THE INTERNATIONAL MONETARY FUND 1972–1978

VOLUME III: DOCUMENTS

Edited by
Margaret Garritsen de Vries

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Cooperation on Trial

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INTERNATIONAL MONETARY FUND
WASHINGTON, D. C.
1985

Library of Congress Cataloging in Publication Data

De Vries, Margaret Garritsen, 1922–
The International Monetary Fund, 1972–1978.

Includes indexes.
Contents: v. 1–2. Narrative and analysis —
v. 3. Documents.
1. International Monetary Fund—History. I. Title.
HG3881.5.I58D42 1985 332.1'52 85-2352
ISBN 0-939934-42-6 (v. 3)
ISBN 0-939934-43-4 (set)

The paper used in this publication meets the minimum requirements of American National Standard for Information Sciences—Permanence of Paper for Printed Library Materials, ANSI Z39.48-1984.

Preface to Volume III

This volume comprises the main documents of the International Monetary Fund for the years 1972 through 1978 that are cited in Volumes I and II, *Narrative and Analysis*. Several of these documents, especially those in Parts One and Two, and many of the Executive Board decisions in Part Seven were written prior to the Second Amendment of the Articles of Agreement, which took effect on April 1, 1978. Unless otherwise indicated, references to the Articles in these documents and decisions are to the Articles as they were after the First Amendment, which applied from July 28, 1969 to March 31, 1978.

In January 1972, at the request of the Board of Governors, the Executive Directors, assisted by the Fund staff, began to develop plans for reforming the international monetary system. In September 1972, negotiations for reforming the system were begun by the ad hoc Committee of the Board of Governors on Reform of the International Monetary System and Related Issues (Committee of Twenty), especially set up for that purpose in July 1972. The Committee continued its deliberations until June 1974. While these deliberations were going on, the Fund staff prepared and circulated to the Executive Board several studies evaluating particular features of a reformed system that were being considered simultaneously in the Committee of Twenty. Some of these studies were discussed in the Executive Board and were also made available to the Committee of Twenty. Part One of this volume contains selections from these studies and the Executive Directors' report of August 1972. Part Two contains documents pertaining to the Committee of Twenty—the relevant resolutions of the Board of Governors, the Committee's two reports, including the Final Outline of Reform, and the communiqués that the Committee issued. Also included is a paper, with two supplements, outlining a plan for a committee of the Board of Governors that was prepared by the Fund's General Counsel and that preceded formation of the Committee of Twenty.

When the Committee of Twenty was officially terminated in October 1974, the Interim Committee of the Board of Governors on the International Monetary System was established to advise and report to the Board of Governors on developments in the international monetary system. Part Three comprises the resolution establishing the Interim Committee and the communiqués that the Committee issued through the end of 1978.

After October 1974, the Executive Board prepared and forwarded to the Interim Committee proposals on several topics, including increases in quotas and recommendations concerning the SDR. After consideration by the Interim Committee, these proposals were submitted to the Board of Governors, in the form of draft resolutions. Part Four contains the Executive Directors' reports and the resolutions adopted by the Board of Governors on the Sixth and Seventh General Reviews of Quotas, as well as an aide-mémoire from the Managing Director with regard to the Seventh General Review of Quotas. Part Five contains the Executive Directors' reports and selected resolutions adopted by the Board of Governors with regard to SDRs, as well as a proposal by the Managing Director for an allocation of SDRs for the third basic period.

In July 1974, the Executive Directors turned their attention to amending the Fund's Articles of Agreement. As draft amendments were being considered, the Executive Directors requested and received guidance from the Interim Committee. Part Six contains a number of documents relating to the Second Amendment.

Part Seven contains the Fund's basic documents—the Articles of Agreement after the Second Amendment, the amended By-Laws and Rules and Regulations of the Fund, and selected general decisions taken by the Executive Board in the seven years ended in 1978.

In October 1974, in addition to the Interim Committee, there was also established a Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee). Part Eight contains the resolution establishing the Development Committee, the communiqués and reports issued by the Committee through the end of 1978, and related reports.

Part Nine contains selected communiqués issued by the Group of Ten and the Group of Twenty-Four from 1972 through 1978. Although not documents of the International Monetary Fund, these communiqués are closely related to the history of the Fund for those years.

April 1985 M. G. de V.

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PART ONE

The Fund's Plans for Reforming the System

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Sketch of a Reformed System

In March 1972 a paper prepared in the Research Department under the direction of the Economic Counsellor and Director of the Research Department, J. J. Polak, which presented a sketch of the scope and content of a reformed international monetary system was circulated to the Executive Board. This paper is published as (A) below.

In May 1972, after the Executive Directors had discussed this staff sketch, two supplementary notes to the sketch, also prepared in the Research Department, were circulated. These supplementary notes were aimed at answering two questions that Executive Directors had raised about features of a reformed system: (1) the possible financing by the Fund of short-term capital movements and (2) the possible purchase by the Fund of gold offered to it by its members. These supplementary notes are published as (B) and (C) below.

(A) Reform of the International Monetary System A Sketch of Its Scope and Content (March 7, 1972)

I. Introduction—The Need for Reform

Reform of the international monetary system means something quite different now from what it meant before August 15, 1971. Earlier, reform was concerned with improvement of a system—frequently referred to as the Bretton Woods system—that showed certain specific weaknesses but whose basic suitability was not generally questioned; now, the task of reform must address itself to the central fact that the interim arrangements developed since last August do not reflect economic and political realities and must, therefore, be replaced by a truly viable system. If this was not done, there was a risk that these arrangements would develop, in an unplanned way, into some new system—probably one that would involve the separation of the world into a number of currency blocs, with the attendant economic and political hazards of such blocs. Clearly, it is now a matter of urgency that serious attention be devoted to the problem of international monetary reform.

The present situation is characterized by notable contradictions. The changes in relative economic positions among major countries during the past 25 years have meant that the United States is no longer in a position, as it was in the early years of the Fund, to assume ultimate and virtually sole responsibility for the functioning of the system. Correspondingly, the United States has felt an increasing need for access to the same facilities for international financial adjustment to changing circumstances as have been available for other countries; and in these conditions, the special position of the U.S. dollar at the center of the international system has become increasingly anomalous, for the United States and for other countries. In spite of this the system is more dollar centered now than it was 25 years ago. The decision to create a special drawing rights facility in the Fund reflected an expressed desire that the share of reserve currencies in total reserves should decline; yet that share has since increased to an all-time high, and there is no assurance that it will not increase further. Although the immediate cause of the crisis of

August 1971 was the unwillingness of other countries to accept a dollar standard, the present arrangements are more dollar centered than ever before. A minor additional point, but an interesting symptom: when the gold value of the U.S. dollar was unquestioned, parities were nevertheless expressed in gold; now the central rates of many currencies are expressed in U.S. dollars.

The reform of the system, if it is to be worthwhile, will have to be radical. It will have to involve a quantum jump into a new system, not merely attempts at improvement of certain features of the present system. A reform of so wide a scope is, of course, difficult to envisage. It will entail changes in existing practices, the need for which may not seem obvious in itself but that are necessary from the point of view of the system as a whole. The reform will also have to take into account the diverse positions and interests of different groups of Fund members.

In a context in which countries may have to accept certain changes that may strike them as both radical and inconvenient, every effort should be made not to overload the reform with changes that are not essential. The package of reforms should include all ingredients considered necessary for a more effective functioning of the system for the next 15 or 20 years—and nothing more. This has particular relevance to what is proposed with respect to both gold and SDRs. At this stage, it is believed, no useful purpose would be served by decisions or arrangements to demonetize gold or by extending the holding of SDRs beyond official circles.

The central characteristics that distinguish the system sketched below from the Bretton Woods system as it operated in the 1960s are the introduction of greater exchange rate flexibility and a much reduced role for reserve currencies. While that role was a natural development of the system and contributed greatly to its success in the postwar period, it has become increasingly clear that it leads to serious difficulties for the adjustment process and is not compatible with international control over the level of global reserves.

The four subsections that constitute Section II of this paper discuss certain major components of the reform that need to be considered:

1. improvement of the exchange rate mechanism;

2. reduction of reserve currencies in other countries' reserves, primarily by means of consolidation into SDRs;

3. introduction of equivalence of the dollar to other currencies in the financing of balance of payments deficits and surpluses; and

4. possible replacement of dollar intervention by symmetrical multicurrency intervention.

Section III then provides an analysis of the interrelations among the elements discussed, sets them against the background of the adjustment process as a whole, and introduces certain comments on certain other aspects of the system.

Beyond the core of the reform, certain changes in a number of other areas will also be required if the reform is to represent a consistent and acceptable whole. These are discussed in Section IV.

Many of the subjects dealt with here have been analyzed in greater detail in previous staff papers. The most directly relevant of these are referred to in the appropriate sections. Since the staff papers issued on reform subjects since last August formed part of a process of development of ideas, the present paper does not follow in all respects the lines of earlier papers. It also sets out some preliminary thoughts on aspects that have not been discussed previously.

II. Discussion of Major Reform Components

1. The Exchange Rate Mechanism

Reform in the exchange rate mechanism and in its operation will have to be more fundamental than was generally envisaged at the time of the 1970 report by the Executive Directors.[1] There is general agreement that the par value system is to be maintained. But if that system is to be less crisis-prone than in the past, members must adjust parities before the evidence has become overwhelming that a change is necessary. That is to say that they must not only, negatively, abstain from par value changes where there is no fundamental disequilibrium; they must also, positively, make par value changes whenever there is a fundamental disequilibrium.

Prompter parity changes will, on the whole, also entail changes smaller than those in the past. This, in conjunction with wider margins—which it is assumed will become a permanent feature—will curb anticipatory speculation. There was substantial agreement on this in the 1970 report. What has become clear since is that the implementation of a more active exchange rate policy requires considerably more initiative by the Fund than existed before August 15, 1971—and also on the part of all members adequate domestic arrangements to bring about parity changes without delay. One further important factor in the new situation is that parity changes of the U.S. dollar have become an acknowledged part of the exchange rate mechanism.

A condition for a reasonable and consistent par value policy by members is a solid common basis in terms of the relevant facts and members' approach to the facts, in particular with respect to

(*a*) the extent to which prevailing parities at any moment of time are reasonably compatible with payments balance over the cycle as a whole;

(*b*) the approximate magnitude of the relative exchange rate changes necessary to bring about the desired results; and

(*c*) the manner in which any important discrepancies from positions of fundamental equilibrium are to be eliminated, in particular the relative role of devaluations and revaluations.

In the absence of this basis, members might well be at a loss to know what specific action would be expected from them under the general rubric of "prompter and smaller parity adjustment," and the Fund could equally find it difficult to advise members about desirable exchange rate action—indeed to exercise meaningful authority in response to proposals by members for par value changes.

A beginning toward a common basis of understanding has been created by the calculations and consultations in the context of the 1971 realignment. The realignment decisions of December 18, 1971 were possible only when a sufficient measure of working agreement on the three aspects mentioned had been reached.

It may be hoped that if in the future individual parity adjustments are made without undue delay, multicurrency parity adjustments on the scale of the 1971 realignment will not reoccur. But adjustments of the parities of one or two currencies will require fundamentally the same approach if they are to be carried out reasonably promptly.

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[1] *The Role of Exchange Rates in the Adjustment of International Payments: A Report by the Executive Directors* (Washington: International Monetary Fund, 1970). [Reproduced in Margaret Garritsen de Vries, *The International Monetary Fund, 1966–1971: The System Under Stress*, Vol. II, *Documents* (Washington: International Monetary Fund, 1976), pp. 273–330.]

The calculations and consultations in connection with the 1971 realignment show that *in principle* this approach is possible. It provided the basis for a multilateral decision, in circumstances where it was clear that the adjustments needed were relatively large and the reaching of a decision was felt by all to be imperative. Technically, however, the approach still leaves much to be desired, e.g., in the definition of operationally relevant national policy objectives, in the allowances to be made for cyclical abnormalities, and in the calculation of future effects of past exchange rate and price movements. As a consequence of these and other weaknesses, including perhaps some of which one is not yet aware, the approach can at this stage yield at best only rather vaguely defined equilibrium zones. These weaknesses cannot be expected to be removed in a short period of time. More is required than intensive analytical and statistical work; the international community will also have to live with these problems through a variety of circumstances before it can feel confident to have mastered them. This entire subject will have to be left to growing understandings among members, which may be reflected in increasingly precise general decisions on this subject by the Executive Directors.

A considerable advance over the present situation could be achieved be a clear exposition (presumably in a report accompanying the amendment) of the broad aims of the new exchange rate regime, the role to be played in this regime by Fund initiative, and the way in which members would be expected to collaborate with the Fund to implement the principles of that regime.

The amendment itself can be—and will have to be—narrower in scope. The general approach under which par value changes should be related to disequilibria of a basic or more than transitory character at prevailing par values continues to be valid. This approach does not fit formula changes in par values of the "automatic crawling peg" variety; but there does not appear any likelihood that members would want to take recourse to this device. It is primarily a matter of judgment whether the adjective "fundamental" should continue to be used to describe disequilibria for the correction of which par value changes are judged to be appropriate within the framework of a more flexible parity system.

The amended Articles should further provide for a permanent regime of wider margins—and preferably one that would be compatible with the practice of multicurrency intervention.

Finally, in the consideration of amended exchange rate provisions, the Fund will have to come to terms with the fact that situations are likely to arise in which a member cannot maintain an existing par value nor make the immediate transition to a new par value—although such situations should be more exceptional than in the past if par value changes were smaller and margins wider. The Fund will have to decide whether to create provisions under which it can approve temporary deviations from par values, or whether it will continue to treat such deviations as lapses from the legal regime.

2. Consolidation

Any consolidation arrangements for official holdings of reserve currencies will, in the main, have to provide the holders of these currencies with an alternative immediately usable asset. There is no other convenient asset for this than the SDR (with suitable modifications); the creation of a different consolidation asset that would have to coexist with the SDR, or the establishment of two different SDRs, would be impracticable.

In order to bring about consolidation, the Fund would therefore have to have the power to make special issues of SDRs against balances of dollars (and other reserve currencies) tendered by members.

If intervention in the exchange markets continues to be based on the use of reserve currencies, consolidation could not extend to members' working balances in foreign exchange—a concept that could be defined more or less broadly. This latter question is related to the choice between voluntary consolidation and consolidation that would in some manner be mandatory for members of the Fund or participants in the Special Drawing Account. The general issue of the scope of consolidation will be discussed in Section III below. In any event, however, consolidation will to a large extent have to rely on the willingness of countries to hold their reserves to the agreed extent in the form of special drawing rights. Official reserves and other official or semiofficial assets are close substitutes for each other, and if reserves were to be kept in a form that the authorities considered substantially inferior to that available for external assets held by others than monetary authorities, the system would risk being seriously undermined. This has important consequences for the rate of interest on SDRs.

Insofar as the total reserves of some countries are at present excessive, consolidation could take the form of bilateral funding of dollars with the United States. This would minimize the amount of SDR creation for consolidation in the short run and would thus reduce the burden on the SDR system; it is not obvious that it would have other important benefits to the system, since the United States could hardly be expected to redeem these credits more rapidly than the dollars the Fund would acquire as a result of consolidation in SDRs. Thus, unless the dollar loans were of very long duration—which might not suit the creditors—or the United States ran some very large surpluses, bilateral funding might be little more than an interim arrangement pending replacement of these dollars by SDRs. If all foreign official dollar holdings beyond working balances were included in a consolidation arrangement, countries with excessive reserves could make bilateral loans to the United States in SDRs rather than in dollars. The resulting increase in reserve assets held by the United States would contribute to its ability to undertake the conversion obligations discussed below.

The technical aspects of consolidation are not complicated in principle, although the precise terms would raise many difficult issues. The gold or SDR value of the balances of reserve currencies thus acquired by the Fund would be maintained and the issuer would undertake to make annual service payments on these balances. Service payments would be related to the interest paid by the reserve center on the consolidated balances in a recent reference period or to the current interest rate on similar assets in its market; the second alternative would probably be preferable. The service charges would serve in the first instance to enable the Fund to pay interest on the equivalent special issue of SDRs, with the balance being available for amortization of balances of reserve currency held by the Special Drawing Account and/or for some other agreed purposes.

The consolidation facility should apply to all reserve currencies, and measures should be taken to discourage the growth of official balances in such currencies. This would involve abolishing guarantees on such balances and perhaps agreement that, insofar as reserves continued to be held in reserve currencies, Fund members should refrain from shifting from one reserve currency to another and would hold currency balances only in the reserve center concerned, as distinct from Eurocurrency markets.

3. Financing of Balance of Payments Deficits and Surpluses of Reserve Centers

Convertibility—in the sense of the right attached to balances in a given currency held by monetary authorities to be converted into reserve assets upon demand without any obligation on the holder to exercise this right—has served the system well in the past, until it led to an undue expansion of U.S. dollar balances. It is no longer in itself suitable either for the dollar—for which it no longer exists—or for certain emerging reserve cur-

rencies where a potentially dangerous expansion of reserve liabilities already threatens to begin.

In present circumstances the need is for conversion arrangements which would ensure that further increases in reserve currency balances are avoided (except where some modest increase is considered necessary to raise working balances). Such arrangements would require (annual or quarterly) compulsory conversion by the reserve center of any increase in balances of its currency that might arise from its overall payments deficits. For this, the reserve center would use its holdings of reserve assets (SDRs, gold, or reserve positions in the Fund) or draw on negotiated credits. The countries that would have to exchange currency balances for these reserve assets could be determined by a method administered by the Fund, such as designation, or each country could convert any increases that had taken place in its holdings of reserve currencies. Balances existing at the beginning of the overall plan would not be subject to conversion by the reserve center; however, the holder would have the option (and perhaps up to a point the obligation) to turn these balances into SDRs through the consolidation arrangements.

A counterpart to financing by the reserve center of any deficits with reserve assets would be its acquisition of reserve assets when it was in surplus. In part this might arise naturally as other countries had to use reserve assets to finance their deficits. The remainder—as measured by the extent to which the amount of reserve currencies had shrunk as a result of net payments to the reserve center—could be met by the reserve center being entitled to present this amount to the consolidation facility for exchange into SDRs. To this extent at least, the consolidation facility would have to be open-ended for the amount of any currency outstanding at the time the arrangement between the reserve center and the Fund was concluded.

4. Symmetrical Multicurrency Intervention

The central place of reserve currencies, in particular the U.S. dollar, in the present system derives from their use as intervention currencies. In certain respects, such as exchange rate adjustment and the financing of balance of payments imbalances, symmetry can be promoted along the lines indicated in preceding sections. Full symmetry, however, even in these respects might require equating the dollar with currencies of a substantial number of other members in the intervention process. Under a system of multicurrency intervention each of these members would buy or sell the currency of each other member on exchange markets, under established arrangements, with a view to influencing their relative exchange rates, the transactions being settled more or less simultaneously by a direct transfer of primary reserve assets between the countries in question.

Under this method of intervention the relative exchange rates for any two of the currencies concerned could deviate from their parities by the same margin, in contrast to the difference in margin that now applies between non-dollar currencies and the U.S. dollar, on the one hand, and vis-à-vis each other, on the other hand. Intervention could be carried out (*a*) by deficit countries acquiring the currencies of other countries in exchange for primary reserve assets, and then selling them in the market for their own currencies, (*b*) by surplus countries buying the currencies of other countries on the exchange market and selling them for primary reserve assets to the issuers, or (*c*) by the Fund.

Any such system would need to be confined to currencies which were actively traded in exchange markets. The issuers of other currencies would probably find it convenient to continue to peg them somewhat narrowly to one or other of the principal currencies.

An important concomitant feature of any symmetrical intervention arrangement would be an undertaking on the part of the countries concerned not significantly to vary, except in the very short run, their holdings of currency reserves. This would provide a

strong incentive for countries to exchange substantial amounts of such balances, under consolidation arrangements, for newly created SDRs.

III. Interrelations Among Elements of the Reform

This section discusses certain interrelations among the various elements briefly analyzed above, as well as between them and certain other, more general, aspects of the system. It also explores the extent to which the reform measures mentioned are to be considered essential for the reform as a whole to be successful. While some of the questions considered appear to have rather clear-cut answers, this cannot be said for all of them. When one contemplates the reasons for the successful functioning of the international monetary system in the 1950s and 1960s, one realizes the fundamental importance that attached to the attitudes of members—the willingness to cooperate, the desire to make a reality of the existing international institutions—compared with the more formal features of "the system." Without doubt, much the same considerations will be of overwhelming importance in determining the viability and the success of any future system.

1. The introduction of greater exchange rate flexibility than existed in the past is essential for a more effective functioning of the system. In addition, exchange rate flexibility for the U.S. dollar would appear to be a necessary condition for effective convertibility of the U.S. dollar in the sense defined above: The United States could not reasonably undertake a commitment for asset financing of deficits unless it could count on exchange rate policy as one means of curing deficits.

2. The link between convertibility as here defined and consolidation of dollar balances is not primarily technical. Asset financing of U.S. deficits does not require consolidation; it may be recalled that the Managing Director recommended a U.S. policy to that effect at the Annual Meeting in Copenhagen within the framework of the then prevailing system. Furthermore, asset financing of a U.S. surplus requires only the existence of a facility that provides the United States with reserve assets to the extent that there is a net reduction in dollar balances outstanding. Nevertheless, it is questionable whether, in the future, U.S. dollar convertibility, in the sense here defined, can be a solid element of a system in which members continue to hold the bulk of their reserves in dollars. An important point to bear in mind in this connection is that the present inconvertibility of the U.S. dollar is not comparable to the inconvertibility of the currencies of other industrial countries before 1958. The latter found in the course of the 1950s that the acceptance of market convertibility of their currencies for all nonresidents was a precondition to their effective participation in the international financial mechanism, and to their currencies playing an active role in international money markets. Of course, the links to foreign money and capital markets have not proved an unmixed blessing. But these countries would not want to go back from convertibility to the financial isolation that preceded it. By contrast, inconvertibility of its currency into reserve assets has not condemned the United States to financial isolation, because the U.S. dollar continues to enjoy market convertibility.

Thus, while other countries embraced convertibility to attain immediate and direct benefits, the benefits to the United States of convertibility of the dollar—as has become clear in recent months—while in no sense smaller, are less direct: they consist in a better working of the system and the more general economic and noneconomic benefits that derive from this. In a world in which dollar balances are the predominant form of reserves, asset financing of its deficits by the United States may easily appear as an act of self-denial, to be undertaken for some theoretical benefit to the adjustment process or the stability of world reserves, with the inherent risk of such an arrangement being abandoned again in the event of a large U.S. deficit. A system in which other main countries were to

refuse to make large-scale use of an existing consolidation facility because they preferred to hold dollars, and yet to insist on the conversion by the United States of marginal additions to dollar balances, might lack the strength that derives from a consistency of approach.

3. Large-scale consolidation would also help to facilitate exchange rate flexibility for the U.S. dollar, in the sense that it would further weaken countries' natural assumption of maintaining the exchange rate between their currencies and that of their reserve center except when they were themselves in serious imbalance. That assumption has, however, already been weakened substantially by the 1967 experience with sterling, when few sterling area countries followed the devaluation of the pound, and by the recent dollar devaluation, when a number of countries with very large reserves in dollars appreciated vis-à-vis their reserve currency.

4. The introduction of multicurrency intervention would completely eliminate the special position of the dollar for those countries whose currencies would participate in such a regime, and would thus facilitate exchange rate flexibility for the U.S. dollar. It would bring about automatic asset financing for the countries involved and for the United States, and would leave no other practical option than consolidation for the whole of these countries' holdings of dollars. Thus it would most adequately serve the ends of the reform as indicated. It would also, however, constitute a very sharp break from past practice. Further consideration will be required to see whether this is attainable at this stage. If not, effective reform might proceed without it, provided sufficient advance was made in the other elements.

5. Asset financing of the payments imbalances of all countries would ensure that the stock of reserves would no longer be affected by fluctuations in the amounts of reserve currencies outstanding. The burden of regulating the level of reserves would then fall far more heavily on the SDR facility—as indeed it had essentially been agreed that it should when the creation of that facility was considered some five years ago. There would be a corresponding need to ensure that the decision-making process of the SDR facility produced the best possible decisions.

6. Special problems arise in connection with the contentious issue of short-term capital movements, which have been responsible for the strongest pressures on the par value system in recent years. These problems, and alternative measures to deal with them, have been discussed in the Fund's 1971 Annual Report[2] and, in greater detail, in a related staff paper. It is not necessary to enter here into the alternative means available to countries to restrain excessive capital flows. What is of immediate interest is that in part the solution to the problem of capital flows will probably lie in accommodating such flows—which means that facilities must exist to finance them in one way or another. Financing without effect of global reserves could be effected by official borrowing from private capital markets abroad. Beyond this, arrangements or understandings are needed on the flows of official financing, and these arrangements are immediately linked to the control over the supply of reserves and to the convertibility rules for reserve centers. What is to be the future role of swaps, and how are they to be controlled? Should reserve creation by the Fund be in some way responsive to the needs for reserves caused by ebbs and flows of capital movements? Should fluctuations in dollar balances—with the implied derogation from the principle of asset financing of overall deficits—be allowed to accommodate such flows?

These questions will have to be resolved as part of the reform. To provide the necessary answers to these questions, a *modus vivendi* will have to be agreed among the atti-

[2] *Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1971* (Washington: International Monetary Fund, 1971), pp. 14–16.

tudes (now sharply conflicting) of members with respect to the relative roles of measures of restraint (whatever form they may take) and measures of financing capital movements. In this context the powers of the Fund in connection with capital movements may also have to be reviewed.

