be able to consent to the increase in its quota at any time on or before [October 31, 1971]. Therefore, unless this period is extended by the Executive Directors, members will have until [October 31, 1971] to take whatever action may be necessary under their laws to enable them to consent to the increase in quota.

8. The increase in a member's quota under the Resolution will take effect when the member has consented to the increase in quota and

has paid the increase in subscription, provided that no increase will take place before October 31, 1970. In other words, the increase in a member's quota will take effect on the latest of the following three dates:

- (a) the date on which the Fund receives the member's consent to the increase in quota,
- (b) the date of the payment of the increase in subscription,
- (c) October 31, 1970.

9. The increased quotas recommended in the attached Resolution are the maximum amounts to which quotas could be increased under the Resolution. Any member consenting to an increase under the Resolution may consent to a smaller increase in its quota than the amount shown against its name. At any time not later than [October 31, 1971], or any later date to which the Executive Directors extend the period for consent, a member may consent to further increases up to the amount shown in the attached Resolution if it has not yet consented to the full increase.

10. Under the proposed Resolution, any member consenting in one step to the full increase in its quota as shown against its name in the Annex may consent to the increase by installments. Each installment will be one fifth of the full increase. Any member consenting to an increase by installments must pay an initial installment of the increase in subscription, and an installment in each period of 12 months thereafter. Members may accelerate payment under this installment schedule. Each installment of the increase in quota would correspond to the amount of gold and currency paid by the member as an increase in subscription.

11. The maximum quotas recommended in the attached Resolution take account of the special adjustment of their present quotas that a few members could still obtain under the Fund's Decision on "Compensatory Financing of Export Fluctuations" (Executive Board Decision No. 1477-(63/8), February 27, 1963). Therefore, the policy on the special adjustment of quotas under that Decision together with the related Executive Board Decision (No. 1529-(63/33), June 14, 1963) will be regarded as having been superseded by the terms of the attached Resolution in those cases in which increases under Decision No. 1477 have not yet been approved by the Board of Governors.

12. Under the Resolution, a member may pay the increase in its subscription at any time before it is due. If a member pays before the increase in its quota takes effect, the increase in subscription will be kept in a separate suspense account of the Fund. A member is required to pay its increase in subscription not later than 30 days after the later of (a) the date of its consent to its quota increase and (b) October 31, 1970.

13. Under Article III, Section 4(a) each member increasing its quota must pay an increase in its subscription equal to the increase in quota, of which 25 per cent must be in gold and the balance in the member's

currency. Payment of both portions of the increase in subscription must be made before the increase in a member's quota can become effective, even if, under a Membership Resolution, the member has not yet been required to pay its original subscription.

14. Under Article III, Section 4(a), "If, ... on the date when the member consents to an increase, its monetary reserves are less than its new quota, the Fund may reduce the proportion of the increase to be paid in gold." The date for the calculation referred to in the provision is the date on which the member consents to the increase even if the increase will not become effective until later. The Executive Directors have again considered whether the Fund should exercise its discretion under the provision to reduce the portion of the increases in subscriptions payable in gold. The Executive Directors have concluded that on this occasion it would be desirable to exercise this discretion and that any member that would qualify should be permitted to pay [the full amount of the increase in its subscription in its currency] [in gold only that proportion of 25 per cent of the increase in quota which the member's monetary reserves bear to the increased quota to which the member has consented and the balance of the increase in quota in currency.] If a member wishes to pay in currency more than 75 per cent of the increase in its subscription in accordance with this paragraph, the Fund will calculate the member's monetary reserves as of the date of each consent to an increase in quota, whether it be an increase to the maximum amount, or to an increase less than the maximum amount, or to increases by successive amounts (see paragraph 9), or to increases by installments (see paragraph 10).

15. In connection with paragraph 14, the Executive Directors have felt that, as a condition of the exercise of the power [to permit the payment of the full increase in subscription in currency] [to reduce the gold payment], the Fund should require that any additional currency subscription beyond 75 per cent of the increase in quota be repurchased by the member unless the Fund's holdings of that currency are otherwise reduced. Repurchase must be made in five annual installments commencing one year after the date on which the quota increase becomes effective. When paying less than 25 per cent of its subscription in gold a member must undertake to repurchase in accordance with this paragraph. Members will be able to discharge these repurchases in the same reserve assets as may be used in other repurchases.

16. It is expected that many members will pay the increases in their gold subscriptions from their own gold holdings, but it is likely that other members will purchase a substantial amount of gold from the reserve currency members. In order to mitigate the impact of these gold purchases, the Executive Directors believe that the Fund should take the action which is indicated in the following paragraphs and for which appropriate provision is made in the attached Resolution.

17. In connection with purchases of gold by members for the purpose of paying their increases in subscription under the proposed Resolution,

it will be the policy of the Fund to sell gold under Article VII, Section 2 of the Articles of Agreement up to a maximum amount equivalent to [US\$500 million] when the Fund needs to replenish its holdings of the currencies of members from which gold has been purchased by other members. As in the past, it may be expected that most members wishing to purchase gold for the purpose of paying their increases in subscription will buy that gold from the United States and that, therefore, to a very large extent the sale of gold by the Fund will be for the purpose of replenishing its holdings of U.S. dollars. To the extent that the Fund does not have a need to replenish its holdings of U.S. dollars, it will be suggested to members that they purchase the gold needed for the payment of their increases in subscription from members prepared to sell gold whose currencies the Fund has a need to replenish.