7. In the broadest sense, the viability of the system will depend on the working of the adjustment process as a whole. The new arrangements with respect to the holding of reserve currencies are intended to provide better incentives for the adjustment process, and greater exchange rate flexibility will permit a more effective working of that system in one particular respect. Whether the working of the system will in fact improve will, of course, depend on countries' willingness to make the system work and to use to this end the whole range of policy tools at their disposal. The role to be played in this connection by the Fund, both in its consultative and in its lending functions, will continue to remain essential.

Generally speaking, the rules of the adjustment process would require countries to refrain from policies that would lead to severe balance of payments disequilibria, and to take early corrective action if such disequilibria nevertheless materialized. With respect to some particulars, the rules of the adjustment process are laid down in legal obligations of members, such as those relating to the conditions in which a member *may* propose a change in its par value. In some further areas, a consensus is gradually being built up as to the appropriate policies for members from the international point of view; perhaps the most important of these are the conditions in which members *should* propose changes in par values. But there are also wide areas in which a member's duties, and, particularly in situations of conflict, members' respective duties, under the adjustment process are by no means established. Improvement in this area can hardly be seen as a precondition for reform of the system; rather, it is a task that will remain to be worked at before the reform, after the reform—and after the next reform.

8. This paper does not discuss sanctions or remedies to be applied by the Fund to improve the working of the adjustment process. The omission is believed justified on the ground that any contribution of such measures can at most be ancillary to the behavioral rules which they are intended to enforce, and that their consideration is better delayed until such rules have been devised. One of the main reasons adduced for the introduction of additional or alternative remedies in the Articles relates to the achievement of a greater participation by surplus countries in the adjustment process. The suggestions made above with respect to decisions to be made on the relative role of devaluations and revaluations in the exchange rate mechanism would appear to provide the most effective substantive approach to this question.

9. The enlargement of the functions of the Fund, as well as the increased importance of some of its present functions, that would be inherent in many of the elements of reform discussed here suggest the desirability of a new look at the decision-making process of the Fund. One particular suggestion in this area is discussed in a recent staff paper.[3]

IV. Other Aspects of the Reform

1. The Numeraire of the System

Gold is the numeraire of the present system—the standard in which par values are expressed. It is also the standard in terms of which the value of the Fund's assets is to be maintained.

[3] "An Advisory Committee of the Board of Governors—Outline of an Illustrative Plan," January 24, 1972 [reproduced below, pp. 129–41].

In the context of a much enlarged role for the SDR, consideration should be given to making the SDR, rather than gold, the numeraire of the system.

In a sense, the SDR is already the *de facto* numeraire, jointly with gold as the *de jure* numeraire. The value of the unit of special drawing rights is stated to be 0.888 671 gram of fine gold (Article XXI, Section 2), with a deliberate absence of any provision for change in the equivalence. Hence par values are as firmly linked to SDRs as they are to gold and any change in the value of gold in terms of currencies involves automatically a corresponding change in the value of the SDR.

Thus a change to make the SDR the *de jure* numeraire of the system—e.g., by a provision in the Articles expressing gold in terms of SDRs rather than SDRs in terms of gold—would be essentially presentational in nature, unless it were accompanied by some loosening of the link between the two. However, such a loosening would tend to increase the risk of speculation on price changes of gold versus SDRs as reserve assets, and should therefore be avoided.

Four related points need to be made in this connection:

(*a*) Whether the SDR is formally made the numeraire of the system or not, and whether gold is maintained in that position or not, the quality of the SDR must rest on the characteristics attached to it by the Articles (including in particular the acceptance obligation) and the wisdom of the decisions taken with respect to it pursuant to the Articles—and not merely on the definition of its equivalent in terms of gold or currencies.

(*b*) Changes over time in the value of the SDR in terms of currencies in general will depend in the first instance on the balance between devaluations and revaluations, although they could also conceivably be brought about by application of the provisions on uniform changes in par values.

(*c*) The extent to which the SDR is usable among participants or between them and the General Account is unrelated to its status as a numeraire.

(*d*) Perhaps more important, the role of gold in the Fund and the practices of members with respect to gold would continue to be of concern to the Fund whatever was done with respect to the role of gold as the numeraire.

2. Gold

There are many fundamental issues about the role of gold in the system, but not all of these need to be resolved in the context of the present reform. In particular, there does not seem any need to tackle on this occasion the question of the demonetization of gold, or to take special measures to induce members to replace their holdings of gold by holdings of SDRs.

It is necessary, however, as a minimum to provide for certain contingencies, even though it may not be widely agreed that they will materialize.

The first contingency is that, at a higher interest rate than at present, SDRs would become so much more attractive than gold that substantial amounts of gold would be sold to the Fund under Article V, Section 6(*a*), either directly for SDRs or for currency that would be converted into SDRs under the consolidation facility. As a result, the General Account would lose income on its holdings of SDRs or have to pay remuneration on the increased creditor positions. At the same time, it might find that its gold holdings were less usable than before to buy needed currencies because, if the preference for Fund positions or SDRs over gold was rather general, members would not be prepared to have the Fund sell gold for currencies. One way to meet this contingency might be a provision under which the Special Drawing Account would be authorized to acquire gold from the General Account against SDRs created for this purpose.

The second contingency, closely related to the first, is that the Fund may want to invest such gold holdings of the Special Drawing Account, so as to cover the interest payments on the matching SDRs outstanding, and may, as part of the investment operation, be prepared to sell the gold so invested in the free market or to see it sold by the investee. Any profit on the sale of gold above its SDR value could accrue to the issuer of the securities or to the Fund. It might be—although it is futile to attempt to predict in this area—that arrangements for the sale of gold in some collective manner such as the one described would prove valuable to keep down the premium in the free market and to continue a policy under which individual members would refrain from selling gold in the free market.

3. The Rate of Interest on SDRs

The attractiveness of SDRs compared with other reserve assets depends—apart from certain immaterial aspects that would be difficult to evaluate in general—on the expected future value of SDRs in terms of these other assets,[4] and on interest rate considerations. Assuming that the exchange rate system of the future would be guided to balance, in a rough way, revaluations and devaluations of individual currencies, the value of SDRs would do about as well as that of currencies in general; with perhaps some bias in the system toward devaluations or depreciations, SDRs might do a little better than currencies in general. However this may work out exactly in practice, it would seem that when SDRs form a large proportion of total reserves the equilibrium interest rate on them cannot be far below the rate that can be earned on balance of currencies in general.

This could have a number of probable consequences.

1. The interest rate on SDRs, which has been constant at 1 ½ per cent so far, would probably have to be adjusted at intervals to reflect interest tendencies in market rates in major centers.

2. The service payments by reserve centers on consolidated liabilities would probably have to follow the same market rates so as to keep the Fund's service receipts in reasonable balance to its interest payments on the SDRs issued in consolidation.

3. While remuneration on creditor positions in the Fund can deviate to some extent from the interest rate on SDRs, the similarity of the assets would make large differences undesirable; thus remuneration, too, may have to fluctuate more than it has done in the past.

4. This in turn could have consequences for the Fund's debit interest rate (charges on balances of a member's currency held by the Fund in excess of its quota).

5. Raising the SDR interest rate and the corresponding rate of charge would reduce the attractiveness of SDR allocations to countries that tend to be persistent net users of SDRs—mostly the developing countries with low reserves.

All these considerations suggest that the new system may be subject to strains arising from, on the one hand, the need to pay a sufficiently high interest rate on members' reserves in the form of SDRs and, on the other hand, the desire to avoid unduly high levies on members drawing on the General Account, participants making net use of SDRs, and the reserve centers whose currency liabilities are to be consolidated. One should consider whether it would be possible to make a contribution to diffusing these strains by using some part of newly created SDRs to raise interest rates on SDR holdings, prior to any allocation on the basis of quotas.

[4] Since it is assumed that the firm link between gold and SDRs of the present Articles [that is, prior to the Second Amendment] will remain, this is the same concept as the expected implicit value of the gold value maintenance of the SDR.

4. Other Changes in the SDR System

In the context of the reform it will be necessary to review many features of the SDR system. The requirements of an asset that serves as the main reserve instrument are different from those of an asset that constitutes only a marginal supplement to other reserve assets. The necessary changes in operational provisions will obviously depend a good deal on the choices made among alternative aspects of a reformed system such as have been discussed above.

Compared with present provisions, the need for a number of changes is apparent. The provisions on *Other Holders* should be broadened to include a wider group of official bodies; there should be some broadening of the categories of the *transactions in SDRs* that are permitted among holders; and the range of potential *transactions in SDRs with the General Account* should be extended.

In a system in which SDRs are created other than by allocation to participants, *acceptance obligations* in excess of allocations can no longer be limited to twice the amounts of such allocations. Either a new formula will have to be devised to ensure adequate room for the acceptance of all outstanding SDRs or, more logically in the new system, the limit on acceptance obligations should be abolished, an equitable system of acceptance remaining assured by the rules of the *designation system* and/or the rules relating to holdings of reserve currencies in connection with convertibility commitments. If these latter rules were of a rigid kind, e.g., specifying that all incremental holdings of reserve currencies were to be presented to the issuer for conversion into SDRs, this might in principle supersede the system of designation, and also the *requirement of need*. If greater leeway were to be left to countries individually on their incremental foreign exchange holdings, rules for designation and the requirement of need would in any event have to be maintained, though the former would need to be revised to accommodate very much larger designation plans at the same time that participants would on the whole have smaller balances of convertible currencies. The present rules on *reconstitution* would lose most of their present rationale in conditions where countries held their reserves predominantly in SDRs. In the context of the adjustment process there would be reason for legitimate concern, however, if countries exercised an undue drain on other countries' resources by a large and persistent use of reserves in general and of allocated SDRs in particular.

As mentioned earlier, the extension of the holding of SDRs beyond official holders does not appear to be a subject that requires consideration as part of the present reform.

5. The International Monetary System and Development Finance

Given the agreed view that present methods of marshalling resources for international development agencies, in particular the International Development Association (IDA), leave much to be desired, the question arises whether substantial improvement in this area could be achieved by the provision of financial resources to development agencies through the international monetary system, and whether such action would be compatible with the effective functioning of this system. The question may receive increased emphasis in the context of the reform of the system because that reform may, as already mentioned, involve a number of aspects which, taken by themselves, may be seen by developing countries as potentially disadvantageous to them, such as the effect of replacement of holdings of reserve currencies by SDRs on countries with large reserves and the effect of the increase of the SDR interest rate on countries with low reserves.

The question was originally posed as that of a link between SDR creation and development finance, but in the context of the reform it could be considered more broadly under the following four headings, either as alternatives or in possible combination.

(1) "The link," i.e., the channeling of some part of the SDRs created by the Fund (or the equivalent in currencies) to development agencies, with the transfers to be made either by the Fund itself or by the high-income countries upon receipt of their allocations.

(2) The use for the same purpose of some part of the service payments made by the reserve centers to the Fund on currency balances held by it as a result of consolidation. (Section II, paragraph 2, above.)

(3) The investment in development agencies of gold acquired by the Special Drawing Account. (Section IV, paragraph 2, above.)

(4) The investment of the Fund's general reserve (a question already under active consideration in the Fund).

While the potential amount involved under (4) is not large and that under (3) dependent on developments that cannot be appraised now or probably for years to come, it would appear that the order of magnitude of the financial resources that could be provided by (1) and (2)—assuming that one or both had been judged a suitable source for development finance—might well be comparable to the current annual rate of IDA contributions.

(B) Reform of the International Monetary System
A Sketch of Its Scope and Content
Supplementary Note on Possible Fund Financing of Short-Term Capital Movements

(May 2, 1972)

In Section III, paragraph 6 of the sketch, the point was made that there would be a need for arrangements or understandings on the financing of capital movements insofar as such movements would not be restrained by various measures, because the resources normally available to members in the form of reserves and credit tranche facilities in the General Account would not be likely to be adequate to enable members to handle such exceptionally large capital flows as might from time to time occur. One question that was raised was whether reserve creation by the Fund should in some way be responsive to the needs for reserves caused by the ebbs and flows of capital movements. Some of the issues that would arise if one were to consider Fund financing of such flows would be the following:

1. The members to which such a facility, if it were created, should be available—i.e., the members exposed to short-term capital movements that were relatively large compared with their flows of basic payments. Should the facility in principle be available to all members, to members with Article VIII status, or perhaps those Article VIII members that met certain additional criteria?

2. The size of the facility, in terms of individual members' quotas and overall. This question would depend to a large extent on the expectation of the effects of wider margins and other measures on the size of capital movements, on the understandings with respect to the future role, if any, of the swaps now in existence, on the degree of adequacy of the supply of reserves and Fund credit, etc.

3. The connection between the use of such a facility by a member and conditions set by the Fund, or consultations to be held with the Fund, on measures to reduce the flow of capital.

4. Features of the facility—e.g., in terms of interest rates or short repayment terms—to minimize the risk of its use to meet the financing of a basic deficit.

5. Financing arrangements to ensure that the Fund would have the means to meet promptly even very large drawings under the facility and would be able to ensure in turn the usability of the assets acquired by the members that had made the financing available to the Fund.

(C) Reform of the International Monetary System
A Sketch of Its Scope and Content
Supplementary Note on Gold Purchases by the Fund

(May 2, 1972)

In Section IV, paragraph 2 of the sketch, mention was made of the possibility that SDRs would become so much more attractive than gold that substantial amounts of gold would be sold to the Fund under Article V, Section 6(*a*). In the discussion of this question it was observed that, in the context of a general amendment of the Articles, it would be necessary to clarify the uncertainty that now exists with respect to members' rights and obligations under this Article. It has been concluded by the staff that Article V, Section 6(*a*) imposes a duty on the Fund to purchase the gold that members are obligated to sell to the Fund under that provision, but this conclusion has been questioned; so far, this issue has not been settled by the Executive Directors. On December 30, 1969, the Fund decided, "as a matter of policy," that it would purchase gold from South Africa when South Africa offered gold for sale in certain specified circumstances.†

In any amended version of Article V, Section 6(*a*), the Fund would want to make it clear (*a*) in what circumstances a member would be entitled to sell gold to the Fund either generally or with the permission of the Fund; and (*b*) in what (if any) circumstances a member would be obliged to sell gold to the Fund and the Fund would then be held to buy such gold from the member.

Without entering into the substance of what may be decided on these issues, it can be seen that the question posed in the sketch could, in any event, arise, namely that members would want to sell gold to the Fund on a large scale which the Fund would either be obliged to purchase or, having a discretion, would want to purchase. The Fund might want to purchase the gold either to prevent members from selling the gold in the free market or, if the free market price was below the official price, to avoid putting members in the position of being unable to sell the gold legally. Thus, it would appear that some provision to deal with this contingency will, in any event, have to be considered as part of the reform.

The question of the conditions in which the Fund can sell gold to members would also deserve consideration in the same context.

† E. B. Decision No. 2914-(69/127), adopted effective December 20, 1969. See *Selected Decisions of the Executive Directors and Selected Documents*, Sixth Issue, September 30, 1972 (Washington: International Monetary Fund, 1972), pp. 57–62, and Margaret Garritsen de Vries, *The International Monetary Fund, 1966–1971: The System Under Stress*, Vol. II, *Documents* (Washington: International Monetary Fund, 1976), pp. 203–206.

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Report of the Executive Directors

On August 18, 1972, the Managing Director as Chairman of the Executive Board sent to the Board of Governors the following report of the Executive Directors on reform of the international monetary system.

Reform of the International Monetary System
(August 18, 1972)

A Report by the Executive Directors to
the Board of Governors

CONTENTS

INTRODUCTION

At the 1971 Annual Meeting of the Fund, the Board of Governors adopted Resolution No. 26-9 on the "International Monetary System," the full text of which is reproduced in Annex 1 to this Report. Parts I and II of the Resolution dealt with immediate difficulties. In Part III the Governors addressed themselves to long-term reform and requested the Executive Directors:

(*a*) to make reports to the Board of Governors without delay on the measures that are necessary or desirable for the improvement or reform of the international monetary sysem; and

(*b*) for the purpose of (*a*), to study all aspects of the international monetary system, including the role of reserve currencies, gold, and special drawing rights, convertibility, the provisions of the Articles with respect to exchange rates, and the problems caused by destabilizing capital movements; and

(*c*) when reporting, to include, if possible, the texts of any amendments of the Articles of Agreement which they consider necessary to give effect to their recommendations.

In response to this request, the Executive Directors have been engaged since the last Annual Meeting on a study which is still under way. Their present report on that study is thus necessarily preliminary in character. It is difficult at this stage to foresee which of the possible courses for long-term development of the international monetary system would best accommodate the diverse positions and interests of member countries, while safeguarding the global character of the system and minimizing the risk of any retreat into protectionism and inward-looking blocs. Much progress has, however, been made in the identification and examination of major issues on which further study and discussion will be required from both policy and technical points of view. The Committee of the Board of Governors on Reform of the International Monetary System and Related Issues provides a new forum at a high policymaking level in which further progress can be made on major policy issues relating to international monetary reform.[1]

This Report reviews certain options for reform in the main problem areas of the system, setting out the arguments on both sides when there appear to be both advantages and disadvantages in any course of action and eschewing conclusions that would narrow prematurely the field of choice. The Report consists of six chapters. The first chapter reviews the need for reform and the main objectives and major characteristics of any re-

[1] The full text of the Resolution [No. 27-10] of the Board of Governors under which this Committee was established is reproduced below, pp. 151–53.

formed system. Chapter II discusses issues arising in achievement of an improved functioning of the exchange rate mechanism that would be necessary in any reformed international monetary system. Chapter III reviews the desirability of certain changes in arrangements relating to convertibility, the official settlement of imbalances, and exchange market intervention, examining possible approaches and the circumstances in which they might be adopted. Chapter IV reviews the possible roles of the principal reserve assets in any reformed system, in particular in the light of possible changes in arrangements relating to convertibility and official settlements, and discusses possible arrangements that would permit the substitution of SDRs for other reserve assets. Chapter V examines the problems arising for the international monetary system as a result of disruptive capital flows, and discusses possible means of checking such flows and of mitigating both their domestic and external impact. Chapter VI examines the position and interest of the developing countries in the working of the international monetary system and considers possibilities for contributing, within the framework of any reformed system, to an increased flow of resources for development purposes.

The elements of the international monetary system that are considered in these separate chapters are closely interrelated. Thus, for example, decisions relating to any new arrangements for the settlement of payments imbalances would depend heavily on the working and prospective future working of the adjustment process, in particular the exchange rate mechanism. Similarly, a system involving greater exchange rate flexibility for all currencies, including the U.S. dollar, might tend to diminish both the need for reserves and the role of reserve currencies. The future role of reserve currencies, together with other reserve assets, would also to some extent be determined by any settlement arrangements that were adopted.

An important series of questions will arise with respect to the appropriate phasing of the introduction and implementation of various interrelated aspects of a reformed system. A number of the policy options for reform would require amendments to the Fund's Articles of Agreement and, in view also of the interrelationships among particular elements, it might be considered advantageous to introduce these amendments simultaneously, and to make all the legal changes that would be required in a single set of amendments to the Articles. An important question would be whether these amendments should make it easier under acceptable procedures to adapt the system to changing circumstances in the light of experience.

But though progress toward reform hinges to some extent on the timing of amendment of the Articles, some aspects of reform could, if this were considered useful, be put into practice as soon as they were agreed in the course of the reform discussions, and before any amendment that might be required had become effective. Beyond this, much could be achieved in a variety of areas in advance of any changes in legal provisions. The most substantial contribution should come from the progressive reduction of international payments imbalances in response to the 1971 realignment of exchange rates of major currencies and to other factors. For example, whether members make par value changes promptly when these are needed depends to a large extent on the attitudes of individual members and of the community of members as a whole. The development of more effective ways of dealing with destabilizing capital movements may be largely a matter for concerted national and international action, rather than for amendment of the Articles. Thought should be given to possible preparatory measures that might pave the way to future arrangements for the settlement of payments imbalances by all countries. It should also be noted that two of the possibilities discussed in Chapter VI for increasing the flow of financial resources to the developing countries could be implemented without amendment. Outside the specifically monetary field, progress would, in addition, be promoted by international understandings and agreements aiming at the reduction and gradual elimination of trade and other restrictions that impede not only economic well-being but also the adjustment of payments imbalances.

More generally, there will be a need for collaboration among members in dealing on a pragmatic basis with problems as they arise. Without the continuing cooperation of members to this end, the prospects for any reformed system and the credibility of specific reform proposals would be seriously prejudiced.

CHAPTER I

The Need for Reform

1. Features of the Bretton Woods system

The international monetary system created at Bretton Woods was based on a strong affirmation of the desirability of cooperation among all members. The system as originally established and as it subsequently developed has been dominated by three major features:

(1) The par value system was designed to permit the adjustment of exchange rates but only if necessary for the correction of a fundamental disequilibrium in a member's economy—and to avoid the competitive depreciation that characterized the interwar period. Under this system exchange rates can be altered when exclusive reliance on domestic policies to correct an external imbalance would produce consequences (for example, in terms of unemployment or inflation) that are unacceptable to the country in question. The system provides that exchange rates are matters of international concern and that, therefore, par values can be adopted or changed, on the proposal of the member, only with the prior concurrence of the Fund.

(2) The stability of exchange rates in the market was sought by obligating each member (unless it were freely buying and selling gold for the settlement of international transactions) to maintain in its territory spot rates between its currency and the currencies of all other members within margins of 1 per cent on either side of parity. In 1959, after most European currencies had become *de facto* convertible, margins of up to 2 per cent were permitted when they resulted from margins of not more than 1 per cent vis-à-vis the member's intervention currency. This arrangement presupposed market intervention as the main technique to ensure observance of the margins. It was understandable that the U.S. dollar, which in postwar conditions had acquired a special role, should become the principal medium for intervention and the currency in terms of which most margins for intervention were stated. At the same time, the United States was not required to intervene to ensure the observance of margins in respect of the dollar because it had opted to buy and sell gold freely for the settlement of international transactions. In these circumstances the United States assumed a basically passive role in the exchange market.

(3) The need for early elimination of any restriction and discrimination in payments and transfers for current international transactions is strongly emphasized under the system, and members are obliged to make their currencies convertible as soon as their balances of payments permit. By contrast, members are left with virtually complete autonomy to restrict capital transfers and the system favors such restriction in certain circumstances to safeguard the resources of the Fund. In practice, however, members that made their currencies convertible generally moved in the direction of liberalizing capital movements.

2. The functioning of the Bretton Woods system

The quarter century since establishment of the Bretton Woods system has been characterized by a massive expansion in world trade and payments, but it became increas-

ingly apparent over time that the operation of the system was impeded in certain cases by the mutual incompatibility of members' domestic and exchange rate policies, and also by the inability of the system to accommodate certain major changes in the international economic and financial environment. These weaknesses in the working of the adjustment process reflected in particular the following specific difficulties.

(1) In the past, especially in the 1960s, the problem of achieving timely and adequate changes in exchange rates became increasingly apparent in cases of both surplus and deficit countries. It arose in acute form in the case of the U.S. dollar. Nothing in the Fund's Articles precluded a change in the par value of the U.S. dollar, and indeed the history of the negotiations preceding the realignment of December 1971 shows that the willingness of the United States in the end to undertake such a change was a positive factor in promoting the general readjustment of parities which was ultimately achieved. However, it was widely assumed, throughout the postwar period, that par value adjustment was as a practical matter unavailable to the United States. This presumed inability of the United States to adjust the par value of the dollar reflected various asymmetries deriving principally from the position of the United States as the largest economy in the system and from the associated major importance of the United States in world trade and capital transactions. Other special factors were, *first*, that the United States was the only major country which chose the option of freely buying and selling gold as a means of fulfilling its exchange stability obligations, and, *second*, the predominant role of the U.S. dollar as a reserve currency to which other currencies were pegged. Inflexibility in the par value of the dollar did not matter in the immediate postwar years when the economic position of the United States—which was providing resources to other countries for postwar reconstruction—was overwhelmingly strong. But it became increasingly troublesome in the 1960s as structural changes and developments in relative costs and prices led to a diminution in the competitive position of the United States. In effect, it left with other countries the main burden of initiative for altering exchange rates; yet such action as other countries considered it possible to take was not in itself sufficient to end the underlying imbalance, and the exchange rate relationship between the dollar and other currencies thus became increasingly inappropriate.

(2) The rise in the volume of international transactions and thus in the magnitude of the financing that might be needed for balance of payments disequilibria made it necessary for the stock of international reserves to rise over time. With the monetary price of gold remaining unchanged, the supply of newly mined gold and the use of Fund facilities met only part of the need for reserves, and the bulk of global reserve creation took the form of increases in holdings of dollars. But though accrual of reserves in this form met a global reserve need and was thus a beneficial influence on economic activity and expansion, it could continue only as long as the United States incurred balance of payments deficits and surplus countries were willing to accept and retain a large proportion of dollars in the financing of their surpluses. It became increasingly apparent, however, that the system was not able to withstand the strains of a method of reserve creation that involved persistent balance of payments disequilibria. Dissatisfaction with reliance on this process as the prime means of reserve creation and the desire to achieve a more rational and efficient mechanism for adapting the world's supply of international reserves to long-term global needs led to the establishment in 1969 of the facility for special drawing rights. The first decision to allocate SDRs was predicated on the assumption that the earlier process of reserve creation had substantially come to an end. The magnitude of the reserve creation in the form of reserve currencies in 1970 and 1971 showed, however, that no mechanism existed to ensure that the external deficit of the United States and the accumulation of dollars would diminish. Indeed, both assumed unprecedented proportions in 1970 and 1971 under the influence of exchange rate misalignment and massive

capital outflows. Moreover, global reserve creation was accelerated further by the buildup of official balances in currencies other than the dollar and, in some degree, by changes in official currency balances in the Euro-dollar market.

(3) The difficulties of the system have been exacerbated by factors that have tended to increase the extent of external imbalances requiring adjustment. For example, countries have been affected in varying degrees by the emergence of cost-push inflation, and experience in curbing inflation by means of incomes and prices policies has been mixed. Increasingly complex problems have arisen in dealing with the external effects of the differences in cyclical phasing as between countries. These difficulties have been compounded by the increased resort that many countries have had to monetary policy for the pursuit of domestic stabilization, as a result, in part, of the relative inflexibility of their fiscal policies. The consequential reduction in the ability and willingness of countries to attune their monetary policies to balance of payments objectives has made balance of payments adjustment more difficult.

(4) The substantial increase in imbalances attributable to capital flows was in addition more generally associated with an enhanced responsiveness of such flows to incentives of all kinds and diminished confidence in the maintenance of fixed par values as the need for adjustment came increasingly to be recognized but needed adjustments were delayed. The marked deterioration in the U.S. basic balance coupled with capital flows of this kind from time to time greatly intensified pressure on the U.S. dollar and on the U.S. gold reserves. Intervention in the private gold market was withdrawn in March 1968. The convertibility of officially held dollar balances into gold or other reserve assets was suspended by the United States on August 15, 1971.

These specific difficulties of the system as it has worked in practice need to be taken fully into account in the design of any viable future system. The international monetary arrangements based on decisions taken on December 18, 1971 constitute a set of arrangements for coping with the most immediate aspects of these difficulties which could otherwise have readily degenerated into situations of serious conflict. But though a more appropriate exchange rate structure of major currencies was achieved in the framework of these decisions, the major long-term problems of the system were left unresolved.

3. Aims for a new system

The need for reform has to be seen in the context of the broad aims of economic policy which, as stated in the Articles of the Fund [Article 1], include

> the expansion and balanced growth of international trade

and the contribution this makes

> to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members .

In the last quarter century members have benefited from their cooperation in a wide range of monetary, trading, and other economic relationships. These cooperative efforts need to be carried further and redirected in various ways. Action may be required not only in the payments field, which is of prime concern to the Fund, but also in respect of the rules governing trade, investment, and aid in which other organizations also are involved. In considering appropriate action in each of these fields it will be necessary to be aware of the close interrelationships among them.

Particular attention should be given to the position and interests of the developing countries. Full account should be taken of various features of the present or any new international monetary system that might involve special problems and difficulties for the developing countries. In addition, consideration should be given to the question whether

and how a direct contribution might be made in the framework of the reform to the needs of the developing countries for additional financial resources.

In general terms, the avoidance or elimination of the difficulties that impeded the system in the past and the achievement of the aims mentioned above will depend on the adoption of improved arrangements for the adjustment and settlement of payments imbalances. The essence of an efficient adjustment mechanism is that countries refrain from policies that are likely to lead to severe balance of payments disequilibria and take early action to correct such disequilibria as nevertheless occur. A clearer understanding is needed of the appropriate roles and uses of the various policy tools that are available for basic adjustment, as well as policies intended to deal with temporary disequilibria. Attempts should also be made to find clearer criteria for allocating responsibilities for initiating adjustment among countries in different balance of payments situations. In addition, settlement arrangements for all countries should be such as to promote the objectives of the adjustment process.

A major task will be to ensure that the balance of payments targets of countries, in particular industrial countries, will be compatible with one another as well as realistic both domestically and within the framework of the international economic situation. With few exceptions countries feel more comfortable with an overall balance of payments surplus than with an overall deficit. Insofar as this attitude reflects a general desire of countries for rising reserves it should be possible to meet this desire by an appropriate amount of global reserve creation in the form of SDRs without the need for reliance on some countries to run payments deficits to accommodate the reserve needs of others.

The structure of a country's balance of payments reflects in a large measure the degree of development of its economy. Countries that are short of capital generally have a current account deficit financed by capital inflows and, in the case of low-income countries, by grants. Most of the highly developed countries normally have a surplus on current account to offset capital exports and the flow of aid to the developing countries. In addition to these basic forces relating to economic structure, countries may be induced by domestic economic, social, and political motives—including the desire to promote manufacturing industry, to further a particularly dynamic sector of the economy, to protect employment, etc.—to follow policies that stimulate exports and discourage imports and, more generally, to aim at a relatively large surplus on current account. Policies to this end tend to be facilitated for an individual member by an exchange rate for its currency which errs on the side of being undervalued in terms of other currencies.

Such preferences in this direction as some industrial countries may have had in the past were in many cases neutralized by domestic inflation and hesitation to resort to devaluation. There has been little in the history of the postwar period to bear out the fears of outright competitive depreciation which preoccupied the authors of the Fund's Articles of Agreement. Indeed, countries have often postponed devaluation until massive capital outflows superimposed on a deteriorating current account have reduced their reserves to critical levels. However, when a country decided to devalue it often sought to devalue to the maximum extent consistent with the Articles in order to have some safety margin, and this was often considered desirable by other countries, e.g., to make the parity adjustment convincing to the market. The resulting pattern of overvalued and undervalued exchange rates among the industrial countries tended to lead to large balance of payments disequilibria. These were sometimes enlarged by capital flows, with consequent efforts to control or discourage such flows—efforts which in the circumstances were unlikely to be fully successful.

If appropriate par value adjustments by industrial countries were to be made more promptly in future, certain potential conflicts between the balance of payments objectives

of these countries would emerge more clearly. Countries would, then, have to face much more directly than in the past the task of gearing their policies—including their exchange rate policies, trading arrangements, and other measures addressed to the balance of payments—to payments targets that are realistic and compatible with one another. These needs, and the severe problems involved, were manifest in the discussions leading up to the Smithsonian agreement.

While the means of improving the adjustment process should be actively pursued, it would be unrealistic to expect that all impediments to efficient adjustment could be overcome in the short run. One basic difficulty that has to be faced is a difference of view about the manner in which divergent tendencies in the current and capital accounts of the balance of payments should be reconciled. Some believe that it is neither practicable nor even desirable to impede at least persistent market tendencies in the flow of capital by an apparatus of controls or artificial incentives and that the current and capital accounts should be accommodated to each other through market forces. Others, while agreeing that many types of capital movements, and particularly long-term movements, are useful and must not be hampered unduly, believe that all countries should take measures to influence or control capital flows (especially speculative flows and perhaps also direct investments) and that, when overall disequilibria arise, the capital as well as the current account should be made to bear its share of the burden of adjustment. At least some of the difficulties arising from these policy divergencies are likely to persist. Moreover, a reformed system could not be expected to eliminate disruptive short-term flows altogether, although it should help to reduce them. Moreover, while there has been notable progress in the postwar period in the reduction of tariff barriers on a multilateral basis, nontariff barriers and regional preferential trading arrangements have increasingly emerged as serious impediments to global international trade. One view is that, as a consequence, some sectors of the domestic economies of industrial countries tend to be shielded from the impact of exchange rate changes by administrative restrictions or other measures which can at times impede needed exchange adjustment in two ways: by making initiation of parity changes more difficult or by increasing the amplitude of change required to achieve a given change in the external position.

In the light of these considerations it seems necessary to accept the conclusion that, if the monetary system of the future is to work effectively, it will need to be able to accommodate national policies which in many cases may not be optimal from the point of view of the adjustment process.

Finally, it must be recognized that however well any new arrangements are designed, their success cannot be ensured without the determined cooperation of members in a more effective functioning of the system as a whole.

CHAPTER II

The Exchange Rate Mechanism

The exchange rate mechanism plays a major role in the adjustment process and the unsatisfactory functioning of this mechanism was an important factor in the weaknesses of this process, which have been widely analyzed in recent years. The role of exchange rates in the adjustment process was extensively reviewed by the Executive Directors in their 1970 Report on that subject.[2] Their main conclusion was that the par value system

[2] *The Role of Exchange Rates in the Adjustment of International Payments: A Report by the Executive Directors*, International Monetary Fund (Washington, 1970). [Reproduced in Margaret Garritsen de Vries, *The International Monetary Fund, 1966–1971: The System Under Stress*, Vol. II, *Documents* (Washington: International Monetary Fund, 1976), pp. 273–332.]

was the most appropriate general exchange rate regime but that acceptance of this conclusion carried with it an obligation on all parties to make the system as effective as possible. For the Fund, this was seen as "the need to review and where necessary to adjust its criteria, procedures and operational practices to ensure that they are as well suited as possible" for the effective working of the system. For individual countries, it would involve a "willingness, in instances where exchange rate changes are appropriate to restore equilibrium, to make such changes at a time and in a manner most likely to enhance their effectiveness."[3] The Executive Directors suggested that, in certain cases, prompter and smaller adjustments in members' par values would help to avoid the building up of large disequilibria and the eventual recourse to large adjustments.

But developments in the period since publication of the 1970 Report have introduced new elements into discussions of the exchange rate mechanism. The widespread recourse to floating rates after August 1971 showed that, even with an intensification of capital controls in many countries, the system as previously operated was subject to pressures beyond its power to handle, and underlined the urgency of making it less crisis-prone. Two inferences may be drawn from this experience. *First*, protracted uncertainties about future exchange rate relationships may unfavorably affect the general economic climate, in particular when they coincide with a weak cyclical position. *Second*, floating rates (like fixed rates) require some means of reconciling countries' interests and avoiding conflicting policies, and it is virtually impossible to negotiate the necessary arrangements at short notice under the impact of sudden shocks to the system.

The experience of international consultation on par value changes in recent years has emphasized the fact that members are concerned not only with their own par value adjustments but also with the par value adjustments proposed by other members. The process leading up to the realignment of December 1971 underlined the considerable difficulty of achieving an adequate effective change in the value of the U.S. dollar against other currencies even when there was wide agreement that such adjustment was needed. For the system to be able to cope in future with changes in the relative value of the dollar as well as of other currencies without recurrence of the sort of disturbance which preceded the 1971 realignment, it is essential that the exchange rate regime, in conjunction with other elements in the system, should reconcile what might otherwise be conflicting policies on the part of major member countries. The difficulties that are likely to arise in this connection have been set out in Chapter I. One further conclusion from that discussion needs to be drawn here. While the point of departure for the Bretton Woods system was to prevent competitive depreciation (in the form of unjustified downward parity adjustments), it is equally important that countries do not fail to adjust the parities of their currencies when these have become undervalued.

Thus a fresh approach is required to the criteria and procedures for orderly change which will accord to the United States, as well as to other members, a due measure of initiative in the effective exercise of exchange rate flexibility. This in turn requires that needed parity adjustment of the dollar should not be vitiated by defensive adjustment of the par values of other currencies.

Against the background of these general reflections and those to which reference was made in Chapter I, a number of specific aspects of increased exchange rate flexibility need to be considered. Consideration of these aspects may help to shed light on the conditions necessary for an effective functioning in present circumstances of any par value system, whether slightly or substantially modified, and hence on the acceptability of such a system.

[3] *Ibid.*, p. 70. [Page 324.]

1. The basis for the determination of par values[4]

The basic principles of the par value system as it now operates are that any changes in par values should be made with the concurrence of the Fund and that they should be related to the correction of basic payments and economic imbalances, a concept that is expressed in the present Articles in terms of the correction of a "fundamental disequilibrium." This rules out par value changes—though not fluctuations of market rates within margins—as one means of dealing with cyclical imbalances or with temporary capital flows[5] and also provides assurance against the disruption involved in attempts at competitive depreciation. But whereas the principles of the system permit par value changes in certain circumstances and preclude them in others, the system does not provide assurance that adjustment will be made in cases where, with the passage of time and changing circumstances, the par value of a currency has become inappropriate. Experience suggests that the working of a par value system could be improved if its basic principles were made more symmetrical, i.e., if members were not only expected to abstain from par value changes when, in the language of the Articles, there was no "fundamental disequilibrium," but if, also, they were expected to make such adjustments when they were in "fundamental disequilibrium."

But though it would be a major improvement, symmetry in this sense would not be sufficient in itself to ensure satisfactory functioning of the par value system, as has been demonstrated in particular by recent experience of capital movements. Two additional conditions would need to be fulfilled to achieve this improvement. *First,* par value changes would have to be made before the evidence became overwhelming that adjustment was necessary. The resulting prompter and therefore smaller par value changes would tend to reduce the need for and burden of defense of par values that had become inappropriate and would also prevent the buildup of substantial disequilibria which would ultimately require large and disruptive adjustments. *Second,* in cases where existing par values were regarded as appropriate, the necessary measures would need to be taken, nationally and internationally, to prevent disruption of the system by temporary capital flows. Issues involved in the control and financing of such flows are discussed in Chapter V.

For par value changes to be made more promptly than in the past, understandings would be needed on the identification of situations requiring adjustment and on the magnitude of the change required. These understandings would relate: *first,* to the magnitude of the maladjustments with respect to which exchange rate correctives should be considered; *second,* to the procedure for assessing the need for exchange rate adjustments; and *third,* to the responsibility on both surplus and deficit countries for making par value changes.

To identify situations in which adjustment of the exchange rate of any major currency is required or to assess the magnitude of the par value change that is needed, it would be necessary to take a view about the development of rates for at least the other major currencies. Evaluation and assessment in respect of the structure of these rates could be made as a fairly continuous process and should not be undertaken only when a crisis had occurred or when there was prima facie evidence of a substantial distortion of rates. It must be recognized, however, that inappropriate disclosure of the results of such a review could seriously disturb exchange markets, and might stimulate such large capital flows as to render continued observance of one or several par values impracticable. This risk would be particularly serious in cases where a given member considered that a change in its par value advocated by others would be unjustified. The value of any review of this kind is therefore to a large

[4] The term "par value," or "par," is used in this Report to indicate the value of a currency in terms of gold or SDRs; the term "parity" denotes the relationship between two currencies, determined by the ratio of their par values.

[5] Issues involved in the movement of market rates within wider margins and the appropriate width of margins are discussed in Section 5 of this chapter.

extent predicated on the existence of adequate arrangements to ensure confidentiality and discretion. These risks would, however, tend to be reduced over time to the extent that the principal of continuous international review of the exchange rate structure came to be accepted, especially if par value changes were in general prompter and smaller than in the past.

A general review of the exchange rate structure of the main industrial countries was undertaken in advance of the December 1971 realignment, when there was general agreement that relatively large parity changes were needed and should be implemented without delay. The exercise pointed to the difficulties involved, even in those circumstances, in forecasting underlying balance of payments trends and in assessing the probable repercussions and interactions of possible exchange rate changes. Moreover, particular difficulties arose—and still remain—in ensuring that the balance of payments objectives of the various countries are both compatible with one another and realistic in terms of what can in practice be achieved, and in ensuring that appropriate account is taken of cyclical variations and of the delayed effects of past developments in exchange rates and in national cost levels.

It will take time to improve techniques of evaluation and assessment involved in reviews of this nature and they are likely to remain subject to a considerable margin of uncertainty. Since, however, the exchange rate of each currency is—to a larger or smaller extent—a matter of concern to all members, it is unavoidable that some judgment as to appropriate rates be made by the international community, and in accordance with the best techniques available.

2. Objective indicators for par value changes

In the face of the difficulties which have been found in practice, both in the discretionary assessment of the need for and in the implementation of par value changes, numerous possible schemes have been suggested which, to a greater or lesser extent, rely on one or more objective indicators to provide the criteria for appropriate parity change. Proposals in this category aim to promote prompter and smaller changes by introducing an element of automaticity in the process of determining parities, thereby establishing a change in par value as a normal instrument in the adjustment process, devoid of political trauma. The schemes which have been suggested rely in the main on objective indicators which are balance of payments oriented, such as movements in a member's official reserves or in the spot rate for a member's currency in the foreign exchange market, but some also link par value changes to movements in relative price indices.

Some schemes envisage more or less continuous automatic adjustment of par values in very small steps in response to objective indicators. The advocates of such schemes consider that, although the indicators used cannot be relied upon *at all times* to pinpoint situations that require exchange rate correction, reliance on such indicators for the determination of exchange rate changes would *over time* reduce balance of payments problems.

Other proposals for the use of objective indicators envisage somewhat larger and less frequent adjustment of parities and provide for a more or less substantial discretionary element. Under schemes of this nature a specified movement in an objective indicator (or parallel movement in a number of indicators) would trigger international consultation with a member. The movement in the indicator would constitute presumptive evidence of the need for a par value adjustment, in response to which the member would either make an appropriate adjustment or present a case to the effect that, in the circumstances, adjustment was unwarranted.

One category of proposals in this area would envisage the establishment for each country of internationally agreed upper and lower limits for reserves. Reserve movements

within these limits would raise no question at the international level as to the need for exchange adjustment. If, however, the reserves of a country reached the upper or lower limit, this would be regarded as an indication, or as prima facie evidence, that a parity change was needed.

It may be noted that the Fund and some of its members have gained a certain amount of experience in the use of objective indicators as a guide for making exchange rate decisions. Developing countries whose rapid price inflation has necessitated relatively frequent devaluations have in some cases used net foreign asset objectives as well as other criteria (in particular, relative price trends) for this purpose, although these objectives and criteria have not worked satisfactorily in some cases. The extent to which the experience of these countries would be applicable to countries in different circumstances would require careful study.

Objective indicators based on exchange rate or reserve movements may reflect short-term features of the balance of payments rather than the development of an underlying situation or its causes. The evidence they provide would, therefore, not necessarily be an appropriate basis for par value adjustment if it remains an important objective that such adjustment be based on longer-term developments in and prospects for the balance of payments. This aspect may affect their acceptability even as presumptive guides for such adjustment. These comments do not to the same degree apply to indicators based on appropriate relative prices and, indeed, relative price movements play an important—but never an exclusive—role in the assessments discussed in the preceding section.

A further problem with reliance on indicators is that they may be susceptible to influence or control by members. There would also be a serious risk that public knowledge of actual or prospective movements in the specific indicators that had been chosen would provoke adverse market reactions.

The main judgment to be made with respect to the use of objective indicators is whether the added incentive that they give to prompt par value changes offsets the disadvantage of linking such changes, even presumptively, to indicators that, by their nature, can at best give only a broad indication, rather than a balanced assessment, of a country's situation. Some would answer this question in the negative and would, moreover, object to the sacrifice of national and collective discretion that such indicators would be likely to entail; others would stress that the experience with balanced assessment so far has not been impressive and that, consequently, the search for effective and acceptable objective indicators should be pursued with vigor and imagination.

3. Responsibilities for making par value changes

Even where a judgment is made as to the extent to which parities (i.e., relative par values among currencies) are out of line, this does not in all cases immediately imply a judgment about which individual currency or currencies should undergo a par value adjustment. In situations where, as was the case in 1971, a substantial number of par values were out of line with each other, it is necessary to take a view about an appropriate division of responsibility for par value changes among the countries that are in deficit and those that are in surplus. Such a view would need to be based on some external criterion. One approach would be to require that all members whose relative par values were out of line would contribute to the realignment in such a way as to ensure an approximate balance between revaluations and devaluations. This approach would have the incidental effect that the value of the SDR in terms of currencies would be kept approximately constant. Under some alternative approach, in which there would be greater emphasis on de-

valuations than on revaluations, the value of the SDR would tend to appreciate in terms of currencies.[6]

Problems of general misalignment of parities such as the one that had built up by 1971 have, however, been exceptional. Most commonly, balance of payments surpluses or deficits have been sufficiently focused on particular members to indicate misalignment of their exchange rates vis-à-vis the generality of other currencies. In such cases it is clearly desirable that the member that is out of line should make the necessary par value change. Responsibility for making a par value change in such circumstances arises irrespective of whether the external imbalance takes the form of a surplus or a deficit.

4. The role of the Fund in respect of the initiation of par value changes

In view of the growing awareness of the importance of relative exchange rates, and the increasing interest each country has in the par values of other countries as well as in its own, the question arises whether the Fund's legal powers with respect to changes in par values should remain confined to responding to proposals for changes in par values made by members.

Differing views are held on this question.

Some consider that surveillance of exchange rates would work more satisfactorily if it encompassed certain initiatives by the Fund with respect to par value changes that it considered to be required. To some extent there has always been informal activity in this direction, and it may be possible and desirable to extend this practice. A question for consideration is whether the Articles should be amended to provide more explicit authority for bringing the influence of the international community, exercised through the Fund, to bear on the initiation of changes in par values; an aspect that would require particular attention in that event would be whether such influence should be exercised through the Managing Director, through the Executive Board or, perhaps, in certain circumstances through an appropriately constituted Committee of the Board of Governors. The Fund's activity in this direction could take the form of informal consultations with any member whose par value, in the light of the techniques for judging the parity structure referred to above, was becoming or had become out of line. Experience with such consultations would indicate whether, as a further step, it would be desirable for the Fund to make formal recommendations in respect of a member's par value.

Serious misgivings have, however, been expressed by others as to any formal extension of the Fund's powers of surveillance with respect to par values and par value changes, though these misgivings would not apply to informal consultations between the Fund and members. Some consider, moreover, that the influence and initiative of the Fund should continue to be exercised principally through analysis and persuasion. In their view, the initiative of the Fund has to be cautiously exercised and should normally be addressed to the need for balance of payments adjustment, as far as possible leaving the choice of instruments, including proposals for par value changes, to members themselves. It has also been noted that the considerations relating to confidentiality—as mentioned above—arise with similar force in the context of the exercise of Fund initiative.

If the formal responsibilities of the Fund with respect to par values and par value changes were extended, an important issue would arise as to whether and to what extent the Fund should be enabled in some way to enforce the rules and promote the objectives of the future system, and the means it should employ to this end. Questions as to the cir-

[6] The relevance of the balance between devaluations and revaluations to the attractiveness of the SDR as a reserve asset is discussed in Section 3 of Chapter IV.

cumstances in which and the means through which such collective pressure might be exercised are beset with many difficulties. It would appear that the type of action envisaged in Article VII, Section 3 of the Fund Agreement, which authorizes other members to discriminate in exchange operations against a member whose currency has been declared scarce, does not in its present form provide a practicable means of applying pressure on surplus currencies. Another means of pressure already available to the Fund would be the preparation of a report—which could be confidential or published—on a member's policies as related to adjustment under Article VII, Section 1, or Article XII, Section 8; these provisions have so far never been used.

In a future system, enforcement could conceivably take the form of pressure applied to members that failed to implement changes in par values which the Fund believed to be necessary, and perhaps also to members that in other respects failed to fulfill their responsibilities under the adjustment process. It is clear from the experience of the last decade that the capacity to apply such pressure, if and when appropriate, would need to be available in respect of both surplus and deficit, and large and smaller, countries. It would depend on circumstances, especially on the strength of the incentives to adjustment inherent in the situations themselves, whether in future such pressure would need to be applied more on surplus or on deficit countries.

One question is how definite the rules inscribed in the Articles would have to be, and how precisely the circumstances of their application would have to be delineated, in order to warrant the application of measures or procedures that might be regarded as penalizing a member that had defaulted in performing its obligations or whose balance of payments policies conflicted with criteria that had been internationally agreed in the framework of the reformed system. It would also be for consideration whether any such measures or procedures should involve progressively firmer pressure on a member that failed to respond. Other questions that arise are, *first*, whether members would be willing to take decisions in the Fund, under new provisions, to bring pressure to bear on a particular member; *second*, whether members would be willing to take the action enjoined, or permitted by, any decisions that were adopted; and, *third*, whether it would be desirable or possible to design procedures under which rules, once agreed, could to a large extent apply without the exercise of further discretion.

Notwithstanding the difficulties mentioned earlier, the importance to the system of having at its disposal some form of collective leverage is such that the subject deserves study and consideration.

5. Width of margins

In the framework of the realignment of December 18, 1971 the Executive Directors adopted a decision establishing a temporary regime under which a member may permit the exchange rates for its currency to move within margins of 2¼ per cent on either side of the established relationship of its currency to its intervention currency. The decision also provided that a member that takes appropriate measures to maintain the exchange rates for its currency within the margins of 2¼ per cent in terms of its intervention currency may also permit the resulting exchange rates for its currency in terms of other currencies to fluctuate within margins of not more than 4½ per cent of the relationship based on their relative par values or central rates, with further margins of 1 per cent each way in certain circumstances.

Since the adoption of this temporary regime wider margins have been extensively used. More recently, with the intention of promoting monetary and economic integration, members of the European Economic Community have agreed among themselves to

reduce the margins for rate movements among their currencies from 4½ per cent to 2¼ per cent,[7] though this is still in excess of the margins of approximately 1½ per cent that applied among these currencies before May 1971.

The temporary regime of wider margins was introduced to facilitate the cooperation of members in observing the purposes set out in Article I of the Fund Agreement during the period of adjustment after the realignment of exchange rates and pending review of the provisions of the system. It is now for consideration whether wider margins should become a permanent feature of the par value system by means of an amendment of the Articles of the Fund, and how wide such margins should be; whether alternatively, the Fund might be authorized to permit wider margins in certain circumstances either for currencies generally or in particular cases; and whether any such authority should be exercised on the basis of a decision taken by some specified majority and should include the right to withdraw any permissions given under it.