18. Replenishment by the Fund of its holdings of the currency of a member in accordance with paragraph 17 above would normally take place, if convenient, on the same value date as the sale of gold by that member. Alternatively, this replenishment of a currency could take place on the occasion of sales of that currency to other members.

19. Under Article XII, Section 2(b)(ii), the power to take the action with respect to the payment of increases recommended in paragraphs 14 and 15 is reserved to the Board of Governors, and under Article III, Section 4(c) exercise of the power requires a majority of eighty-five per cent of the total voting power. The same rules apply to the action recommended in paragraphs 16 and 17 for the purpose of mitigating the effects of providing gold for payment of the gold portion of increases in the subscriptions of other members. Appropriate provision has been made in the attached Resolution for the Board of Governors to take the necessary action to give effect to these recommendations.

20. The Executive Directors recommend the adoption of the attached Resolution. This 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, including those referred to in paragraph 19, which, under the Articles of Agreement, as amended, are reserved to the Board of Governors. To be adopted, the Resolution will need to receive the affirmative vote of eighty-five per cent of the total voting power of members. To be valid, votes on the Resolution as a whole must be received at the seat of the Fund on or before _____, 1970.

Attachment

DRAFT RESOLUTION OF THE BOARD OF GOVERNORS

WHEREAS the Executive Directors have considered the adjustment of the quotas of members in accordance with the Resolution of the Board of Governors of the International Monetary Fund at its 1969 Annual Meeting:

That the Executive Directors proceed promptly with the consideration of the adjustment of the quotas of members of the Fund and submit an appropriate proposal to the Board of Governors not later than December 31, 1969;

WHEREAS the Executive Directors have submitted to the Board of Governors a Report entitled "Increases in Quotas of Members--Fifth General Review"; and

WHEREAS the Executive Directors have 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 fifth 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, noting the said Report of the Executive Directors, 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 (a) may consent to an increase in its quota which is smaller than that shown in the said Annex and (b) may consent thereafter to further increases up to the said amount.

2. An increase in a member's quota under this Resolution shall become effective when the member has notified the Fund that it consents to the increase and has paid in full the increase in the quota, provided, however, that no increase in quota shall become effective before October 31, 1970. The increase in the quota of a member which has notified the Fund of its consent and has completed payment of the increase at any time prior to October 31, 1970, shall become effective on that date.
3. Notices in accordance with paragraph 2 shall be executed by a duly authorized official of the member.
4. Notices in accordance with paragraph 2 shall be received in the Fund not later than [October 31, 1971], provided that the Executive Directors may extend this period as they may determine.
5. Subject to paragraph 6(b), each member shall pay to the Fund the increase in its quota within 30 days after the date on which it notified the Fund of its consent or October 31, 1970, whichever is later. Twenty-five per cent of the increase shall be paid in gold and the balance in the member's currency, provided, however, that, if on the date when a member consents to any increase under paragraph 1 or paragraph 6 its monetary reserves are less than the new quota to which it has consented, [the member may pay the full increase in its currency] [the member may pay in gold that percentage of one-fourth of the increase in quota which is represented by the ratio of its monetary reserves on the date of consent to the new quota to which

it has consented]. A member which, in accordance with this paragraph, pays [the full amount of the increase] [more than 75 per cent of the increase] in currency shall undertake to repurchase the currency paid in excess of 75 per cent of the increase. Unless the Fund's holdings resulting from such payment are otherwise reduced, repurchase shall be completed in five equal annual installments commencing one year after the date on which the increase becomes effective.

6. (a) In giving notice in accordance with paragraph 2, any member consenting to the increase in its quota to the full amount shown against its name in the Annex to this Resolution may consent to that increase as increases by installments.
- (b) Notwithstanding paragraph 2, a member increasing its quota by installments shall pay not less than one-fifth of the increase in gold and currency in accordance with paragraph 5 within 30 days after the date on which it notified the Fund of its consent or October 31, 1970, whichever is later, and shall pay further installments of gold and currency of not less than one-fifth of the increase in each twelve months after the first payment until the full amount has been paid. For the purpose of determining under paragraph 5 the gold and currency portions of an installment subsequent to the initial installment, a member shall be deemed to have consented to the increase in its quota equivalent to the installment 30 days before it pays the installment.

(c) Subject to paragraph 2, on the completion of the payment of each installment of the increase, the member's quota shall be increased by an amount equal to the installment.

7. The Fund shall replenish its holdings of the currencies of members which sell gold to other members to enable the latter members to pay the increases in their quotas under this Resolution. Replenishment under this paragraph shall be by the sale of gold in accordance with the provisions of Article VII, Section 2 and shall not exceed an amount equivalent to [US\$500 million].