The advantages that could be expected from an appropriate widening of margins fall in three main categories. *First*, by increasing the scope for exchange rate movements, they would tend—where there is confidence in the maintenance of the parity—to promote equilibrating short-term capital flows and discourage disequilibrating flows, thus absorbing pressures that would otherwise be reflected in larger changes in official reserve levels or further recourse to capital controls. *Second*, by creating greater uncertainty as to the development of exchange rates in the near future, they would also reduce the sensitivity of short-term capital movements to divergences of conditions in national money markets, thus allowing somewhat greater freedom of action for national monetary policies. *Third*, the increased scope for exchange rate movements in response to market pressures would reduce the prospective profitability of speculation on possible changes in parities if these were normally small and could also be of some help in smoothing the transition from one par value to another.

Widening of margins could, however, involve a number of disadvantages, particularly for the developing countries. In the first place, the increased scope for movement in market rates would have certain disturbing effects on trade and current payments. With only a moderate widening of margins, these effects are in general unlikely to be substantial, but they may bear more heavily on the interests of particular groups of members such as developing countries. Moreover, there may at times be circumstances in which the inhibiting effect of wider margins on short-term capital flows is itself unwelcome—for example, if it prevents a reflux of funds following a previous speculative outflow. In the face of these disadvantages, some Executive Directors would prefer that the developed countries put greater emphasis on means other than wider margins for the purpose of limiting disruptive capital flows.

In their 1970 Report, the Executive Directors indicated that they had not then reached a common view as to whether and how far margins could advantageously be widened beyond the 1 per cent from parity vis-à-vis the intervention currency and 2 per cent vis-à-vis other currencies permitted under the decision of 1959. The basic arguments for and against a regime of wider margins are essentially the same now as they were in 1970. Experience since that time is susceptible to substantially different interpretations. For these and other reasons, Executive Directors have not reached a common view as to an appropriate regime of margins which might succeed the present temporary arrangements. In further work on this issue, attention will in particular need to be given to the precise width of margins that might be adopted, to the generality of their application,

[7] The intervention and settlement arrangements that are related to this discussion are discussed in Section 5 of Chapter III.

and to the possibility of variation, in appropriate circumstances, in the permitted width of margins.

6. The role of the Fund in relation to temporary deviations from par values

In their 1970 Report, the Executive Directors reviewed briefly the issues involved in the question whether the par value system might be equipped to meet circumstances in which exceptional pressures induce an individual country to suspend observance of its exchange rate obligations and to move temporarily to a floating rate. This question arises in respect of any of the kinds of floating rates that have occurred in the experience of the Fund in the past and that were introduced by members with the intention of re-establishing, sooner or later, an effective par value. Under the Articles, the Fund is not authorized to approve a unitary fluctuating rate. It is necessary to consider whether it would be desirable to amend the Articles of Agreement so that the Fund would have the authority to approve such departures from the normal par value regime; and, if so, under what circumstances and subject to what conditions.

Between May and December 1971, most major currencies floated for certain periods. These instances reflected both the fundamental disequilibria that prevailed and the pressure of overwhelming capital movements. If a future system were such as to incorporate both wider margins and prompter and smaller adjustments in par values, occasions involving pressure for deviations from par value obligations would be substantially reduced.

Nevertheless, situations may arise—largely but not exclusively as a result of capital flows—in which individual members find that they have little practical alternative but to deviate from their exchange rate obligations. If such situations occur, it might be better that they fall within rather than outside the ambit of the authority of the Fund; specifically, the granting of legal authority to the Fund to approve temporary deviations under an express power to approve, subject to conditions, might enable the Fund to deal more effectively with them. This authority could help to ensure that such departures were flanked by special safeguards as temporary substitutes for the normal safeguards for the international community which are an integral feature of the par value system when it is being observed. Such special safeguards, which an all cases would include an obligation of the member concerned to remain in close consultation with the Fund, would also provide assurances against the imposition or intensification of restrictions on trade and current payments. Such consultation might relate, inter alia, to the member's intervention policies in the exchange market.

The practical problems involved in effective surveillance of floating rates and the application of appropriate safeguards must not be underestimated. Unless one could be confident that the Fund would be successful in this respect, and would deter recourse to floating in situations in which floating was considered inappropriate, the granting of legal authority for the Fund to approve departures from the basic par value regime might be questioned; in particular, it could make such departures appear a less serious breach than if unitary floating rates remained clearly outside the legal regime of the Fund.

Finally, exercise of jurisdiction in the Fund under the present Articles has involved an element of imbalance; whereas the Fund is unable to approve a unitary floating rate, it is empowered to approve multiple rates of exchange, and has approved their introduction even when they included two or more floating rates. This imbalance is unfortunate since in some cases a unitary floating rate and avoidance of the controls necessarily associated with a multiple rate system may be the preferred course.

CHAPTER III

Convertibility and the Settlement of Imbalances

1. Convertibility in the past

Convertible currencies in the central sense in which this term is used in the Articles are the currencies of members that have undertaken to perform the obligations of Sections 2, 3, and 4 of Article VIII. These obligations involve the avoidance in general of restrictions on payments and transfers for current transactions, multiple currency practices, and discriminatory currency arrangements, and, in order to facilitate payments and transfers for current transactions, a readiness of the members concerned to convert balances of their own currencies held by other members into gold or the currencies of the members requesting conversion. The provisions relating to the conversion of official balances have in practice rarely been used. Their purpose—that of ensuring the multilateral settlement of payments imbalances at rates in the vicinity of par—has been achieved through the transferability of currency holdings and their conversion, particularly for private holders, through the foreign exchange markets rather than by the monetary authorities of the issuing countries: a holder of a convertible currency who desires conversion into some other currency normally sells his holdings in the exchange markets and does not present them for conversion to the issuing central bank. That bank stands ready to sell foreign exchange in the market to prevent the rate from falling below its lower margin, thus ensuring the convertibility of its currency at a rate not far from parity.

Market convertibility has always been a feature of the U.S. dollar. Any holder (official or private) of U.S. dollars can sell them to acquire other currencies. Confidence that conversion can be carried out in this way at a rate close to parity has been provided, however, by the action of central banks of countries other than the United States, who have intervened in the market, as necessary, to maintain the rates for their respective currencies within the prescribed limits. For its part, the United States declared its readiness under Article IV to convert into gold the dollar balances of official holders. Convertibility into gold or other reserve assets was suspended on August 15, 1971; market convertibility of the dollar, however, continues and, since December 18, 1971, again takes place within determined margins from parities (based on par values or, in certain cases, on central rates) as a result of the action of other countries.

Another special feature of the U.S. position should be noted. Countries that are not reserve centers cannot count on having any part of their deficits financed by accumulations of their currency in the hands of official holders. Even a secondary reserve center cannot rely on such financing since changes in official holdings of its currency tend to vary with the overall payments balances of members of its currency area and both they and it may be in deficit at the same time. But since the end of the war the United States financed most of its deficits by means of U.S. dollars which were to a large extent held without conversion by other countries that ran overall surpluses. This arrangement worked on the whole satisfactorily for both sides for a considerable period during which the amounts involved were relatively small and their mode of financing brought about a desirable redistribution of world reserves and a moderate increase in these reserves in the form of U.S. dollars. In the course of time, however, doubts arose as to the desirability of a system that relied to a large extent on this mechanism as a source of additional reserves and that tended to insulate the United States from the need to take measures to correct its payments position, and thus also facilitated the perpetuation of the surpluses of certain other countries. The decision to establish the facility for special drawing rights reflected a desire to introduce a greater degree of collective responsibility for the future provision of reserves and to promote a better working of the adjustment process. Never-

theless, decisive action to terminate existing practices with respect to reserve currencies was not taken. In the end this led to imbalances of a size that could not be sustained by either side, and to reserve creation in the form of dollars on an unprecedented scale, thus causing the suspension of convertibility of the U.S. dollar on August 15, 1971.

As has been indicated, the balance of payments deficits and surpluses of reserve centers other than the United States are substantially settled in reserve assets and foreign official holdings of their currencies cannot be counted upon to vary in such a way as to finance their deficits. This means that the question of suitable arrangements with respect to convertibility and the settlement of payments imbalances in future is one that arises principally with respect to payments imbalances between the United States and other countries. However, variations in official holdings of subsidiary reserve currencies may be substantial, and, like variations in holdings of U.S. dollars, they may involve unplanned changes in the stock of world reserves. Consequently, the question of appropriate convertibility and settlement arrangements arises also with respect to the secondary reserve centers.

2. Settlement arrangements in a reformed system—general considerations

The convertibility arrangements that prevailed with respect to the U.S. dollar prior to August 15, 1971 became increasingly unsatisfactory from the point of view both of the adjustment process and of their effects on the stock of reserves. It follows from this that, in any reformed international monetary system, the convertibility arrangements of reserve centers, or the operation of those arrangements, should differ in some major respects from the position that prevailed with respect to the U.S. dollar prior to August 15, 1971.

One view is that any new arrangements must also differ from those now prevailing which have inherent inflationary tendencies. On this view, the absence of provision for settlement of U.S. dollars acquired by other countries unduly shields the United States from the working of the adjustment process and would not be satisfactory in the framework of a reformed system. According to this view, any new system should be one in which the surpluses and deficits of the reserve centers, including the United States, like those of all other countries in the past, are settled in reserve assets or by means of credit operations, with fluctuations in the global amount of reserve currency holdings serving only as means of interim financing pending periodic settlements (apart from changes in reserve currency holdings to meet any needed increases in working balances). Although it would be essential that U.S. surpluses and deficits be reflected in the U.S. official reserves, satisfactory future operation of the adjustment process would not require that the United States offer to official holders of dollars facilities for the conversion of holdings accumulated in the past into gold or, for that matter, into SDRs or other reserves.

Another view is that, whatever the weaknesses of the present arrangements, there is a question whether an asset settlement system universally applied would function consistently with the generally accepted broad objectives of national and international well-being. Those holding this view do not necessarily preclude the introduction of an asset settlement system on a global basis, but point out that there is no precedent for a regulated asset settlement system. They emphasize the substantial improvement in the adjustment mechanism that would be required for the system to function to the relatively tight specifications of asset settlement, and are concerned at the possibility that such a system, if rigidly adhered to, might contain a deflationary bias. They question how far governments would be prepared to undertake the necessary obligations of asset settlement and would be able to deal with their difficulties in times of strain without departing from these obligations or from the obligations of the exchange rate regime, or from both. In particular they question whether and to what extent governments would be prepared to

accept the additional flexibility in either or both of the two directions which, according to this view, would be necessary for effective operation of an asset settlement system, viz., much greater exchange rate flexibility or very much larger reserves or similar unconditional financing facilities. They also note that the willingness and ability of the United States to extend swap credits to other countries and to give them access to its capital market has been an important element of flexibility in recent years. Finally, they observe that, in addition to these policy questions, the technical problems associated with asset settlement schemes are such that the search for possible alternative approaches of a different nature should be continued.

3. Asset settlement—considerations relating to reserve centers

While the principle of asset settlement would preclude the financing of U.S. deficits by means of reserve liabilities, it would not preclude financing of deficits by negotiated credits, e.g., drawings on the Fund in the credit tranches. Correspondingly, the United States would receive reserve assets when it was in balance of payments surplus (except insofar as the surplus was applied to redemption of dollar balances or repayment of any loans); this would enable that country, as a general rule, to accumulate reserves when in surplus rather than merely experience a decline in its liabilities. The same principle of asset settlement of the imbalances could apply, with suitable variations, to other reserve centers as well.

Whatever one's views as to the desirability of a system of asset settlement, it is obvious that certain conditions would, in any event, have to be fulfilled in the case of the United States to make transition to asset settlement possible. These conditions relate to:

(1) the balance of payments and reserve strength of the United States in the period that lies ahead;

(2) the adequacy and reliability of the adjustment mechanism;

(3) suitable arrangements regarding temporary imbalances, in particular those arising from short-term capital flows.

As regards (1), the U.S. balance of payments is likely to have been fundamentally strengthened as a result of the realignment and other measures. The assumption of the obligations of asset settlement by the United States would, however, require in addition an adequate improvement in the U.S. reserve position. Such improvement might come from asset settlement of future U.S. balance of payments surpluses and from the U.S. share in SDR allocations. If mutually satisfactory loan arrangements could be devised, long-term lending by other countries of their currencies or, possibly, of SDRs would be a further possible means of improving the U.S. reserve position.

In respect of (2), it would be necessary for the United States not only to overcome its present deficit but also to be in no less secure a position than other countries to defend its balance of payments and to earn needed reserves. This would require a more effective adjustment mechanism involving all members and include a readiness on the part of other members to accept U.S. surpluses as well as deficits and to accept changes in the effective exchange rate of the U.S. dollar in appropriate circumstances. The United States, in its turn, would have to be willing to propose timely changes in its exchange rate when these became necessary.

In relation to (3), with an efficient mechanism for exchange rate adjustment under which chronic payments imbalances would be avoided and with a proper functioning of the SDR mechanism, the reserves and credit facilities available to members should normally be sufficient to ensure settlement when they are in deficit. But from time to time capital movements might develop on a scale which members would not be able to finance

from their reserves and normal credit facilities. Some possible methods of limiting and of financing such movements, and the problems involved, are discussed in Chapter V. As one example, if the U.S. dollar were to remain the principal intervention currency, movements between non-U.S. private and official holders of dollars might at times pose considerable problems for the international management of an asset settlement arrangement.

The many uncertainties as to the timing and magnitudes involved in the three factors mentioned make it difficult to assess the prospects for a satisfactory functioning of a full asset settlement system.

In this situation, one possibility would be to move toward full asset settlement in phases. This would offer an earlier contribution to the objectives discussed above than if the transition from the present situation to full asset settlement were to be delayed until it could be made in one jump—but the contribution would of course only be partial. Earlier phases might involve proportional asset settlement of any U.S. deficits, or settlement in dollars, or in assets, up to a specified absolute amount. Another possible approach toward full asset settlement could be found if the United States took on an increasing share in any needed support of the U.S. dollar in the exchange market. Partial asset settlement of U.S. deficits would not preclude full asset settlement of U.S. surpluses if this were desired as a means of accelerating progress toward full asset settlement of future U.S. deficits.

4. Asset settlement—considerations relating to other countries

Any asset settlement arrangement that was adopted would have to be geared not only to the achievement of the objectives discussed earlier, but also, as far as possible, to the direct interests of members other than the reserve centers. In particular, in a situation in which countries continue to hold substantial amounts of currencies in their reserves, it would be necessary to consider how far account could be taken of differences of preference in asset composition. These differences to some extent reflect institutional factors but they also reflect the concern that some countries would feel at any loss of income entailed in holding reserves in the form of SDRs instead of reserve currencies, the differing degrees of confidence felt in different assets, and the desire to maintain flexibility and spread risks.

Three possible technical approaches to asset settlement are described below, together with some appraisal in terms of their ability to (*a*) achieve full asset settlement and (*b*) leave members as far as possible free to determine the composition of their reserves. These approaches involve differences of method and extent in substituting SDRs for reserve currencies as discussed in Section 1 of Chapter IV.

One approach would be for the reserve center to undertake to convert an amount equivalent to any net increase in balances of its currency outstanding in official hands by transferring a corresponding amount of reserve assets (gold, SDRs, reserve positions in the Fund, or currencies of other members) to official holders in exchange for its currency. The countries which would have to accept the reserve assets, and the amounts they would have to accept, would be determined under the administration of the Fund by procedures possibly analogous to present methods of SDR designation. The objective that reserve centers should earn reserve assets when in surplus would be realized in part by channeling to these centers any SDRs that other countries wanted to use, e.g., by the SDR designation mechanism. But over and above this, further arrangements would be needed: these could readily be provided by measures analogous to those in the substitution facility discussed in Chapter IV. Such a facility could be empowered to create and sell SDRs to reserve centers in exchange for their own currencies in amounts equivalent to any net diminution in aggregate holdings of these currencies in the official reserves of other members. This approach would ensure full asset settlement of reserve center sur-

pluses and deficits (except insofar as there were international agreement that there was a need for some increase in balances of a particular reserve currency), but would accommodate asset preferences of individual members only to the extent that this could be done through the designation mechanism (or a similar administrative procedure).

Under a second approach, each country would agree not to let its holdings of any reserve currency diverge from a previously specified level. Countries would be obliged to present to the reserve centers for conversion into reserve assets any foreign exchange holdings which accrued to them above these levels and, to the extent that they fell below these levels, to reconstitute their balances by selling primary reserve assets to the reserve centers. A variant on this approach would be to specify only an upper limit to the reserve currency holdings of each country, and to rely on a substitution facility similar to that described above to ensure asset financing of reserve center surpluses. Different asset preferences could be accommodated insofar as members were initially enabled to specify their own limits of reserve currency holdings. Moreover, flexibility could be introduced by admitting a degree of variation from specified holdings. But the greater such flexibility, the less would be the assurance that asset settlement would correspond precisely with payments disequilibria.

Under a third approach, which would rely to a greater extent on voluntary action, a substitution facility in the Fund would allow members to convert reserve currency balances into SDRs at any time or, perhaps, at specified times. Settlement of reserve center imbalances would then be achieved through the Fund: a reserve center, when in deficit, would buy from the Fund in exchange for reserves an amount of its currency equivalent to the increase in its liabilities outstanding to official holders, and, when in surplus, would be able to sell its currency to the Fund in the amount of any decline in its liabilities outstanding to official holders, along the lines of the arrangements earlier described. This approach would leave members with a high degree of freedom in the determination of their reserve composition and would achieve full asset settlement as long as the cumulative total of currencies sold to the Fund for substitution into SDRs permitted the Fund to sell the required amount of its currency to a reserve center in deficit. Only if currency holdings of the Fund under the facility became at any time inadequate to match a reserve center deficit would there be an increase in global reserves in currency form.

Under any of these approaches, there would have to be rules that would determine which of their various reserve assets (gold, SDRs, reserve positions in the Fund and, where appropriate, holdings of foreign currencies) would be used by countries in settlement of deficits. These rules could range from a complete freedom for the deficit country to choose the assets to be used, to strict rules for their determination.

A wide range of technical issues—in addition to those discussed in this and the previous section—would arise under any of these schemes. Considerable further exploration of technical aspects would thus be required before a choice could be made among these and any other possible approaches to asset settlement.

5. Alternative exchange market intervention systems

Since the gradual restoration of free exchange markets in the course of the 1950s, and, in particular, since the dismantling in 1958 of the intervention and settlement arrangements of the European Payments Union, the relative exchange rates of most countries, including all the main industrial countries, have been kept within agreed margins of variation almost exclusively through their intervention on exchange markets in U.S. dollars. The United States, for its part, has maintained a basically passive role on exchange markets.

This asymmetrical arrangement has grown up very largely because of the convenience to monetary authorities of being able to control the exchange value of their respec-

tive currencies through intervening in a single currency, which has an extremely broad and stable market, and which could conveniently serve as a reserve asset.

Nevertheless, the arrangement is not without its drawbacks from the standpoint of the international monetary system. Its main disadvantages are two:

(1) Under this arrangement the United States lacks, to a considerable extent, the degree of control over its exchange rate which is available to other countries and which the United States needs no less than they. This applies both to the size and utilization of the permitted margin of exchange rate variation in relation to parity as a means of dealing with destabilizing capital flows and to the possibility of small par value changes; it also applies to the possibility, in a situation of extreme pressure, of effective recourse to a floating rate. It is noteworthy that not only is the maximum margin of the U.S. dollar vis-à-vis each of the currencies that are pegged to it limited to half that of these currencies vis-à-vis one another, but also that the decision to what extent this margin will be used lies entirely with other countries.

(2) Intervention arrangements involving reserve currencies would tend to induce the abandonment of asset settlement when reserve centers were in difficulties whereas, in principle, at least, alternative intervention arrangements would automatically preclude any lapse into liability financing.

These factors have led some to consider proposals for the introduction of more symmetrical intervention arrangements whereby certain countries, including the United States, whose currencies were dealt with on a substantial scale in world markets, would undertake to maintain prescribed margins among their currencies by standing ready to buy or sell any of the other participating currencies at the margin.[8] Settlements could be made frequently in primary reserve assets or in currencies other than those of the bilateral debtor or creditor. If any country, even the United States, failed to continue settlement under the terms of the arrangement established, a decision on the part of other countries not to deal in the currency of that country on the market would not itself affect their exchange rates with one another. The fact that cross rates could be maintained among currencies in respect of which the settlement arrangement continued to be observed would thus facilitate the adoption of such a decision.

Multicurrency intervention systems raise a number of technical and policy problems relating to such matters as consistent rules for intervention within the margins, settlement arrangements as between participating and nonparticipating countries, valuation of assets used in settlement, etc. Recent limited experience with such arrangements among present and prospective members of the European Economic Community has indicated some of the problems which can be encountered, but has not been sufficient as yet to provide a clear guide to solutions. Only after all the issues arising have been more fully explored will it be possible to form a judgment whether, to what extent and in what way, the practice of multicurrency intervention might be incorporated into the international monetary system.

CHAPTER IV

The Roles of Various Assets in Reserves

The present chapter is concerned with the respective roles that would be played by individual reserve assets—notably reserve currencies, gold, and SDRs—in a reformed international monetary system. As a preliminary, the matter of global reserve creation in

[8] In principle, intervention could be undertaken directly in SDRs, but this would require the extension of SDR holdings into private hands.

such a system needs to be set in perspective. If the conditions for assumption of asset settlement obligations by reserve centers were met and, in particular, if the working of the adjustment mechanism improved sufficiently to ensure consistent observance of any asset settlement arrangement that might be adopted, situations of undue reserve ease as a result of excessive accumulation of reserve currencies would thereafter be avoided. The extent to which further increases in reserve currency holdings would take place would then depend on the need for increased working balances and on the particular asset settlement arrangement chosen. In general, the tighter the obligations of any asset settlement system, the greater would be the degree of dependence of the system on collective methods of reserve creation. It would thus be a major function of a reformed system to determine and provide for needed increases in reserves through the SDR mechanism.

1. The role of reserve currencies

If, as a result of the adoption of an asset settlement system, the growth of global reserves were in the form of SDRs rather than reserve currencies, the relative role of currencies would as a result decline over time. Moreover, the absolute amount of reserve currency holdings would fall insofar as such holdings were replaced by SDRs (under arrangements to be discussed below) or used to finance the combined deficits of other countries vis-à-vis reserve centers. The phasing and extent of the diminution in the role of reserve currencies would also be affected by any special arrangements instituted during a period of transition. For example, if countries were to make reserve loans of their currencies to the United States, this might involve a temporary expansion of the use of these currencies in reserves.

The special arrangements with respect to reserve currencies could take various forms but would as a minimum consist of a facility that would enable a reserve center to acquire assets when in surplus. To this end this facility would have to be empowered to create and sell reserve assets to a reserve center in exchange for its own currency for that part of its surplus that had led to a diminution of holdings of its currency in the reserves of other members. The necessary qualities of the reserve asset that would be needed for this purpose would be effectively the same as those of the SDR and it would thus appear natural to use SDRs. However, one possibility for a transitional period—before any SDR-based substitution facility could be introduced—would be to create a new reserve asset under a facility that would be based on informal arrangements among members that chose to participate.

The substitution of newly created SDRs for reserve currency holdings—whether on a limited or on a wider scale—would require the establishment of a supplementary facility in the Fund. Without prejudice to the question of the way in which such an account would be established, the term "substitution account" will be used in what follows to indicate the sets of transactions in which the Fund might engage under such a facility.

In addition to the minimum need for a substitution facility to enable reserve centers to earn assets when in surplus, countries collectively might desire to reduce their balances of reserve currencies faster than would be required to finance any combined deficits that they might have vis-à-vis reserve centers. This would require greater recourse to a substitution facility. A desire for such reserve currency substitution could result, for example, from the spread of multicurrency intervention arrangements; these might involve a reduction in the use of existing reserve currencies in settlements between third countries, and, if reserve centers were to participate, would reduce or eliminate such use in settlements with the reserve centers themselves. This would reduce the demand for reserve currencies, and increase the demand for primary assets, in the reserves of other members. The extention of substitution and the concomitant reduction of reserve currencies in countries' reserves would strengthen any asset settlement arrangement and ensure that reserves

would increasingly be insulated from the effects of any changes in the par values of reserve centers.

The substitution of SDRs for official holdings of reserve currencies could take place in a number of ways. For example, reserve centers could be entitled to sell to the substitution account, for SDRs, an amount of their currency equivalent to any decline in the volume of their official liabilities, and on this basis could undertake to convert into primary reserve assets any balances of their currencies presented to them by official holders. It would also be possible to entitle holding countries to sell reserve currencies to the substitution account in exchange for SDRs newly created for this purpose.

The operations of this account could also be adapted to meet the opposite desire on the part of holding countries, namely to *acquire* reserve currencies from the substitution account, within the limits of its holdings, in exchange for SDRs. It might be convenient from a number of points of view for the account to be able to operate in both directions, i.e., buying as well as selling SDRs in exchange for currencies. It could, to a large extent, take the place of the designation mechanism as a means by which participants could acquire currencies against SDRs and it might also provide a means for effecting agreed increases in currency holdings. If it were, however, agreed that reserves in the form of SDRs should, over time, increasingly be substituted for reserves held in the form of currencies, two-way operation of the account would require safeguards—such as the requirement of need—in respect of the purchase of currencies from the account to ensure that possibilities for undesirable switching between SDRs and currencies were avoided.

A major portion of existing official holdings of reserve currencies could be replaced if the principal trading countries agreed on a concerted program of substitution of a substantial part of their currency holdings into SDRs. Reserve substitution beyond this stage might be more difficult to achieve, particularly in the case of smaller countries that had traditionally held their reserves in the form of currency and maintained their parities in terms of their reserve currency. Replacement of reserve currencies by SDRs would tend to be larger if the attractiveness of the SDR as a reserve asset were enhanced along the lines suggested in Section 3 below.

The creation in the Fund of a substitution facility along the lines described above would require provision for the maintenance of value of currencies acquired by the account against newly issued SDRs and would involve, inter alia, the specification of the servicing obligations of reserve centers. These obligations would include the payment of interest at a rate appropriately related both to the market interest rate on the type of currency obligations that had been replaced and the (possibly modified) rate on SDRs (see Section 3 below). One view is that suitable provision for amortization would be a further essential element in the arrangement, partly to avoid what might otherwise be regarded as concessionary treatment of reserve centers. However, from a purely economic standpoint, the servicing of a perpetual obligation—with no separate provision for amortization payments—need not be concessional unless the interest rate is concessional. Moreover, the obligation of making amortization payments might be such as to require reserve centers to earn external surpluses larger than other countries would want to accommodate. Any amortization arrangements might, in addition, be complicated by two-way operation of the substitution account, which could involve frequent purchases as well as sales of reserve currencies against SDRs.

The institution of any facility for the replacement of currency reserves along the lines described above would involve moving toward a wider concept of the SDR, which some countries might not favor as a matter of principle, and which might not be without its difficulties. One difficulty is that such a facility might be represented by some as unduly benefiting the reserve centers, whereas the contrary view might also be taken that it would unduly benefit other members. Other difficulties—which might differ substantially

depending on the method of asset settlement selected—relate largely to the strain that a sizable expansion of SDRs might put on the arrangements for transfer and acceptance of SDRs. In this connection, it has to be borne in mind that any replacement of currency holdings by SDRs created for the purpose could require the assumption of additional acceptance obligations. The distribution of these additional obligations would cause problems if, as a result of the increased holding of SDRs in members' reserves, the SDR became a less-favored asset.

A related, though different, question for consideration is the possibility of replacing some part of the reserves that are regarded by individual members as excessive by illiquid long-term claims on reserve centers, in particular the United States. It is, however, questionable whether there are many countries in a position to invest a substantial part of their present reserves by funding them into illiqud form. Moreover, even if a funding operation could be negotiated, it is unlikely that it would be sufficient to ensure that the United States would earn reserves to the full amount of any surplus.

2. The role of gold

Gold performs two main functions in the present system. *First,* it is the unit of account or standard in terms of which par values are expressed, the value of the SDR is defined, and the value of the Fund's assets is maintained.[9] In examining the role that the SDR could play in the future system, it will be necessary to consider whether the SDR, rather than gold, should be made the standard of par values. In the Articles, the value of a special drawing right is stated to be 0.888 671 gram of fine gold, with intentionally no provision for a change in the equivalence. As a result, par values are *de facto* as firmly linked to SDRs as they are to gold and any change in the value of gold in terms of currencies involves automatically a corresponding change in the value of the SDR in terms of currencies. Thus, a change in the Articles which made the SDR the standard of par values—and which consequently defined the value of gold in terms of SDRs rather than that of SDRs in terms of gold—would derive importance only from its presentational effects, unless it were accompanied by some loosening in the link between the two. The desirability of such a loosening may, however, be questioned since it might add a new dimension of uncertainty to the relative values of different reserve assets.

Second, and more important, gold is a major reserve asset, constituting nearly a third of international reserves at the end of 1971. Views differ on the future role of gold in this capacity. Some consider that, while gold might well continue as a major though declining part of reserves for some time to come, this would not preclude a movement of gold from official holdings into nonmonetary use, and some would welcome such a development. Those holding these views would rule out action that would increase the share of gold in reserves through an increase in the official price of gold in terms of currencies in general.[10] They consider that recent developments of the private gold price have been importantly influenced by market uncertainty regarding the official price and

[9] For the purpose of some of the calculations connected with Fund operations and the maintenance of the value of the Fund's assets, the market values of currencies in terms of gold (and of SDRs) are normally determined by taking the value of the U.S. dollar to be its par value, and that of other currencies to be calculated from their market value in U.S. dollars. If it were so desired it would be possible for these calculations to be undertaken on a different basis, with the place of the U.S. dollar taken, for example, by an appropriate combination of currencies.

[10] The authority to change the official price of gold, which is referred to in the Articles [that is, prior to the Second Amendment] as the power to make uniform proportionate changes in the par values of the currencies of all members, is a reserved power of the Board of Governors and its exercise requires a majority of 85 per cent of the total voting power of members (Article IV, Section 7; Article XII, Section 2(*b*)(iii)).

some believe that a commodity for which private demand is relatively large and highly speculative has a disadvantage for use as a major reserve asset.

Others wish to keep a central role for gold in the international monetary system. They base their conviction on the tradition, universal use, limited production, and physical characteristics of gold. They also maintain that gold is the only international asset held by monetary authorities that is not a liability of another monetary institution and that, in addition, it is the only instrument of reserves that is subject to complete national control.

In recent months, the private market price of gold has far exceeded its monetary price. Such a wide discrepancy makes countries hesitant to use gold in official settlements and might also give countries an incentive—in circumstances where they needed to use gold to meet a payments deficit—to sell the gold on the private market rather than at the official price. It might, moreover, make countries unwilling to use their SDRs and reserve positions in the Fund and hesitant to use their credit tranches. Some see no inherent harm for the international monetary system in any tendency for gold to become the residual element in official reserves, or even for gold to be eliminated from reserves, as long as the system functions adequately in other respects.

Some partial offset to these tendencies could be brought about if countries participating in settlement arrangements were to use the various reserve assets, including gold, in an agreed manner, thus countering the natural tendency for debtors to settle in the least preferred assets. It has also been suggested that the Fund might institute an arrangement under which members would be entitled to swap gold with the Fund against SDRs. Such an arrangement—which would require amendment of the Articles—would enable a member that used SDRs acquired in this way to reacquire the gold when it earned back SDRs later.

The tendencies mentioned earlier are, however, likely to continue unless the gap between the official and the private price of gold is reduced. According to some, any difficulties arising from what they consider to be the present undervaluation of monetary gold would be resolved by increasing the official price of gold. While an increase in reserves would result as a by-product of such action, those holding this view consider that any inflationary dangers or distributional inequities created by the adjustment in the value of gold reserves could be overcome. They, as well as some others who do not share the preceeding views, are convinced that it is unrealistic to believe that an enduring reduction in the present price discrepancy could be effected by means of sales in the private market as suggested below.

Any approach involving an increase in the official price of gold is, however, strongly opposed by all those who argue that it would undo the progress made so far toward a rational monetary system, undermine the SDR facility, and be highly inequitable among members. They do not believe that the potentially serious inflationary and distributional consequences of such an increase could effectively be overcome. Moreover, they believe that any such price increase would tend to stimulate expectations of further changes. They consider that clear action in the context of the reform which precludes an increase in the official price would eliminate such expectations and narrow the existing differential between the official and the private market price. To the extent it was considered desirable to reduce the spread between the two prices, the action required would in their view consist of measures to bring down the price in the private market, which would call for the sale of monetary gold into that market, perhaps in substantial amounts. While this could be done by the major gold-holding countries individually or collectively for their own account, it might be desirable for such sales to be organized through the Fund, acting as an agent for all members wishing to participate. Alternatively, the Fund might on

its own account sell either gold from the General Account or gold acquired in exchange for newly issued SDRs through a reserve substitution facility: these two last-mentioned arrangements would require an amendment to the Articles of Agreement.

A possibility (though perhaps remote) is that member countries would come to prefer to hold SDRs rather than gold as a monetary reserve. In these circumstances, the Fund might find practical difficulties in using gold in replenishment, and its liquidity could thus be impaired. This would be remedied if a substitution facility—as discussed in Section 1 of this chapter—were also enabled to issue SDRs in exchange for gold held in the General Account.

3. The role of SDRs

If an asset settlement arrangement were introduced for all members, the SDR would—as indicated—be established as the principal means of reserve creation. In addition, asset settlement would involve the substitution of SDRs for reserve currencies at a pace determined by the timing and scale of reserve center surpluses and any substitution arrangements that might be adopted. The required characteristics of an asset that served as the main reserve instrument are likely to be different from those of an asset that constituted only a marginal supplement to other reserve assets. For these and other reasons it would be necessary to reconsider certain features of the SDR system in the context of reform, in particular those bearing on the use and acceptance of the SDR and on its relative attractiveness as a reserve asset. These features are discussed in the remainder of this chapter. In addition it might be desirable to broaden the provisions in the Articles to include a wider group of official holders of SDRs. It should be noted further that the provisions on designation and reconstitution will in any event be reviewed in accordance with the Articles before the end of this year, and that certain other provisions may deserve reconsideration in the light of experience.

a. Use and acceptance of SDRs

Any arrangements adopted with respect to the asset settlement of payments imbalances are likely to require certain mandatory transfers of SDRs to which the operating provisions of the SDR system would have to be adapted. Under the first two approaches to asset settlement (as described in Section 4 of Chapter III) mandatory transfers would involve both reserve centers and holders of reserve currencies whereas, under the third approach, such transfers would take place between reserve centers and the Fund.

Other consequences would follow from certain of the arrangements discussed above and from any major increase in the proportion of reserves held in the form of SDRs:

(1) The acceptance obligation constitutes a basic safeguard of the usability of the SDR. Under the present Articles, this obligation is subject to a limit which is linked directly to a participant's net cumulative allocation.[11] If provisions were adopted under which SDRs could be created other than by allocation to participants, the method by which the magnitude of acceptance obligations is determined would need to be modified. This problem might be dealt with in any one of three ways:

(i) The ratio of acceptance obligations to net cumulative allocations could be increased to accommodate nonallocated SDRs.

[11] Each participant is required to accept SDRs from another participant if designated by the Fund and if the acceptance of these SDRs would not increase its total holdings above 300 per cent of its net cumulative allocation.

(ii) The required total of acceptance obligations could be distributed among participants on the basis of some criterion other than their net cumulative allocations (for example by reference to current quotas).

(iii) The limit on acceptance obligations could be abolished. In the event that the SDR had become established as the major reserve asset and its general acceptance was assured by its use as the principal medium for official settlement, acceptance limits could become unnecessary and exclusive reliance could be placed on the designation mechanism to distribute SDRs used among participants in whatever manner might be decided.

(2) If a substitution facility were introduced under which members would be able to exchange their holdings of reserve currencies into SDRs, the main reason for limiting the scope of transactions among participants without designation and without requirement of need would be removed.[12] It would then be possible to allow much greater freedom for such transactions between willing participants and to reduce correspondingly reliance on the designation mechanism. But, however far the system might develop toward voluntary transfers, it would always be necessary to provide for designation in cases where a participant was unwilling or unable to rely on these methods of use of SDRs, and for such guided transactions it would be logical to continue to apply a requirement of need.

(3) A substantial rise in the volume of SDRs, together with the possible decline in the volume of reserve currencies and (as indicated in Section 2 -The role of gold) of gold in members' reserves, might make it appropriate to extend the range of transactions and operations in which the General Account of the Fund can accept and use SDRs in lieu of currency and in lieu of gold. This in turn might be the occasion for a broader review of the provisions of the Articles relating to the operations and transactions of both the General Account and the Special Drawing Account.

(4) There would also be room for a broadening of the categories of transactions and operations in SDRs—for example, to accommodate grants, loans, or pledges of SDRs.

b. The attractiveness of the SDR as a reserve asset

The acceptability of SDRs will be determined not only by their usability but also by other aspects of their attractiveness as reserve assets, in particular the interest rate they carry together with their expected future value in terms of other assets. In the less than three years since SDRs were first allocated, many participants have used them without encountering technical difficulties. Nevertheless, a broadened and freer use, along lines indicated in the preceding subsection, would no doubt enhance the usability of the SDR as a reserve asset. It is not suggested at this stage that the holding of SDRs should move beyond the official circle: private holdings of and private transactions in SDRs are, however, seen as a possible development for the more distant future.

It should be noted that if the exchange rate mechanism in future were such as to lead to an approximate balance between revaluations and devaluations, the value of SDRs would move roughly in line with that of other currencies in general. Insofar as devaluations on balance exceeded revaluations, the value of the SDR would appreciate in terms of currencies, though if this result were desired, there would be other means of achieving it. One approach would be to make uniform proportionate changes in the par values of all currencies from time to time under the provisions for such changes in the Articles. This would make it possible, for example, to keep the value of the SDR in line with that

[12] Abrogation of the reconstitution obligation - which does not require amendment of the Articles and would therefore not have to await other action on reform - would remove a further reason for the maintenance of a certain volume of transactions subject to designation.

of the strongest major currency. Unless some such approach to the value of the SDR were introduced, or unless agreed provisions were instituted to limit foreign currency holdings, it seems clear that to encourage holdings of SDRs on a scale substantially above that at present might require an increase in the rate of interest on SDRs to a rate close to that on average reserve currency holdings. Some have, however, observed that this problem would be reduced if countries became less influenced by interest rate and valuation aspects in their reserve management. The question of the flexibility of the interest rate on SDRs would also assume considerable importance.

Although the similarity of creditor positions in the General Account of the Fund and SDRs should not be overemphasized, large differences between interest rates payable on them could give rise to certain difficulties; thus, the remuneration paid on net creditor positions (and perhaps also the charges payable on debtor positions) might have to rise to some extent along with that on SDRs. Under the present provisions the interest charged on net use of SDRs exactly equals the interest credited on amounts held in excess of allocations. If it were desired to levy interest charges on net use of SDRs, or on part of net use, at a lower rate than that credited on excess holdings, the resulting net creation of SDRs could either be offset by assessment on all participants (e.g., in proportion to their net cumulative allocations), or, if the amounts were significant, taken into account in the decisions on future SDR allocations. The problems and consequences for the system involved in such an approach would require careful study.

CHAPTER V

The Problem of Disequilibrating Capital Movements

The alarming growth, in recent years, in the frequency and magnitude of payments imbalances has largely though not exclusively reflected a growth in the scale of temporary and reversible capital flows, which have more and more played a disequilibrating rather than an equilibrating role in balances of payments. Most of the short-term variability in capital flows has occurred with respect to short-dated banking or commercial claims, partly "leads and lags" in payments for current transactions. Some of the instability, however, has occurred in respect of medium-term loans and portfolio assets. The problems raised by this growing instability in capital flows, while very severe, should not, however, be allowed to impede a recognition of the beneficial effects of the general expansion of international investment both on the growth of international trade and on the economic well-being of developed and developing countries.

1. Causes and consequences of the growth of disequilibrating capital flows

Three main factors underlie the recent growth and volatility of capital flows. *First*, the growing integration of the international economy since the establishment of external convertibility for major currencies in 1958 has led to a massive growth in the volume of mobile funds, and has enhanced the propensity of capital to move from country to country and from currency to currency in response to incentives of various kinds. The development of banking in foreign currencies (Euro-currency markets) has played an important part in fostering the mobility of short-term funds. *Second*, the inducements to interest arbitrage have increased as differences in the cyclical phasing of economic activity and the widespread use of monetary policies in demand management have involved the emergence, and sometimes persistence, of relatively wide interest rate disparities among financial centers. *Third*, the emergence of basic disequilibria in the 1960s and early 1970s, and the resulting exchange rate adjustments, especially since they were sometimes unduly delayed, have awakened an increased sensitivity to the possibility of further changes. The incentive to vary currency positions for precautionary and speculative mo-

tives has thus increased, and action in the expectation of exchange rate changes has come to be regarded as a more or less normal aspect of the efficient husbandry of liquid funds by banks and other business enterprises which operate internationally. The interest-sensitive, hedging, or speculative transactions to which these factors may lead can now be so large as almost to overwhelm the ability of national authorities to finance or curb them.

However, some aspects of capital mobility involve substantial benefits even in the case of short-term funds, and in practice it is often extremely difficult to distinguish desirable from less desirable types of capital flow. The Euro-currency and related Euro-bond markets provide efficient intermediation in channeling funds to investment projects, including some in developing countries, which might otherwise be frustrated by the inadequacy of domestic sources of financing; arbitrage-induced flows sometimes exert an equilibrating influence on payments imbalances; and even disequilibrating flows have served at times to prompt decisions on new policy measures, including par value changes, in circumstances in which the need for policy changes has been inadequately appreciated or such changes have been unduly delayed.

But large capital movements have aggravated very considerably the difficulties of domestic economic management, and the pressure which they put on par values has not always been salutary. Countries whose monetary policies have been geared primarily to the achievement of their domestic economic objectives have found that arbitrage-induced flows tend to undermine these policies and call for more extensive offsetting movements in domestic credit than can be achieved in all cases. Moreover, especially where such arbitrage movements magnify rather than compensate reserve changes attributable to basic payments imbalances, underlying doubts and uncertainties on exchange rates may be inflamed. The danger is then that the cumulation of speculation on top of arbitrage-induced flows may involve such pressure on a country's reserves as to precipitate exchange adjustment which might not be justified by reference to underlying economic conditions. Even when there is a question as to the existence of a basic disequilibrium, it is clearly undesirable that the impact of speculative flows should be such as to deprive the authorities of all discretion as to the timing and magnitude of the required adjustment.

2. Means of offsetting and accommodating short-term flows

Countries differ in their ability to offset the domestic monetary effects of short-term flows where these run counter to the objectives of the authorities. Open market operations and changes in reserve requirements are the most powerful instruments, but variations in the amounts and terms of central bank rediscounting and other lending facilities may also be effective, and quantitative credit ceilings may be used. Such offsetting is, however, constrained by technical, institutional, and political factors. The difficulties may be particularly great from a technical standpoint in the case of payments surpluses and in the case of countries where short-term capital flows are large relative to the stock of domestic assets. Moreover, the fuller development and use of monetary techniques to offset short-term flows will diminish the natural self-correcting tendency of such flows and can thus prolong them. Nevertheless, offsetting measures have generally enabled countries to stay closer to their monetary and domestic demand targets than would otherwise have been possible. It is to be expected that countries will wish to continue to develop and use such techniques—which may also prove useful in dealing with purely domestic problems of stabilization.

Whatever its merits in protecting the domestic economy, monetary offsetting will do nothing to moderate the massive reserve movements that are associated with the payments imbalances provoked by disruptive capital flows. Even countries that possess reserves sufficient to finance swings in the basic balance of payments (as well as cyclical ar-

bitrage flows of short-term capital) seldom have reserves in the amounts that might at times be required to meet sustained speculative capital outflows. Reserves sufficient to buffer all disruptive flows might be well in excess of normal reserve needs, and might thus in the aggregate tend, in periods relatively free from speculative disturbances, to exercise directly or indirectly an unduly inflationary influence. It is therefore necessary to review the adequacy and suitability of existing short-term credit arrangements whereby countries can limit the effects on their reserves.

Insofar as disequilibrating flows have taken place between the United States and other countries they have, in the main, been financed through the accumulation or reduction of U.S. dollar holdings by other countries through exchange market intervention. Some of these holdings have, on occasion, been provided with an exchange guarantee through swaps and other arrangements. In the case of disequilibria arising among other countries the financing, other than that provided by reserve use, has taken the form of activation of short-term swap arrangements and drawings from the Fund. These methods have in the past decade helped substantially to reduce the drain on the reserves of deficit countries, but most of them are not without drawbacks. In the first place they do not have a corresponding impact on the reserve influx, or the resulting problems, of the surplus countries to which the capital is being attracted. Moreover, since the creditor claims associated with such methods of financing usually take the form of reserve assets, their use has unplanned and possibly disturbing effects on the level of world reserves. Another aspect of these arrangements (with the exception of credit tranche drawings on the Fund) is that they necessarily involve the provision of resources, at least initially, without conditions as to the policies of borrowing countries. Finally, whatever the merits of these arrangements for meeting situations of genuinely temporary and reversible short-term capital flows, there is the danger that they may be used inappropriately to stave off the needed correction of a more basic disequilibrium.

The question arises whether such facilities should be supplemented and could advantageously be brought under more deliberate and coordinated multilateral surveillance or control. The main objectives would be (*a*) to ensure that adequate facilities for the financing of occasional exceptional flows would be promptly available in the case of need on appropriate terms as to interest and period of repayment, (*b*) to minimize the risk that such temporary finance would be used to accommodate a basic deficit, and (*c*) to assist members in the choice of measures to abate further flows. The safeguards that would be necessary under a multilateral facility should not, however, be such as to impair unduly the willingness of deficit countries to use the facility.

3. Measures to influence capital flows

There is a wide range of possible measures available to countries to influence capital flows, and each country that uses them is likely to adopt a combination of techniques depending on its special preferences, situation, and capabilities.

a. Wider margins

The present temporary wider margins potentially provide a means of countering disruptive short-term flows; the issues involved are discussed in Section 5 of Chapter II.

b. Harmonization of interest rate policies

To the extent that countries were able to make fiscal techniques more flexible and hence more serviceable as instruments of demand management, they would be better placed to harmonize their monetary policies more closely than in the past and to reduce incentives to arbitrage arising in particular from divergent short-term interest rates. The

question arises whether more deliberate and more continuous coordination of monetary and interest rate policies could usefully be undertaken with a view to limiting disequilibrating short-term arbitrage flows. It is desirable to persevere with efforts at such harmonization as far as is practicable without sacrifice of domestic objectives. Most countries may, however, find it impracticable to rely predominantly on fiscal policies for the achievement of domestic objectives and to employ monetary policy primarily for external objectives. They may therefore be unable to make more than limited use of monetary policy as a means of influencing short-term flows.

In countries where forward exchange markets exist and their facilities are widely used, changes in the forward premium or discount of a currency achieved by official intervention in the forward market may be a useful supplement (and sometimes alternative) to interest rate policies in discouraging short-term flows or in encouraging desired movements of the interest-arbitrage type. Its use to counter speculative movements, though not excluded, may in some circumstances encourage further private speculation and will be expensive in cases where the original exchange relationships cannot be maintained.

c. Administrative control of capital movements

A wide range of possible techniques is available for administrative control of capital movements. Measures regulating the net or gross foreign positions of banks, or the interest payable on, or reserve requirements applicable to, their liabilities to nonresidents in domestic currency are relatively easy to administer, though frequently unwelcome to the business and financial communities. These measures are, however, narrow in scope and may lead to bypassing of banks by direct borrowing or lending abroad by the nonbanking sector. Comprehensive capital restrictions can in some cases be more effective, and can be used in a selective way, but require a considerable apparatus of administration and supervision. Even the most comprehensive controls, however, are subject to evasion and may be relatively ineffective against the operation of "leads and lags" in the payments and receipts associated with permitted transactions.

Capital controls have been clearly effective in some countries, at least in the short term, but experience is not sufficiently uniform to warrant the conclusion that countries that do not have comprehensive controls would be well advised to institute them. Moreover, some countries have strong reservations based both on principle and on practical considerations as to the desirability of controls. Countries which do not have available an apparatus of control might however consider developing, on a contingency basis, a set of relatively simple and flexible instruments that could be activated promptly to obstruct at least the more important channels for disequilibrating short-term flows. It has been suggested that foreign currency banking, which in most countries is not subject to extensive regulation, should be subjected to some form of coordinated control. The object would be to limit the extent to which disturbing short-term flows could be financed through these markets. The potential advantages and disadvantages involved in possible methods of regulating foreign currency banking would require considerable further study.

d. Separate markets for capital transactions

A dual exchange market in which there is a separate floating exchange rate for capital transactions may provide an efficient means of buffering capital flows since it takes advantage of the price mechanism and encourages flows in one direction and discourages them in the other. While a dual market requires a framework of exchange controls, this framework is simpler than that required for the purpose of administrative or quantitative restrictions. On the other hand, a separate financial market shares, albeit in lesser degree, some of the defects of quantitative capital restrictions, particularly as regards the possi-

bilities created for evasion. Moreover, the effectiveness of a separate market may be reduced or offset if the authorities intervene frequently to prevent a substantial divergence between the rates for capital and for current transactions, or if the emergence of a large spread induces evasion of the controls.

e. The switching of currencies held in official reserves

Although transfers of officially held reserves from one currency to another have been less volatile and on a smaller scale than transfers of privately held balances, such official transfers and, to some extent also, transfers of currency balances between the country of issue and Euro-markets, have some of the same effects as private capital flows. In particular, they expand or contract the reserves of the countries whose currencies are held, and possibly also affect global reserves. Such transfers, if carried very far, could exacerbate and extend to new reserve centers the problems associated with existing reserve currencies. They might also tend indirectly to impair the attractiveness of the SDR as a reserve asset. The possible arrangements which are discussed in Chapter IV for the substitution of SDRs for reserve currencies would diminish the potential scale of the problem, and several of the possible techniques for asset financing which are examined in Chapter III would automatically limit transfers of officially held balances. In any event, it would be desirable to persevere through international cooperation with efforts to check as far as possible the emergence of new reserve currencies, and to limit the holding of official balances in the Euro-currency markets. Another view is, however, that countries should retain the maximum possible degree of freedom in determining the composition of their reserves.

4. External financing versus measures to influence capital flows

Conflicting views are held on the relative roles of measures to finance, and measures to influence, disruptive capital flows. On the one hand, although possibilities for domestic offsetting and special facilities for financing cushion the impact of such flows, both may involve problems which some countries will wish to avoid insofar as the flows can be headed off directly. Some countries in deficit positions will seek to restrict short-term outflows to the maximum extent possible in order to avoid indebtedness and the interference with national policy that borrowing may entail. Again, some surplus countries may prefer to use controls, or to urge their use by others, rather than to have to cope with the difficulties of monetary offsetting. On the other hand, satisfactory provision for the official financing of disruptive flows, particularly if arranged on a broad multilateral basis, may itself improve confidence and diminish speculative pressure. Moreover, it may be more appropriate for temporary flows to be accommodated by temporary official credits rather than by controls, which may disturb international commercial transactions and may tend to become built into the system.

As mentioned earlier, countries differ substantially in their attitudes toward capital movements, in the difficulties that such movements could pose for the conduct of their domestic policies and in their willingness and ability to control such movements and to use other means to shield their economies from them. Accordingly, different countries are likely to respond differently to the problem of short-term flows. It will, however, be necessary in the context of reform to establish some *modus vivendi* on the respective roles of measures to influence such flows and to finance them. *First*, decisions will be needed on the future role of swap facilities, on the extent if any to which they should be subject to international surveillance, and on the possible establishment of a Fund facility that could take their place or supplement them and that would be available to all members on a nondiscriminatory basis. If there were agreement on such a facility in principle, a number of aspects would require consideration, such as the size of any such facility, the circum-

stances in which it could be drawn upon, the provisions with respect to interest rates and repayment, the financing arrangements, and the impact which its operations would have on the stock of reserves. *Second*, it would be useful to clarify attitudes on the extent to which short-term flows should be controlled and on the appropriate means of influencing them. In this connection, it should be considered whether the powers of the Fund in this area should be extended in order to achieve improved coordination.

CHAPTER VI

International Monetary Reform and the Developing Countries

1. The developing countries and the international monetary system

Two aspects of the framework within which, as mentioned in Chapter I, the reform has to be viewed are of particular relevance to the developing countries: "the development of the productive resources of all members" and "the expansion and balanced growth of international trade." The rate of growth in the developing countries is still not sufficient to narrow the gap between them and the industrial countries, and their share in world trade has declined while that of the developed countries has risen. While these unsatisfactory circumstances have been partly attributable to basic economic and other factors in these countries, they have been compounded by difficulties of access to markets and an inadequate flow of capital to developing areas. The Fund should continue to take all steps open to it, within the purview of its objectives, to seek to improve this situation. Reform of the international monetary system provides an opportunity to make further progress in this direction; a sound international monetary system should play its part in the development of the resources of its members. Measures directly addressed to the needs of the developing countries that should be considered in the context of the reform are discussed in Section 2 of this chapter.

Financial and economic developments in the second half of 1971 illustrate the proposition that all countries are affected when the international monetary system ceases to function smoothly. The events that followed the actions taken by the United States on August 15, 1971 affected the developing countries in a number of ways. Some of them were affected directly by the 10 per cent surcharge on dutiable imports into the United States. For all of them, the relative fluctuation in the exchange rates for major currencies posed new problems and uncertainties with respect to their own exchange rate and reserve management policies, the prospects for their terms of trade, and even their development plans. Moreover, the uncertainties in the world economy which followed from the monetary upheaval appear to have reinforced the effects of the slow pace of growth of several industrial economies in depressing the prices of primary products in the last few months of 1971.

Some of these difficulties have now been overcome, and the renewed expansion in the U.S. economy and in other developed countries has improved the export prospects of the developing countries in general. But the experience underlines the major interest of the developing countries in a sustained economic expansion in the industrial countries and in the effective functioning of the system. The developing countries would have much to gain from a steadier growth of the economies of the industrial countries. The particular policies employed by the industrial countries are also relevant in this respect. In recent years the developing countries have been unfavorably affected by the higher cost of credit in international financial markets, attributable to some extent to the considerable emphasis by industrial countries on monetary policy in programs of financial restraint. Furthermore, there has been a sluggishness in the overall flow of official capital and aid, related in part to preoccupations in many industrial countries with problems of

inflation, budgetary pressures, and balance of payments difficulties, as well as to noneconomic factors. One result of this may have been a tendency for developing countries to resort to shorter-term debt on relatively expensive terms. These adverse developments have been accompanied by a certain slackening of progress in other directions. Negotiations for the untying of aid have fallen into the background and the plan for preferential treatment of the exports of developing countries has been accomplished only in part. Moreover, progress in the negotiation of international commodity agreements continues to be slow, and restraints on imports from developing countries continue seriously to impede their trade prospects.

The vital interest of developing countries in the functioning of the international monetary system requires the substantive participation of their representatives in the international formulation and negotiation of proposals to reform it and of any associated proposals relating to international trade. This interest has found an expression in the support on the part of the developing countries for the establishment of the Committee of the Board of Governors, which is to concern itself with reform. It is also reflected in the creation of the "Group of 24" and in the considerable attention devoted to monetary matters by the Third United Nations Conference on Trade and Development.

A number of aspects of the world's trading and monetary system are of particular importance to the developing countries. These include freer access for their products to the markets of the developed countries on more satisfactory terms, a steady and enlarged flow of official foreign aid, and adequate access to capital markets accompanied by measures on the part of both developed and developing countries to encourage, rather than limit, the flow of private development capital in various forms and on mutually beneficial terms.

The developed countries for their part have a direct interest in the economic expansion in the developing world. The rise in incomes and purchasing power generated by such expansion provides opportunities for an increased and mutually advantageous expansion of trading and investment relationships between the two groups of countries. If, through appropriate policies, such expanding relationships could help to maintain high levels of trade and economic activity, this should also assist the adjustment process and contribute to the stability of the international monetary system itself.

With respect to international monetary arrangements in general, the developing countries have for the most part expressed a strong preference for the par value system, with narrow rather than wider margins.[13] Although recognizing the disadvantages to them of delays in needed par value adjustments in developed countries, and the risk of exchange crises in a system that lacked sufficient flexibility, developing countries have laid particular stress on the difficulties that could be caused to their own economies by fluctuations in exchange rates for major trading currencies. As regards their own exchange rate policies, many of the developing countries have attached high priority to the maintenance of a par value for their currency. Others, less able to control domestic inflation, at least in the short run, have made frequent downward adjustments in the external value of their currencies to avoid as far as possible the internal and external distorting effects of rapid inflation.

The developing countries have tended to hold their reserves predominantly in foreign exchange rather than in gold, considering the interest income on the currency balances held as an important offset to the opportunity cost involved in holding reserves. A decision in the framework of any future reformed system to raise the interest rate on SDRs—

[13] The effects of wider margins on developing countries and other primary producing countries were referred to in Section 5 of Chapter II and discussed in considerable detail in the 1970 Report on the Role of Exchange Rates (cited in footnote 2, p. 26 above), pp. 60-63. [Pp. 318-21.]

as a means of encouraging increased holdings of SDRs—would have special implications for the developing countries. These countries have, on balance, been substantial net users of the SDRs allocated to them and may be in a similar position in future: thus a rise in interest rates on SDRs would increase the interest costs that these countries bear. This consideration lends further importance to any measures that could be taken in the context of reform that would be directly addressed to the needs of the developing countries.

2. The international monetary system and the supply of financial resources to developing countries

One major aspect in which the needs of the developing countries taken as a group are being inadequately met is in the provisions of development finance. This is a matter of widespread and growing concern because this constraint on their economic growth inhibits balanced growth in the world economy as a whole. The question has been posed as to whether the total supply of development resources, from national and international, official and private sources could be supplemented by the provision of financial resources for development through the international monetary system, and whether such action would be compatible with the effective functioning of the system.

That question has been posed for some years now as that of a "link" between SDR creation and development finance; but in the context of the reform the question can be approached more broadly, to encompass a number of possible approaches, each of which would be intended to provide additional financial resources to the developing countries, either directly or through development agencies. A number of possibilities are listed below:

(1) The allocation of SDRs by the Fund to development agencies, to be used by these agencies in their operations on the basis of internationally established rules. This could be done on the basis of a new statutory provision which stipulated that a given proportion of any SDRs created should be made available to development agencies, with the remainder being allocated to participants on the basis of quotas. This approach would entail fluctuations in the flow of SDRs to development agencies in accordance with variations in the decisions on the need for global SDR creation. Alternatively, the amount to be put at the disposal of development agencies could as far as possible be kept stable in the short run, with allocations to participants absorbing any variations in amounts created.

(2) Maintenance of the principle that SDRs would be allocated only to participants, but with an agreement among the countries with high per capita incomes to transfer to development agencies either (*a*) part of the SDRs allocated to them or (*b*) the equivalent in currencies.

(3) The adoption of a new formula for the allocation of SDRs among countries, differing from the present one in that it would not be strictly proportional to quotas, but would channel to the developing countries a larger share of total allocations than corresponds to their share in Fund quotas.

(4) An adjustment of the Fund's quotas that would raise the share of the developing countries in aggregate quotas. This would raise these countries' participation in SDR allocations without a change in the distribution formula and, in addition, would increase the other benefits of their membership in the Fund, including access to conditional liquidity in the General Account and their proportion of voting strength.

The first approach would be the most direct way of contributing to development assistance, but it would also be likely to have the greatest impact on the working of the SDR mechanism. Technical and policy issues arising in relation to SDRs as a result of this and other possible changes that might be incorporated in the reform are reviewed briefly

in Section 3 of Chapter IV. The approaches described under 2(*b*) and 4 are the only ones that would not require amendment of the Articles.

To make a full appraisal of the relative merits of the various possibilities that have been listed, certain economic and financial as well as technical and institutional aspects need to be considered. Of these, the three following would seem to be the most important:

(*a*) The compatibility of different approaches with the effective working of the international monetary system, and in particular with the role of the SDR as a major reserve asset. A key issue in this context is to what extent a given approach would permit decisions on global reserve creation to be taken on their own merits.

(*b*) Whether these approaches would make a net addition, and which of them would be likely to make the largest *net addition*, to the provision of resources for development from other sources and would involve the minimum risk of being substantially offset by reductions in other aid flows of comparable quality.

(*c*) Which of the approaches would contribute most to an improvement in the average quality of official development assistance, including cost aspects. This would depend importantly on the rate of interest charged on net use of SDRs, in particular if the SDR interest rate were increased as discussed in Section 3 of Chapter IV.

A study of these and a number of related questions has been undertaken and will be transmitted to the Board of Governors by the Executive Directors as soon as it has been completed.

ANNEX 1

RESOLUTION 26-9

Adopted by the Board of Governors of the Fund on October 1, 1971

Whereas the present international monetary situation contains the dangers of instability and disorder in currency and trade relationships but also offers the opportunity for constructive changes in the international monetary system; and

Whereas it is of the utmost importance to avoid the aforesaid dangers and assure continuance of the progress made in national and international wellbeing in the past quarter of a century; and

Whereas prompt action is necessary to resume the movement toward a free and multilateral system in which trade and capital flows can contribute to the integration of the world economy and the rational allocation of resources throughout the world; and

Whereas consideration should be given to the improvement of the international monetary system and the adjustment process; and

Whereas the orderly conduct of the operations of the International Monetary Fund should be resumed as promptly as possible in the interest of all members; and

Whereas all members of the Fund should participate in seeking solutions of the aforesaid problems;

Now, therefore, the Board of Governors hereby resolves that:

I. Members of the Fund are called upon to collaborate with the Fund and with each other in order, as promptly as possible, to

(a) establish a satisfactory structure of exchange rates, maintained within appropriate margins, for the currencies of members, together with the reduction of restrictive trade and exchange practices, and

(b) facilitate resumption of the orderly conduct of the operations of the Fund.

II. Members are called upon to collaborate with the Fund and with each other in efforts to bring about

(a) a reversal of the tendency in present circumstances to maintain and extend restrictive trade and exchange practices, and

(b) satisfactory arrangements for the settlement of international transactions which will contribute to the solution of the problems involved in the present international monetary situation.

III. The Executive Directors are requested:

(a) to make reports to the Board of Governors without delay on the measures that are necessary or desirable for the improvement or reform of the international monetary system; and

(b) for the purpose of (a), to study all aspects of the international monetary system, including the role of reserve currencies, gold, and special drawing rights, convertibility, the provisions of the Articles with respect to exchange rates, and the problems caused by destabilizing capital movements; and

(c) when reporting, to include, if possible, the texts of any amendments of the Articles of Agreement which they consider necessary to give effect to their recommendations.

ANNEX 2

[Resolution No. 27-10 on the Establishment of a Committee on Reform of the International Monetary System and Related Issues that was attached as Annex 2 is reproduced below, pp. 151–53.]

Indicators of Need for Balance of Payments Adjustment

In January 1973 the Research Department prepared the following paper on the use of reserves and of basic balances as possible indicators of the need for balance of payments adjustment. The paper was circulated to Executive Directors and was made available to the Committee of Twenty.

Reserves and Basic Balances as Possible Indicators of the Need for Payments Adjustment

(January 10, 1973)

Introduction

It has been suggested that the reformed international monetary system should utilize objective indicators to promote prompter and more effective adjustment of external disequilibria. One specific proposal, which was advanced by the United States in the Committee of Twenty, envisages international agreement on a "base level" of reserves for each country, which would be bounded by upper and lower "warning points" that would ordinarily signal the need for adjustment and, at a greater distance from the base level, by an "outer point" and a "low point" that would raise the possibility of sanctions being applied as a penalty for the failure to adjust. Another suggestion is to employ the cyclically adjusted basic balance as an indicator of the need for payments adjustment. The purpose of the present paper is to discuss the possible uses of indicators in promoting the adjustment process, with special reference to these two proposals.

In the past the term "indicators" has been used to refer to statistical series that might be used to establish an obligation or presumption that some adjustment action (often a change in par value) should be undertaken. However, the fact that the cyclically adjusted basic balance has been advanced as a possible indicator demonstrates that the term is now being used in a wider sense to include statistical estimates that involve specific adjustments reflecting hypotheses about the operation of the economic system. It is difficult to see that any useful purpose would be served by broadening the meaning of the term even further, such as would be necessary if one were to present as an indicator the results of an elaborate assessment of the possible developments of a country's balance of payments; such a course might also create semantic confusion. In the present paper, therefore, "indicators" will be defined as statistical series relating to past events that have been subjected to statistical processing of a precisely definable kind.

There are a number of roles in which indicators could be used. First, they might be used to provide a test of the need for adjustment. There is scope for considerable variation in the automaticity of the consequences that would flow from the triggering of an indicator employed in this role. At one extreme, the triggering of the indicator might establish an obligation to undertake a particular adjustment action, such as a change in par value. At the other extreme, the triggering might initiate analysis and discussion of the need for adjustment, without in itself creating any presumption that a specific course of action, or indeed any action, would be warranted. In between, the triggering might establish a presumption that adjustment action should be undertaken, but with the possibility

that the indicator might be overridden for sufficient reason: in this event the triggering would shift the onus of proof.

A second possible role is that of allocating the distribution of the responsibility for initiating adjustment actions between countries. In most cases, a conclusion that adjustment is needed to remedy a particular country's payments problem will be sufficient to establish an obligation for that country to initiate corrective action. However, payments deficits have corresponding surpluses elsewhere; and indicators may help to detect the need for adjustment on both sides of any major imbalance, although not the relative size of the adjustment.

A third possible role is in relation to sanctions as an incentive for countries to follow appropriate adjustment policies and a penalty for failure to adjust. One possibility would be that sanctions might be triggered by a particular indicator. Another approach would be to make the imposition of sanctions consequential on a failure to follow the adjustment policies recommended by the international community in the light of an assessment that was itself triggered by an indicator. The presumptive character of an indicator could be reflected in the automatic imposition of sanctions which could, however, be lifted if assessment led to the conclusion that sanctions were not warranted.

Relations Between Reserve and Basic Balance Indicators

A reserve level indicator and a basic balance indicator differ in three respects:

(1) A reserve level indicator relates to the stock of reserves, whereas the basic balance indicator concerns a flow. However, reserve statistics can also be used to construct a flow indicator, based on changes in reserves: indeed, the U.S. paper refers to reserves both in terms of stocks and flows.

(2) A reserve indicator (whether stock or flow) would be influenced by movements of private short-term capital, whereas the basic balance indicator would attempt to exclude them. (A reserve indicator would also be influenced by official short-term capital movements—reserve borrowing and switches into and out of reserve currencies—if the relevant reserve concept was a gross one, but both a net reserve indicator and a basic balance indicator would be immune to such movements.)

(3) It is envisaged that the basic balance indicator would be adjusted for cyclical and incidental factors, whereas there is no adequate basis for the cyclical adjustment of reserves.

Payments Objectives

The major test of the usefulness of indicators must be the extent to which they are able to provide a measure of present or impending departure of countries' external positions from an appropriate set of objectives. This immediately raises the question of the nature of the payments objectives that countries should pursue.

Payments objectives have both a flow and a stock dimension. It is generally agreed that flow disequilibria in the balance of payments of a more than temporary character should be avoided. Such disequilibria imply the domestic absorption in investment and consumption by deficit countries of resources from other countries beyond amounts made available by autonomous capital movements and aid flows.

Stock equilibrium is also important. Countries need reserves in order to avoid adjustment to transitory disturbances, to enlarge their freedom of action in dealing with underlying disturbances, and to bridge the time which it takes for corrective measures to have their effects on the payments balance. From these needs may be derived an optimal distribution of any given stock of world reserves at which countries should aim. Since,

however, it is of the essence of reserves that their level should fluctuate, an overrigid pursuit of such reserve targets would defeat the very object for which reserves are held. However, it is equally true that reserves will not approximate their target level over time by chance: this will occur only if a reserve target is backed up by a willingness to take corrective action if reserves diverge substantially from their target level as a result of nonreversible factors.

The stock and flow dimensions are intimately interrelated, since a flow disequilibrium is the means by which a stock is changed. Persistent disequilibrium in the balance of payments will therefore cause a maldistribution of reserves, and a severely abnormal reserve situation is often a sign (although it may be a late sign) that persistent disequilibria exist or at least have existed in the past. One can argue that the problem of maintaining reasonable balance in the payments flows is the more important objective, since if persistent imbalances are not corrected they will lead to an increasingly unsatisfactory situation. By contrast, substantial imbalance in reserves, while not optimal, can persist for long periods without necessarily causing serious problems for the functioning of the system if adjustment to imbalances is sufficiently prompt. In that case the main effect of a maldistribution of reserves may be that low-reserve countries are more frequently obliged to use conditional credit from the Fund, or other balance of payments credits, than countries with abnormally high reserves.

There is reason to limit the speed with which deviations of reserve stocks from target levels should be corrected by adjustments which involve imbalances in payments flows. This rests upon the fact that the costs of payments *adjustment* (i.e., of changing certain types of payments flows) are of particular importance in the current account. Even under the most favorable conditions of price flexibility, or when payments adjustment is effected by exchange rate changes, there will be frictional losses involved in redirecting output between markets, and usually in reallocating resources to change the mix of output as well. If demand management policy is used to engineer the adjustment, the costs of price inflation or output deflation may be superimposed on top of these frictional costs. These costs mean that, even if the stock of reserves is far from its optimal level, it is desirable to allow adequate time for reconstitution, so as to prevent the need for precipitate adjustment policies both at the time when the need for reconstitution is first recognized and at the subsequent time when it has been completed.

These considerations argue in favor of the correction of any maldistribution of reserves to a considerable extent by measures influencing the capital account, including reserve borrowing and lending. Such measures will be the more successful if they are undertaken both by countries with abnormally low reserves and by countries with abnormally high reserves. How far it would be advisable to adjust reserve stocks in this way depends on the costs that may be incurred in influencing the capital account, in the form of the inefficiencies that result from controls or the distortion of interest rates and savings rates; moreover, countries are often reluctant or unable to resort to reserve borrowing on the scale required to restore adequate reserve levels. To the extent that it is necessary to have resort to current account adjustment to correct inadequate or excessive reserve levels, any such adjustment should be spread over a reasonable period in order to minimize adjustment costs.

The above considerations suggest that both stock and flow dimensions are important elements of a country's external position. Since a country's stock position can only be changed as a result of the flows over time, the issue of immediate relevance in formulating a payments objective at a particular point in time is that of selecting a flow objective. If reserves are close to target level and the normal reserve increase is taken care of by SDR allocations, a country's flow objective should be approximately zero. However, where reserves are at some distance from the desired level and circumstances do not jus-

tify an adequate correction by a once-and-for-all change in the capital account, it is appropriate to modify the flow target so as to bring reserves to a more satisfactory level over several years. A deviation from the zero flow target could also be appropriate to reduce outstanding balance of payments financing or a country's foreign assets that were not in the form of reserves.

It would not be sensible to seek balance of payments equilibrium over every short period of time. It would be wasteful to accept the real costs of adjusting the current account in response to factors that are believed to be volatile, transitory, and reversible. Reserves are held for the purpose of enabling countries to avoid such unnecessary adjustments, a task in which they may be assisted by exchange rate movements within sufficiently wide margins around par. It follows that the appropriate flow target is one that is related to the underlying and persistent flows rather than one that includes transitory and reversible elements, such as flows of volatile capital, the effects of discrepancies in the cycle between different countries, or the consequences of strikes or abnormal supply or demand conditions.

The Diagnostic Role

The role traditionally envisaged for indicators is that of assisting diagnosis of the need for adjustment to realize the above-specified payments objectives. In view of the fact that sudden and large adjustments are difficult and disruptive, it is desirable to diagnose emergent disequilibria as early as possible so as to facilitate prompt adjustment. Unfortunately, there is an inherent conflict between maximizing the probability of securing a sufficiently early diagnosis to enable a country to take nondisruptive adjustment action and minimizing the probability of generating false signals. A good indicator is one that will give the best possible trade-off between the two.

1. *Indicators of flow disequilibria*

One broad indicator of payments flows would be provided by *changes in reserves*. Its limitation is that, especially in the short run, reserve changes can be very heavily influenced by transitory and reversible flows that should be financed rather than be taken as signifying a need for adjustment. Except insofar as reserve borrowing occurs in connection with such flows, net rather than gross reserves would be the relevant series.

The *cyclically adjusted basic balance* attempts to exclude flows of short-term capital; the purpose of cyclical adjustment is to extract that part of the basic balance that reflects the current cyclical situation, and that can therefore be expected to be reversed as the cycle develops. Unfortunately, it is far from clear that these statistical adjustments can be made in a way that will extract the transient and reversible parts of payments flows and leave only the underlying and persistent components. The art of cyclically adjusting trade flows is still highly imperfect, and no regular cyclical adjustment is being made either of the invisible or of the long-term capital account. Furthermore, the distinction between long-term and short-term capital has been increasingly eroded and there has never been any compelling reason for expecting volatile funds to be entirely invested in short-term forms or for regarding all flows of short-term capital as potentially reversible.[1]

[1] If basic balances in fact provided a good measure of the persistent elements in payments flows, one would expect the positive and negative differences between reserve changes and cumulative basic balances to cancel out over time, so that the cumulative difference between the two series over a long span of years would be small. For some countries, however, such as Italy and Switzerland, the cumulative gap in fact grew steadily during the 1960s and reached a very substantial amount by the end of the decade. See Zoran Hodjera, "Basic Balances, Short-Term Capital Flows, and International Reserves of Industrial Countries," *Staff Papers*, International Monetary Fund (Washington), Vol. 16 (November 1969), pp. 582–612.

Apart from the difficulties of cyclical adjustment and the separation of underlying from reversible capital flows, the basic balance suffers from certain inherent limitations. First, it does not include the effects of past cost and exchange rate changes that are already in the pipeline. Second, it makes no attempt to look forward to predict the effects of probable future trends in competitiveness. These two factors mean that it does not represent the best forecast of the future evolution of the balance of payments that it is possible to make. Of course, it makes no allowance for any need to adjust the reserve stock to its target level.

By their nature, *reserve stocks* are likely to be relatively slow as indicators of flow disequilibria. They will be carried to extreme values only by flow disequilibria that persist for substantial periods, assuming the trigger points to have been set sufficiently far apart to limit the likelihood of false signals. An indicator based on reserve levels could therefore provide substantial scope for balance of payments disequilibria to become established. For example, a country with a cyclical pattern in its reserve holdings would need to have the trigger points placed at levels that would not bring them into operation by normal cyclical developments. This might, however, mean that these points were unable to identify an emergent disequilibrium whose effect initially ran counter to cyclical developments until the cycle turned, by which time the disequilibrium might be firmly established and difficult to remove.

Thus, if other indicators or periodic assessment were able to spot flow disequilibria at an early stage, reserve stocks might have little function to perform in this connection. If the performance of alternative guides to adjustment was less adequate, a reserve level indicator could at least function as a "long stop" in the sense that it would be sure to be triggered if disequilibria continued uncorrected. However, it might also be triggered, or remain outside the trigger level, even if the underlying disequilibrium had ceased.

One question that would need further consideration in this context is that of the relative merits of gross or net reserves.

2. *An indicator of stock disequilibrium*

Reserve levels can be used as measures of the position of countries with respect to certain agreed normative criteria for the distribution of reserves. The U.S. paper suggested that a "base level" for countries' reserves might be defined on the basis of Fund quotas or past actual reserve holdings, which the Fund could modify where it found that the results of such calculations would be inappropriate. Data on past payments variability and other information might be used to determine grounds for modifications of the results of any formula.

The trigger points would need to be placed sufficiently far from a "base level" to ensure that the policy changes needed to prevent their being breached were not so frequent or so severe as to impose costs on the country that exceeded the benefits to the rest of the world from the greater promptness in adjustment. In particular, it would vitiate the basic purpose of holding reserves if they could not fluctuate sufficiently to enable countries to avoid the need to adjust to cyclical and other transitory disturbances.

The system already contains an implicit "low point" in the form of zero (gross) reserves. It might be argued that it would be irrational to raise this low point—except, possibly, by substituting net reserves for gross reserves—because that would oblige a country to hold a certain volume of reserves for purely ornamental purposes. (It is true that countries already aim to hold a positive minimum reserve level in order to preserve confidence, but it would seem likely that a positive trigger point would raise the level of reserves needed to preserve confidence and thereby sterilize part of the reserve stock, even if not the entire part of it below the "low point.") The "outer point" should be high enough to avoid any risk of its being breached in the course of normal cyclical manage-

ment. A country which had previously held enough reserves to avoid any serious risk of breaching the existing "low point" of zero would presumably be equally secure against a symmetrical "outer point." One rule which might therefore provide a basis for discussion is that the "low point" should be zero and the "outer part" should be twice the base level.

It is possible to get some idea of the potential effects of an outer limit set in this manner by examining the historical experience of the 1960s. Accordingly, "base levels" (in terms of shares of world reserves) for the 45 Fund members with quotas of at least $50 million (at the end of 1965, excluding China) were calculated on the assumptions that these base levels would have been distributed in proportion to (*a*) Fund quotas at the end of 1965, and (*b*) their average reserves as a percentage of world reserves over the period 1956–60. The data were then examined to see which countries in fact reached a percentage of world reserves equal to double one or the other of these base levels during the period 1961–70.

Before proceeding to the results of these calculations, three general observations need to be made. *First*, the calculations presented are only two of a variety of possible approaches. *Second*, any practical attempt to agree on base levels of reserves for operational purposes would no doubt make provision for certain adjustments to take care of the special situations of certain countries. *Third*, the statistics should not be taken as implying that these countries would have breached the trigger points if such points had been established: to the extent that the establishment of such points had succeeded in its purposes, it would have promoted adjustment that would have tended to avoid such breaches.

The results of these calculations were as follows. Eleven of the 45 countries would have triggered the outer point based on quotas, and 13 based on average past reserves. Seven countries would fall in both groups. Many of the countries in both groups had reserves that exceeded twice the base level in many years.

Some of the countries listed in the accompanying tabulation cannot by any reasonable test be regarded as hoarders of reserves. Some of them appear in Section B because they had inadequate reserve levels in the base period, which they managed to bring to more normal levels in the 1960s. Any standard which is based on past experience is bound to contain a bias of this sort, and for the same reason may fail to reveal cases of long-term reserve hoarding. Some countries may also appear in Section A because they

A. Base Levels Based on Fund Quotas

Country	Reserves in Excess of Twice Base Level: Number of years	Years
Austria	10	1961–70
Germany, Fed. Rep. of	9	1961–68, 1970
Israel	7	1962–68
Italy	6	1962, 1965–69
Malaysia	2	1969–70
Nigeria	1	1961
Portugal	10	1961–70
Saudi Arabia	3	1965–67
South Africa	1	1968
Spain	3	1964–65, 1970
Thailand	7	1964–70

B. Base Levels Based on Reserves, 1956-60

Country	Reserves in Excess of Twice Base Level: Number of years	Years
Austria	1	1967
Chile	2	1969-70
Denmark	3	1964-66
France	10	1961-70
Israel	10	1961-70
Italy	1	1967
Japan	2	1969-70
Norway	4	1967-70
Saudi Arabia	8	1963-70
South Africa	3	1963, 1968-69
Spain	10	1961-70
Thailand	4	1966-69
Yugoslavia	1	1969

had abnormally low quotas. These brief comments suggest that considerable attention would have to be paid to the selection of any set of base levels and the adjustments that they might require before such data could be used with confidence for operational purposes.

3. Indicators and the need for adjustment

A separate paper examines the question of how well a considerable number of indicators would have performed if they had been employed to indicate the need for par value changes by the industrial countries during the 1960s. The two particular indicators primarily discussed in this paper, reserve levels and basic balances, were found to rank among the better performers. But apart from this, the first of these, and to some extent also the second, may be considered as variables that are of interest in their own right.

Figures on countries' reserve levels bear a relation to the problem of the distribution of reserves in the system. Hence, if agreement could be reached on a set of outer limits for individual countries' reserves the transgression of these limits would be indicative of an agreed maldistribution of reserves and a need to seek correction. This would be the case whether or not, upon assessment, the reserve levels were found to be indicative of the need for measures to change current account flows.

The significance of the basic balance lies in the fact that it—in contrast, say, to price indices or exchange rates—is at least a first approximation of the underlying balance of payments position that one would like to be able to identify to judge whether a country was in fundamental equilibrium or not. The imperfections of the basic balance from this point of view, even after certain statistical corrections, have already been set out, and stress has been laid on the need to distinguish between what can be made readily available in terms of statistics and what, conceptually, needs to be taken into account in making policy judgments. Nevertheless, though it needs to be handled with due caution, the basic balances may be regarded as not merely a trigger to assessment but also, in most cases, a starting point for that assessment.

The two indicators here discussed, the reserve level and the basic balance, give valuable information on the two aspects of a country's international economic position that need to be taken into account in devising policy in the framework of the adjustment pro-

cess. Neither provides by itself an automatic answer to the question whether adjustment action would be required; nor could any mechanical combination of the two indicators perform that function. Their role in relation to such adjustment action can best be described as suggestive of the need for adjustment and as triggers of a full assessment of a country's position and prospects, in addition to such regular appraisal of balance of payments situations and prospects as may be provided for. If certain indicators are selected to set off this important process of international consultation and explanation, they are obviously believed to carry a presumption that this process will have a certain likelihood of leading to the conclusion that adjustment action would be indicated; without such a presumption it could hardly be worthwhile to be guided by the indicator in undertaking the exercise. At the same time, the assessment itself would determine in any particular case whether this presumption would be confirmed.

The Division of Adjustment Responsibilities

When a need for adjustment is established, it generally follows that a particular country will be identified as out of line and therefore as responsible for initiating adjustment. Occasionally, however, the restoration of equilibrium will be possible by action on the part of either of two countries or groups of countries, and some basis must then be found for dividing the responsibility for initiating adjustment. The question that arises is whether and to what extent indicators could be helpful in connection with the assignment of adjustment responsibilities.

In general, the contribution that indicators could make would be the same as that related to the detection of the need for action by individual countries. They would suggest cases for assessment, and that assessment would lead to a judgment on the need for adjustment by particular countries, and the magnitude of the adjustment required.

In those situations in which there was no clear answer as to the distribution of the need to take adjustment measures, an external consideration, such as the intended effect on the value of the SDR in terms of currencies in general, would have to be employed.[2]

The signals generated in different countries by certain disturbances would inevitably depend, among other things, on the relative size of the countries involved. If reserve levels, reserve changes, or basic balances were the basis for the indicator, a flow of a given size from one country to another would signal a larger proportional need for adjustment in the smaller than in the larger country. This is not, of course, a problem that is unique to the use of indicators; it would arise just as much in a full assessment. Insofar as the disequilibria caused were judged to be fundamental (rather than transitory) in character, they would tend to require proportionally more adjustment in the smaller than in the larger country. Any other distribution of the adjustments undertaken would tend to generate new disequilibria involving third countries.

The Disciplinary Role

Even when the need for adjustment has been diagnosed and the responsibilities for initiating corrective measures have been divided under agreed rules, there remains the problem of inducing countries to take the appropriate actions. It is in this connection that the possibility of introducing "sanctions" has been mentioned.[3]

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[2] See *Reform of the International Monetary System: A Report by the Executive Directors to the Board of Governors* [reproduced above, pp. 19–56].

[3] The term "sanctions" is used in this section between quotation marks to indicate that it is used in a sense that is somewhat broader than the conventional one. A common understanding of sanctions is that they are measures to ensure the observance of obligations or to punish the violation of

One view is that any "sanctions" that might be introduced should only be imposed, on a discretionary basis, after the need for adjustment had been established and the country in question had declined to introduce corrective measures deemed to be adequate by the Fund. An alternative approach would be to specify in advance certain critical values of an indicator at which international disciplines would automatically be called into play, so as to provide a clear incentive to countries to avoid disequilibrium situations. Under this approach, there would be a need to select an indicator and its trigger points as well as to determine a set of "sanctions." The concept of presumptive need for correction by the member could be reflected by the automatic imposition of a "sanction" but with the authority for the Fund to lift it.[4]

The choice of the "sanctions" to be employed might be influenced by the decision as to whether their imposition was discretionary or automatic. It might be argued that it would be difficult to see how drastic penalties could come into force automatically: the intended deterrence would have to rely on the certainty of retribution rather than its severity. Yet it may also prove difficult in practice to decide to impose "sanctions," especially severe "sanctions"; from this it might be argued that the likelihood of any "sanctions" being applied would be greatest if they did come into effect automatically.

From an economic point of view, two types of "sanctions" might be distinguished: (1) Measures that were intended by themselves to provide a remedy to the situation that was judged to be unsatisfactory, without necessarily implying that any country was at fault. (2) Measures that were intended, by penalizing a country that was judged to be at fault, to induce it to adopt corrective measures.

A loss of access to credit, or of SDR allocations, would be a "sanction" of the second type for a deficit country. An import surcharge against the exports of a persistent surplus country need not be seen as punitive; it would in any event also be remedial in character. Similarly, the freezing of reserves or even cancellation of SDR allocations when reserves exceeded an agreed "outer point" would be corrective of a stock disequilibrium; in that case a further stock corrective could be the injection by the Fund of an equivalent amount of SDRs to be allocated to other members. One point to be borne in mind in this connection is that such measures to correct stock disequilibria may at the same time help to perpetuate flow disequilibria. Less radical measures to deal with excess reserves, intended more to deter than to correct, would be the cessation of payment on certain SDR balances or their temporary blockage.

General Criteria for Indicators

There are certain general considerations that would be relevant whatever the purpose for which an indicator is selected—apart from the obvious one that it should be as accurate as possible as an indicator of the objective which it is intended to indicate. The first is the desirability of having an unambiguous measure. This argues for a comprehensive measure such as reserves, rather than a measure that relies on drawing a statistical line between different capital flows or that involves making adjustments for cyclical or other

them. In the present context, however, a closer approach to a useful definition is that sanctions are those measures that are applied without the need for the consent of the member against which the measure is directed and are regarded by members as censorious. Some of these measures may be applied without the necessity for any finding that a member has neglected its obligations. (See Joseph Gold, "The 'Sanctions' of the International Monetary Fund," *American Journal of International Law* (Washington), Vol. 66 (1972), pp. 737-62.)

[4] Cf. the provision of Article IV, Section 6, which entails the automatic ineligibility to use the Fund's resources of a member that changes the par value of its currency despite the objection of the Fund, "unless the Fund determines otherwise."

transitory disturbances. A second consideration is the desirability of having a measure that is not subject to easy manipulation. It is well known that there are a variety of practices that can affect the figures for official reserves, including the exclusion of certain assets, the encouragement of foreign borrowing by banks or semiofficial institutions, the provision of subsidized forward cover to the commercial banks, the encouragement of local financing of foreign trade, central bank investment in IBRD bonds, etc. If reserves are to be used as an indicator, rules would have to be devised to ensure that the figures used would not be unduly influenced by such practices. Finally, there is the desirability of minimizing the impact of capricious events. Since a stock indicator could only be triggered by a persistent failure to take actions that would terminate a flow, whereas a flow can change suddenly for reasons that are impossible to anticipate, this consideration argues for a stock concept. If a flow indicator was nevertheless to be adopted, the basic balance would have the advantage of excluding short-term capital flows. This consideration would seem less important if a stock indicator is chosen, because short-term capital flows generally cumulate to large sums only to reinforce a previous basic imbalance: but it would still seem preferable on this ground to adopt a measure undistorted by shifts of volatile funds.

A major consideration in this general area would be the degree of precision with which an indicator would be defined in the Fund's Articles or, more generally, in the rules that defined the role that would be attributed to such an indicator. In this context the consequences of the triggering of the indicator would be of considerable importance. If such consequences were to provoke an assessment, or perhaps to raise the question whether an assessment seemed indicated, it might be possible to forgo any very precise definition. In this case, for example, the concept of "gross reserves" as defined for a particular country in the Fund's *International Financial Statistics* might be sufficiently precise. But if an indicator were to trigger the automatic imposition of "sanctions," a much more precise definition might be required lest disagreements on the facts were to raise serious difficulties in practice. But the precise legal definition of concepts such as reserves is not without its own difficulties and pitfalls, as is testified by the Fund's experience with the obligation to repurchase under Article V, Section 7(*b*) and Schedule B.

Conclusion

The present paper has attempted to analyze two indicators that had received considerable support at the November 1972 meeting of the Deputies of the Committee of Twenty: reserve levels and basic balances. In the analysis two major distinctions were made. The first of these was between the flow dimension and the stock dimension of payments objectives, the former associated with the concept of fundamental equilibrium and the latter with the optimal distribution of reserves among countries. The second distinction was between the different roles in which indicators can be used—diagnosis, the division of adjustment responsibility, and the disciplinary role. Both of these distinctions are of major importance in the selection of an indicator, and any indicator that may be useful from one point of view, or in one role, will not necessarily be useful from another point of view or in another role. In further discussions on indicators, greater specificity of the context in which a particular indicator is to be used would, therefore, be helpful.

One of the difficult issues that arises with respect to indicators as a diagnostic device is the extent to which they should serve to initiate a process of adjustment or to influence the outcome of that process. The ability of different indicators to provide accurate warning signals of the need for adjustment was subjected to statistical testing in another paper. The data presented showed that both reserve levels and basic balances were successful in signaling the need for exchange rate adjustment in about half the cases where such adjustment was judged by other criteria to have been necessary. In this respect these two indi-

cators outperformed most other indicators. This would still mean that they missed their target in about twice as many instances, either calling for adjustment where this was not judged necessary or failing to call for it in cases where it was. These findings must be seen against the fact, also noted in the paper referred to, that the actual adjustment performance of the countries was far from satisfactory: adjustments did not occur in about three fourths of the cases where they were judged to have been appropriate, although no adjustments took place that were not called for. The objective clearly should be to improve on this performance by increasing the likelihood that adjustments are made when they are needed with a minimum risk of provoking unneeded adjustments. Indicators could perform a function in this connection if they were used as signals that a serious assessment would be appropriate—beyond such regular appraisal of balance of payments situations and prospects as would take place in any event. This assessment would have to be relied upon to provide the diagnosis as to the magnitude and, in some respects, the nature of the action required, questions on which indicators cannot provide guidance: the assessment would thus also determine in any particular case whether the presumption inherent in the indicator was confirmed.

So far as the problem of securing agreement on the division of adjustment responsibilities is concerned, not much additional help can probably be expected than that of signaling the situations that require assessment. When a need for adjustment is established, it generally follows that a particular country will be identified as out of line and therefore as responsible for initiating adjustment. The most significant need to handle other situations is a consensus on the principles that should underlie the distribution of adjustment responsibilities.

As to the disciplinary role, one major question is whether any "sanctions" that may be felt necessary should be imposed as a penalty for failure to follow appropriate adjustment policies or as a consequence of an indicator reaching a certain trigger point. A further area for decision would then be the choice of "sanctions," including that between corrective and punitive "sanctions."

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Link Between SDRs and Development Finance

In February 1973 the Research Department prepared a paper on the allocation of SDRs and the provision of financing for economic development—that is, the link. The paper was subsequently discussed in the Executive Board and the following slightly revised version was sent to the Committee of Twenty.

Allocation of SDRs and Financing of Economic Development (February 8, 1973)

1. Introduction

From the time when academic proposals for issuing an international reserve asset began to appear in the late 1950s, there have been frequent suggestions that the issuance of such an asset should in some manner be made to enhance the flow of resources to less developed countries, and foster economic development.

In view of the analogy between official reserves and private money balances, the idea of a link between reserve creation and the financing of development is one which rather naturally comes to mind. Within the confines of the national state, the issuance of fiduciary money has traditionally been associated either with a transfer of resources to the sovereign or with the financing of capital expenditure within the community through the lending activities of the banking system. But those who have advocated that the creators of international liquidity, like the creators of national liquidity, should at the same time influence the distribution of real resources have had a special purpose in mind—not merely, as in the case of national banking, to reduce the imperfections of the capital market and thus promote a more productive use of capital, but also, and more specifically, to foster the development of the countries with relatively low per capita income. Such proposals reflect a dissatisfaction with the magnitude, and in some cases the "quality," of development assistance, together with a doubt as to whether these shortcomings are likely to be overcome by the approaches thus far pursued.

When the Special Drawing Account of the Fund was established in 1969 a different view prevailed. The liquidity-creating and credit-distributing functions of a banking system are conceptually quite distinct, and it was deemed prudent, in establishing a new international reserve asset, to concentrate on the liquidity-creating function. Newly created SDRs had, of course, to be distributed somehow among participating countries, but in basing allocations on the quotas of the Fund the intention was to choose a distributive key which would roughly correspond to the effective demand for reserves and preclude, or at least confine to small proportions, any permanent transfer of resources among participants as a result of the allocations.

While the period that has elapsed since the establishment of the Special Drawing Account is a relatively short one, it is appropriate that the question of a possible link between SDR allocation and development finance should be brought up for reconsideration in the context of the general re-examination of the international monetary system that is now in progress. Consideration of this question calls for a careful weighing of the proba-

ble consequences of adopting or not adopting one or other of the possible link proposals, particularly for (*a*) economic development and (*b*) the international monetary system and the process of balance of payments adjustment. The present paper does not attempt to arrive at a judgment of these matters, but merely to present a variety of considerations germane to such a judgment.

The purpose of this paper is to assist members in making up their minds whether there should be a link between the allocation of SDRs and the financing of economic development and, if so, what the form of any such link should be.

2. Past Link Proposals

Past proposals for a link between reserve creation and development financing have generally been presented as part of specific plans for equipping the international monetary system with capabilities for generating global liquidity. The following notes are confined to suggestions that have appeared within the last ten to fifteen years.

Under the last of a series of plans put forward by Mr. Maxwell Stamp,[1] the Fund would be allowed to issue certificates, which member countries would agree to receive in settlement of international obligations and to treat as reserves. The Fund would put the certificates into circulation by lending them on a long-term basis to the International Development Association (IDA) for use in the IDA's normal lending. The IDA would then obtain currencies required for loan disbursements by presenting the certificates to the supplying countries. Countries could if they wished refuse to accept export sales—and the associated certificates—connected with IDA lending. Interest would be paid by the IDA to the Fund and by the Fund to holders of the certificates.

The holding of reserves in the form of deposits with the Fund rather than in national reserve currencies was the key feature of a proposal by Professor Triffin.[2] Such deposits could be used by the Fund for advances or rediscounts, undertaken at the initiative of the borrowing country, and for open market operations or investments, undertaken at the initiative of the Fund. A proportion of such investments could be channeled into development finance through purchases of International Bank for Reconstruction and Development (IBRD) bonds or other securities of similar character.

A group of experts appointed by the United Nations Conference on Trade and Development (UNCTAD)[3] to study international monetary issues presented a link proposal under which additional international liquidity would periodically be created by the Fund issuing reserve units to all its members in exchange for equivalent amounts of their own currencies. A part or all of the currencies of the developed countries (and perhaps of some of the developing countries) so acquired by the Fund could be invested in World Bank bonds. The Bank would, in turn, use the currencies in the course of its operations in development finance.

Under Professor Scitovsky's plan[4] also, Fund obligations would be issued against member countries' own currencies. They would be handed over to the IDA as grants for

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[1] Maxwell Stamp, "The Stamp Plan—1962 Version," *Moorgate and Wall Street* (London), Spring 1962, pp. 67–81.

[2] Robert Triffin, *Gold and the Dollar Crisis: The Future of Convertibility* (New Haven: Yale University Press, 1960. Rev. 1961).

[3] United Nations Conference on Trade and Development, *International Monetary Issues and the Developing Countries*, Report of the Group of Experts, UN Document No. TD/B/32 (Geneva, 1965).

[4] Tibor Scitovsky, *Requirements of an International Reserve System*, Essays in International Finance, No. 49, Princeton University (Princeton, New Jersey: Princeton University Press, 1965).

use in financing approved investment projects in developing countries, with the proviso that they could be spent, in the first instance, only in the country against whose currency they had been issued. Once the Fund obligations had been spent in the appropriate country, they would become unrestricted reserves in the hands of the latter.

Dr. I. G. Patel[5] expressed the view that the simplest way of establishing a link would be by means of an agreement whereby each act of international liquidity creation would be followed by voluntary contributions to the IDA by all Part I member countries (countries that are more advanced economically and contribute to the resources of the IDA). The size of the contribution would bear a certain uniform proportion to the share of each of those countries in international liquidity creation.

After the SDR scheme took form, a number of proposals for using the SDR facility to provide development finance were advanced. The proposals left open the precise institutional arrangements. For instance, the Governor of the Fund for Italy, Mr. Colombo, at the 1968 Annual Meeting, suggested that the main industrial countries should undertake to use a part of their reserves corresponding to a portion of the SDR allocation for the replenishment of the IDA or for subscription to World Bank bonds.[6] Mr. Colombo's proposal found support in the Subcommittee on International Exchange and Payments of the U.S. Congress, which in 1969 called for an amendment to the Articles whereby the 18 Fund members that had previously contributed to the IDA would direct that 25 per cent of their SDR allocations be retained by the Fund to finance expanded IDA development assistance.[7]

A second UNCTAD study group[8] envisaged two main approaches to the establishment of a link. Both would involve contributions by the developed countries to IDA in proportion to SDRs annually allocated to them—in the first approach contributions in SDRs, in the second approach contributions in national currencies. In addition, the experts referred to a third method whereby the Fund would allocate some SDRs directly to IDA.

3. Nature of Proposals to Be Examined

Five main categories of proposals for a link between SDR allocations and the transfer of resources to developing countries may be distinguished. These are listed under A to E below and are described and discussed in some detail thereafter.

Before proceeding to the discussion of these various proposals, it is useful—assuming that, as a result of SDR creation in the Fund, financial resources were to become available to be used for the benefit of developing countries—to inquire also into the possibility of extending the Fund's own programs for these countries.

One possibility to be considered would be a new facility that could be established in the Fund for the purpose of providing resources to developing countries under stand-by

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[5] I. G. Patel, "The Link Between the Creation of International Liquidity and the Provision of Development Finance," in United Nations Conference on Trade and Development, *Report of the Committee on Invisibles and Financing Related to Trade: Further Consideration of the Report of the Expert Group on International Monetary Issues*, UN Document No. TD/B/115/Add.2 (Geneva, 1967).

[6] International Monetary Fund, *Summary Proceedings of the Twenty-Third Annual Meeting of the Board of Governors, 1968* (Washington, 1968), p. 81. See also *1969*, p. 71.

[7] U.S. Congress, Joint Economic Committee, 91st Congress, 1st Session, *A Proposal to Link Reserve Creation and Development Assistance*, a report to the Subcommittee on International Exchange and Payments (Washington: U.S. Government Printing Office, 1969).

[8] United Nations Conference on Trade and Development, *International Monetary Reform and Cooperation for Development*, Report of the Expert Group on International Monetary Issues, UN Document No. TD/B/285/Rev. 1 (New York: United Nations, 1969).

or similar arrangements, to be repaid over periods longer than those for which drawings are presently made available. The use of the facility would be considered in situations where countries, faced with serious imbalance, would be prepared to embark on a comprehensive program involving major shifts in policies. These programs would cover a span of three or more years; they would contain broad understandings on such matters as public revenue and expenditure policies, exchange rate management, import policy, external debt control, interest rate, and other pricing policies; and they would be subject to annual reviews.

In the past in such instances Fund resources provided under its normal policies were often accompanied by large-scale and longer-term program lending by other countries. This source of needed resources at the time when stabilization policies are put into effect has declined. The facility suggested above would fulfill the need that now exists for balance of payments assistance of longer than five-year repayment term, associated with comprehensive policy adjustments.

Beyond the use of SDRs in stabilization operations of longer duration than those currently possible under the Articles, one could also consider the possibility that the Fund might use special issues of SDRs to extend credits to developing countries in other circumstances.

Resources for any such operations would be provided in the form of special issues of SDRs made as and when required to finance lendings. SDRs received by the Fund in repayment of loans would be returned to the Special Drawing Account for cancellation. Any net creation of reserves through the facility would be taken into account in the decisions on the need for reserve creation.

Terms concerning duration, repayments, and charges under which the resources would be provided could vary. For example, the interest charged might be the normal interest on SDRs or might be reduced below that level by any of a number of ways discussed below in connection with other types of schemes. Variations in the cumulative amount of special issues would be taken into account in calculating the global need for reserve supplementation in the form of regular SDR allocations.

In what follows, the possibilities for more extensive Fund credit operations will be referred to as extended Fund facilities. Beyond whatever may be decided in this area, the various "link" proposals that have been discussed so far may be presented as follows:

A. Schemes under which the Fund would allocate SDRs directly to development financing institutions (DFIs).

B. Schemes under which less developed countries would be allocated a larger share of SDR allocations than corresponded to their share in Fund quotas.

C. Schemes under which the share of developing countries in Fund quotas (and hence in SDR allocations) would be higher than would result from the criteria under which quotas are presently determined.

D. Schemes under which some or all participants receiving SDRs in allocation would contribute to DFIs amounts bearing some predetermined relationship to the allocations received.

E. Schemes depending on the establishment of a reserve substitution facility as part of the reform of the international monetary system—which would provide that any excess of interest received from reserve centers on currencies held in the facility over interest paid to holders of the corresponding amounts of SDRs would be contributed to DFIs or to developing countries directly, as grants, and any amortization paid by reserve centers would be allocated to DFIs.

The first four of these approaches were described in Chapter VI of the report by the Executive Directors to the Board of Governors on reform of the international monetary system†; the fifth, though not discussed in that report, has also received some attention.

Both the extended Fund facilities and schemes of Types A, B, and E require for their implementation changes in the present Articles of Agreement. This is not necessarily true of schemes of Types C and D.

It should be emphasized that each of these types of proposal is capable of assuming a great many variant forms, and many hybrid forms are also possible. Only a limited number of the possible variants are evaluated in the following sections. The significance of some of them will appear more clearly in the light of subsequent discussion.

TYPE A Schemes—Direct Allocation of SDRs by the Fund to Development Financing Institutions

Under the heading of development financing institutions would be included the World Bank Group and various regional institutions.[9] The distribution of the allocation among DFIs might be determined by the Fund on the occasion of each decision to allocate or at longer intervals, or the DFIs might set up a joint organization to suballocate SDRs among themselves.

DFIs might be allowed to make such use of SDRs as seemed best to them in the interests of economic development, or various understandings might be reached relating to such matters as the proportions in which these funds would have to be used for financing development in the various developing countries or groups of countries, the terms (grant, concessionary loans, etc.) on which the DFIs would have to provide development assistance to countries with funds derived from the allocations.

The DFIs might merge the resources derived by them from SDR allocations with those derived from other sources, or they might segregate the SDRs allocated to them and use them to finance a special type of lending. The latter alternative would tend to be required if the Fund were to impose conditions upon the DFIs with respect to the use to be made of the allocations on the lines sketched forth in the preceding paragraph.

The amount to be allocated to DFIs in total might be determined on the occasion of each decision to allocate in general; or the *proportion* of global allocations to be assigned to DFIs might be laid down in revised Articles of Agreement or decided for periods longer than a single allocation period; or, finally, the *amount* to be allocated to DFIs might be decided for periods longer than a single allocation period.

It is assumed that a substantial part of global allocations of SDRs would continue to be made directly to participating countries. This part might be distributed among participants in proportion to quotas. Alternatively, developing countries might receive, as at present, a proportion of total allocations corresponding to their share in the quotas of all participants, while such SDRs available for allocation as were not distributed to DFIs or to developing countries would be distributed among participating developed countries in proportion to their quotas.

The SDRs allocated to DFIs, like those allocated to countries, would sooner or later become part of the world's active stock of reserves and provision would have to be made for their acceptance in exchange for currency. At present each participant is obliged to accept SDRs up to the point at which it is holding three times its net cumulative

† Reproduced above, pp. 19–56.

[9] Certain data with regard to these institutions are set forth in Table 1.

Table 1. Development Finance Institutions[1]
(In millions of U.S. dollars, unless otherwise indicated)

	AfDB	AsDB	CABEI	CDB	EADB	EIB	IBRD/IDA[2]	IDB
Beginning year of operation	1966	1966	1961	1970	1967	1958	1946	1960
Paid-in capital as of end-1971	80	492	20	25	20	250	2,661	405
Ordinary operations								
Commitments: 1966–71	50[3]	532[4]	232[5]	3[6]	17[4]	103[7]	7,106	1,107
Recent terms (representative)								
Interest rate[8] (per cent)	7.0	7.4	5.5–6.0[9]	8–10[10]	. . .	7.50–7.875	7.25	8
Maturity (years)	8–20	12–25	10–20	7–12	. . .	7–20	14–30	15–20
Grace period (years)	3	3–7	3–5	. . .	. . .	2–4	3–7	4–6
Special or concessional operations								
Funds available	[11]	Yes	[5]	Yes	No	Yes	Yes	Yes
Commitments: 1966–71	0	107[12]	. . .	2[13]	[14]	169[15]	2,342	2,185
Recent terms (representative)								
Interest rate[8] (per cent)	[14]	2.5–3[16]	. . .	4	[14]	. . .	0.75	3–14[17]
Maturity (years)	[14]	15–30	. . .	. . .	[14]	. . .	50	15–30
Grace period (years)	[14]	3–10	. . .	. . .	[14]	. . .	10	3.5–4.5

Sources: International Bank for Reconstruction and Development; International Monetary Fund, *International Financial News Survey*, (various issues), and annual reports of various development finance institutions.

AfDB African Development Bank
AsDB Asian Development Bank
CABEI Central American Bank for Economic Integration
CDB Caribbean Development Bank
EADB East African Development Bank
EIB European Investment Bank
IBRD International Bank for Reconstruction and Development
IDA International Development Association
IDB Inter-American Development Bank

NOTE: The United Nations Development Program (UNDP) disbursed $1,052 million in development assistance during 1966–71, representing UNDP program cost on projects and for which there are no repayments. The second European Development Fund (EDF) provided $800 million in development assistance, $730 million in grants, and $70 million in concessional loans, during 1964–69. The third EDF has pledged $1,000 million for 1971–75: $810 million in grants, $90 million in concessional loans and $100 million in ordinary operations of the FIB. The EDF does not have one independent legal identity but is a part of the European Economic Community.

[1] In certain contexts, development banks and the following are listed as multilateral development institutions or programs: United Nations Development Program, United Nations Fund for the Congo, United Nations High Commission for Refugees, United Nations Children's Fund, United Nations Korean Reconstruction, United Nations Relief and Works Agency, United Nations Temporary Executive Authority (West Irian), World Food Program, Mutual Aid and Guarantee Fund for the West African Entente, Andean Development Corporation, the International Finance Corporation, and the European Development Fund.

[2] The International Development Association began operations in 1960.

[3] 1967–71.

[4] 1968–71.

[5] The Central American Bank for Economic Integration is composed of three lending funds: Ordinary Investment Fund, Economic Integration Fund, and Housing Fund. During the 1961–71 period the distribution of loans from these sources was 45 per cent, 47 per cent, and 8 per cent, respectively.

[6] 1970–71.

[7] Loans to Greece, other associated states, and overseas territories of the European Economic Community.

[8] Including commissions. In many instances there is also a commitment charge attached to undisbursed balances.

[9] Excludes any commissions.

[10] Loans to the private sector carry 10 per cent interest rate.

[11] In April 1972 Development Assistance Committee countries, Yugoslavia, and Brazil pledged $100 million to the Special Fund of the African Development Bank.

[12] Lending operations from Special Funds resources commenced June 1969.

[13] An additional $1.35 million was financed by the Canadian Agricultural Fund.

[14] Not applicable.

[15] Comprises Special Section loans to Turkey, and to associated states and overseas territories on behalf of the European Development Fund of the EEC. For the period 1958–71, such loans totaled $175 million and $48 million, respectively.

[16] During 1971, two loans were made at 1½ per cent.

[17] Furthermore, the Inter-American Development Bank has administered Special Funds from Canada. Commitment of such funds are on International Development Association terms except the service charge is ½ of 1 per cent.

allocation. The DFIs would not be participants but "other holders," and would obviously not be subject to acceptance obligations. The acceptance obligations corresponding to the SDRs allocated to DFIs must therefore be placed on participating countries. This obligation might be imposed (*a*) on all participants in proportion to net cumulative allocations, (*b*) on all participants in proportion to net cumulative allocations subsequent to the inauguration of the "link," (*c*) on all participants in proportion to quotas, or (*d*) on developed country participants only, in one or other of these proportions. If, as has been suggested, limitations on acceptance obligations of participants were removed as part of the international monetary reform, this problem would disappear.

An important question arises with respect to the interest rate on SDRs. Interest is received on SDR holdings and equivalent charges are paid on net cumulative allocations. At present the rate of interest and of charges is 1½ per cent, but this rate will probably have to rise in future if the share of SDRs in total reserves is to be substantially increased; it will, however, probably remain somewhat below the rates payable in most countries on government securities. The question is how the interest cost corresponding to the SDRs allocated to DFIs would be met. One possibility is that the cost would be met by the DFIs, which would recoup themselves through the interest charged on development loans. Or the cost might be borne by all participating countries in proportion to quotas, net cumulative allocations, or some other yardstick. Or it might be met by all developed country participants only in proportion to quotas or net cumulative allocations. Finally, it is conceivable that, as part of the reform of the international monetary system the interest paid by net debtors in the SDR system (including that paid by DFIs) might be at a lower rate than that paid to net creditors, or that the interest paid on allocations (including that paid by DFIs) might be at a lower rate than that paid on SDR holdings—the difference, in either case, being met through assessments on participating countries, or on developed countries, or through new issues of SDRs. Whichever of these methods is adopted, it should be noted that there is no necessary connection between the way in which the burden of any interest concession to DFIs is distributed, and the way in which allocations to participants (i.e., allocations other than to DFIs) would be distributed.

Somewhat analogous to the problem just discussed is the question whether or not DFIs should be expected to assume the contingent repayment obligations corresponding to their allocations in the event of withdrawal of a participant from the Special Drawing Account or of liquidation of that Account (Articles XXX and XXXI of the Articles of Agreement). Liquidation is perhaps a contingency too remote to require consideration. As regards a termination of participation, however, since the lending carried on by DFIs on the basis of "link" resources would itself be of a revolving, albeit long-term character, it might be possible for the DFIs to accept a contingent repayment obligation especially if the general resources of the institutions in question were available to meet such repayment. It would, however, be possible for this contingent repayment obligation to be transferred to participants or to developed country participants in much the same ways as the interest burden discussed above, or the acceptance obligations associated with their allocations.

Several possibilities arise with respect to the manner in which DFIs might use SDRs allocated to them. Thus they might be required to use the SDRs immediately on allocation, by converting them into currencies which they would then hold; or they might retain the SDRs until such time as payment had to be made to supplying countries or to countries of investment in connection with development projects or program loans. SDRs might be transferred or converted through the ordinary designation mechanism or in accordance with a special set of rules; there might also be scope for transfers without designation.

TYPE B Schemes – Allotment to Developing Countries of a Higher Share of SDR Allocations than Corresponds to Their Share in Fund Quotas

There are two main variants of this type of scheme. Under the first variant, member countries would be divided into two categories ("developed" and "developing") or into three or more categories based on degree of development or per capita income: within categories the ratio of allocations to quotas (in any one allocation period) would be uniform, while between or among categories the ratio would differ, being higher for the less developed and lower for the more developed countries.

Under this approach there would be a fairly obvious demarcation between the part of the total allocation to developing countries which corresponds to their share in the world need for reserve supplementation and the part which was intended to be used for development finance. As total allocations varied over time, an attempt might be made to keep the "developmental" part of the allocation at a relatively steady, or steadily growing, level.

Since the developing countries would not be expected to retain the developmental part of their allocation, but rather to spend them on goods and services, it would seem natural that the acceptance obligations corresponding to this part of their allocations should not be assumed by them but distributed in one or another of the ways suggested on pages 73 and 76 above for comparable obligations arising from allocations to DFIs.

The interest burden corresponding to the developmental part of the allocations to developing countries could also be handled in one or another of the ways outlined on page 76 above in connection with allocations to DFIs. Thus the burden could either remain with developing countries or be transferred to countries in the more developed categories. In the former case, the scheme would in effect be providing financing in the form of perpetual loans, in the latter case grant financing, to the developing countries. Intermediate solutions are, of course, possible, under which the developing countries would pay interest on that portion of their allocations at an especially low rate, or under which all net debtors or all recipients of allocations, respectively, would pay a lower rate of interest than that received by net creditors or holders of SDRs, respectively.

As regards the contingent repayment obligation which arises when a participant withdraws from the Special Drawing Account, the case for transferring the obligation with respect to developmental allocations from the recipients to all participants or to developed country participants is stronger with respect to Type B than with respect to Type A schemes since in the former case the ultimate recipients are in effect counting on a perpetual loan or gift and would be taken by surprise if required at short notice to make even a partial repayment.

Developing countries might, or might not, be subject to conditions, particularly with respect to the developmental use of the "additional" part of their allocations.

In the second variant of this type of scheme, the link between allocations and quotas would be entirely severed and the former would be governed by a formula calculated to produce a country distribution of SDRs more favorable than quotas to developing countries. Such a formula might assign a positive weight not only to foreign trade but also to population, or it might assign a negative weight to income per head of population. Under such an approach it would not be immediately obvious which part of the allocations of developing countries should be regarded as intended for developmental use, and if it were desired to transfer to other countries any part of the acceptance obligations, interest burden, or contingent repayment obligations corresponding to developmental allocations or to impose conditions of use with respect to them, it would be necessary to devise a for-

mula or formulas ad hoc for these purposes. It would also be possible to lessen the interest burden of all net use of SDRs or of allocations in general along lines previously discussed.

TYPE C Schemes—Raising of the Share of Developing Countries in Fund Quotas

While the distribution of Fund quotas at any given time could not be explained in terms of any single formula, it is such as to reflect broadly such considerations as the relative economic importance of different countries in the world economy, their relative needs for conditional and unconditional liquidity, their relative ability to assume creditor positions in the General and Special Accounts of the Fund, and their appropriate participation in decision-making processes of the Fund.

It would be possible to revise the formulas that are employed on the occasion of quota revisions in such a way as to increase the share of less developed countries in Fund quotas, either by taking account of population or of some index of underdevelopment such as (lowness of) per capita income, or by classifying countries according to their degree of development and applying different percentage adjustments to the quotas of the different categories.

If this approach were followed it would presumably be with the intention that SDR allocations should continue to be based on quotas as at present.

TYPE D Schemes—National Contributions to Development Financing on the Basis of SDR Allocations

Under schemes of this type some or all of the participants in the Special Drawing Account would conclude an agreement whereby they would undertake to make finance available for development purposes in amounts in some way related to the allocations of SDRs they received from the Account. In the case of many countries such undertakings would presumably be subject to the ability of governments to obtain year by year the necessary parliamentary appropriations. In principle, such contributions, whether in the form of loans or grants, might be made either to DFIs (as in Type A schemes) or to developing countries directly (as in Type B schemes). The latter variant, however, offers great practical difficulties, and references below to Type D schemes will generally relate to the former variant.

Loans or grants to DFIs might be made in currency or in SDRs or in some combination of the two. If they were made in SDRs, amendment of the present Articles of Agreement of the Fund would be required to permit DFIs to receive, hold, and use SDRs. Apart from this, the system of allocations and other features of the SDR system would remain unaffected by the establishment of this indirect kind of "link" with development financing.

The number of possible variants of such an indirect link between SDR allocation and development financing is probably much greater than for a direct link of the type discussed at A above. Most of the variants discussed in that section can be reproduced in an indirect link scheme, though with the latter it might be more difficult than with a direct link to distribute the sacrifice of reserves involved in contributions to DFIs differently from the sacrifice of interest. For example, if contributions to the DFIs took the form of grants, the participants contributing the reserves would also be those that contributed the interest.

However, there are many options under the indirect link approach which are not open under the direct link. Some of these arise from the fact that the contribution and loans may be made in currency and not, as in the direct link, necessarily in SDRs. Again,

it would probably be easier under the Type D than under the Type A approach to accommodate schemes in which only a limited group of countries would take part, or in which participants contributed varying proportions of their allocations, or provided grants and loans in varying proportions and on varying terms, or in which they made commitments to participate as contributors for varying periods of time ahead.

With an indirect link of this type there would be no questions to settle as regards the distribution of acceptance or reconstitution obligations, or as regards the basis for allocations or the payment of interest. Moreover, if contributions to DFIs were made in currency, DFIs need not become other holders and no questions would therefore arise as regards the modalities for the use of SDRs by the DFIs.

TYPE E Schemes — Transfer to Development Financing Institutions of any Excess Income or of any Amortization Accruing to the Fund as a Result of Substitution Operations

In the report on the reform of the international monetary system mention was made of the possibility of setting up a separate reserve substitution facility in the Fund whereby members would be allowed to sell reserve currencies to the Fund in exchange for SDRs specially issued for this purpose. In that event, it is possible that the interest paid to the Fund by the issuers of reserve currencies with respect to the balances of their currencies so acquired by the Fund might exceed the interest the Fund would have to pay on the additional SDRs issued in exchange. It is also conceivable that the issuing countries might gradually amortize outstanding balances held by the Fund on this account.

Fund receipts from either of these sources could conceivably be utilized to provide additional financing for economic development. There is, however, a distinction to be drawn between the two cases. In the first case, the Fund would simply transfer (not allocate) SDRs received as interest in the form of a grant, either to DFIs or to developing countries directly. In the second case, the SDRs accruing from amortization would be used to cancel SDRs initially issued in exchange for the reserve currency that is now amortized. Since, however, the amortization payment involves a decline in global reserves, this might be thought to justify an additional allocation, which would then be made to DFIs or to developing countries directly. In this event, whether the development financing provided could be regarded as loan or grant would depend on whether the interest cost of the allocation in question was borne by the recipients of the allocation or was taken over by developed countries.

It may be noted that under Type E schemes, resources for development come from the existing supply of reserves, while in all other schemes such resources come from net additions to the stock of reserves.

4. Criteria of Appraisal

The various possible schemes for linking SDRs and development finance have to be evaluated from two standpoints: (1) effects on development of developing countries and (2) effects on the international monetary system and the adjustment process.

From the former standpoint the most important criterion is the amount of additional resources the schemes are likely to provide, which in turn depends on the addition to development resources arising directly from the scheme in question and on the risk of offsetting reductions in other aid flows of comparable quality. Also of great importance, however, is the effect which the scheme may have on the "quality" of official development assistance. This omnibus term includes such aspects as the cost to the developing countries of the resources provided, the extent to which these resources are likely to be

effectively directed to development, and the equity of their distribution among developing countries. An aspect which affects both the development objective and the international monetary system arises out of the problem of reconciling the appropriate timing of development assistance with the appropriate timing of reserve creation.

Other aspects bearing on the compatibility of different approaches with the effective working of the international monetary system include the effects on the amount of reserve creation and on the ability to take decisions on global reserve creation on their own merits, the effects on demand and demand management, and the effects on confidence in the SDR as a major reserve asset and on the mechanics of the SDR system. There may also be repercussions on the ease or difficulty of adjustment of international payments disequilibria—a topic related in some degree to the question of how the "burden" of the link is distributed among developed countries.

5. Effects on Real Resources for Development

These effects may be analyzed under three main heads: (*a*) the gross financial amounts transferred to developing countries; (*b*) the extent to which these resources are "additional," i.e., are not offset by a reduction in development assistance in other forms; and (*c*) the purchasing power of the financial resources in terms of real resources. Consideration of terms under which the resources might be made available are presented in Section 6.

a. Amount of financial resources available through a link

It is impossible to guess at the amounts that might realistically be transferred under any of the schemes described above. But it may be useful to mention several relevant magnitudes and considerations. Type A schemes—those involving direct allocations of SDRs to DFIs—serve as a useful starting point.

Clearly the maximum conceivable amount would be derived from such a link if the entire allocation of SDRs were made to DFIs. During the first allocation period (1970–72 inclusive) SDRs were allocated to an average amount of SDR 3.10 billion per annum. No one can foresee future allocations, but clearly their amount will depend to some extent not only on the need for reserves but also on the anticipated growth of the supply of reserves in other forms. If, at some future time, through the adoption of arrangements such as are discussed in the report on the reform of the international monetary system, the accumulation of currency reserves could be effectively arrested, the need for SDR allocations might well rise to much larger figures.

Even if the entire allocation of SDRs were directed toward DFIs with no country allocations whatever, it cannot be assumed that all of it would go to finance development in developing countries. First, it must be assumed that all or most of the allocation that would normally have been distributed to developing countries is required by them for the purpose of adding to their reserves; this alone might subtract, say, 30 per cent of the allocation from the net addition to development financing. Realistically speaking, one could probably not expect that the developed countries would be prepared to forgo all direct allocations of SDRs and rely entirely on their ability to earn them from additional exports to less developed countries. If the developed countries were to consent to, say, half of their normal allocations being diverted to DFIs, the amount of financing accruing to the latter and through them to the developing countries would amount to not much over one third of total allocations.

What has been spoken of so far is the gross allocation to DFIs to the extent that it is available for development financing in developing countries. No allowance has yet been made for various possible effects discussed in the following section.

What has been said above of the amounts that might be expected from schemes of Type A holds *mutatis mutandis* of schemes of Type B, namely those involving direct allocation to developing countries. On assumptions analogous to those made above, the "additional" allocations available to developing countries would amount to just over one third of total allocations.

In schemes of Type C, where quotas rather than the ratio of allocations to quotas would be altered in favor of developing countries, consideration of the implications for voting rights in the Fund and of the need to keep the General Account adequately supplied with creditor currencies would probably result in much smaller amounts of SDRs being made available for development financing than would be possible under schemes of Types A or B.

Schemes of Type D, i.e., those under which countries would agree to provide development assistance, whether to DFIs or direct to developing countries, in relation to their SDR allocations, might be expected to yield rather smaller amounts than those of Types A and B, if only because participation in such schemes would probably be less extensive. However, it is conceivable that those who did participate would redirect to development financing a rather larger proportion of their SDR allocations than would be approved in general in Type A or Type B schemes under the decision-making processes of the Fund.

Schemes of Type E, under which any excess of the debt service paid by reserve centers to any reserve substitution facility over the interest cost paid by that facility would be made available for development financing, would almost certainly yield less than schemes of the types considered above, with which it might, however, be combined. Total U.S. and U.K. liabilities to official holders in dollars and sterling, respectively, amounted at end-1971 to some SDR 54 billion,[10] and the proportion of these that the holding countries would be prepared to replace with SDRs under any conceivable reserve substitution arrangement is very uncertain. Even if the rate of interest payable to the Fund on balances held by it under the reserve substitution facility were to exceed that paid by the Fund on the SDR balances issued in exchange by as much as 1 per cent per annum, the amount available for development financing on account of the interest differential could hardly be large. Nevertheless, the fact that such amounts would be free of interest or repayment obligations might enhance the attractiveness of Type E schemes. If the reserve centers were to amortize their liabilities to the substitution facility, and these amortization payments became available for use in development, additional amounts would, of course, be yielded. These amounts when used might be subject to interest.

It is difficult to gauge what amounts any extended Fund facilities, involving issuance of SDRs to finance longer-term stabilization and perhaps other Fund programs for the benefit of the developing countries, would be likely to provide. These would vary from year to year depending on the number and size of eligible programs. In light of past experience, it might be estimated that longer-term stabilization programs might absorb amounts on the order of SDR 250-500 million in some years. It should further be noted that extended Fund facilities could be considered as a supplement to other types of schemes, rather than as an alternative.

It is interesting to compare the orders of magnitude of gross assistance derivable from a "link" with other magnitudes relative to the amount of development financing currently being provided to developing countries, and estimates as to the need for such financing. For example, the total flow of financial resources from Development Assistance

[10] If official holdings of dollars held outside the United States were included, the amount outstanding at end-1971 would amount to some SDR 65 billion.

Committee (DAC) countries[11] as a group to developing countries and multilateral agencies in 1971, net of amortization on earlier lending, was $18.3 billion. The private component, basically direct and portfolio investment, long-term lending, and export credits accounted for $8.4 billion. Official capital flows summed to $9.0 billion, of which $7.4 billion went to countries directly and $1.6 billion to multilateral institutions. Official development assistance more narrowly defined came to $7.7 billion, of which $1.3 billion was contributed to multilateral institutions. Grants of private voluntary agencies provided an additional $900 million. Comparative figures for earlier years are given in Table 2.[12]

Table 2. Flow of Financial Resources from Development Assistance Committee Countries to Less Developed Countries and Multilateral Agencies, 1969–70

(In billions of U.S. dollars)

	Net Disbursements[1]				
	1967	1968	1969	1970	1971
Total Official and Private, net (I + II + III)	11.4	13.4	13.7	15.9[2]	18.3[2]
Total Official, net (I + II)	7.1	7.0	7.2	8.0	9.0
I. Official Development Assistance, net (A + B + C)	6.6	6.3	6.6	6.8	7.7
A. Bilateral grants and grant-like contributions	3.6	3.3	3.3	3.3	3.6
B. Bilateral development lending and capital investments, net	2.2	2.3	2.3	2.4	2.8
C. Contributions to multilateral institutions, net	0.7	0.7	1.0	1.1	1.3
II. Other official flows, net (A + B)	0.5	0.7	0.6	1.1	1.3
A. Bilateral[3]	0.5	0.7	0.6	0.9	1.0
B. Contributions to multilateral institutions, at market term	—	—	—	0.3	0.3
III. Private flows at market terms, net	4.4	6.4	6.6	7.0	8.4
IV. Grants by voluntary agencies, net	—	—	(0.6)	0.9	0.9
Total as percentage of gross national product	0.74	0.80	0.75	0.80	0.83
Official development assistance as percentage of gross national product	0.42	0.38	0.36	0.34	0.35

Source: Organization for Economic Cooperation and Development, Development Assistance Committee.

[1] Gross disbursements minus amortization receipts on earlier lending.

[2] Including grants by voluntary agencies.

[3] Including official export credit, debt relief, and purchases of equities and bilateral assets.

[11] The membership of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD) includes 16 of the 23 members of the OECD: Australia, Austria, Belgium, Canada, Denmark, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, Norway, Portugal, Sweden, Switzerland, the United Kingdom, and the United States. In addition, the Commission of the European Economic Community sits as a full member of the Committee.

[12] Up to the year 1971 all these figures can be converted to SDRs at the rate of $1 = SDR 1.

The data in Table 2 include flows to oil producing countries, and developing countries in Western Europe, which are much further along in the development process than most of the other developing countries. Over the 1968–70 period, however, almost 89 per cent of the net private and official receipts of developing countries from DAC countries and multilateral agencies, and 96 per cent of the official receipts, went to non-oil-producing developing countries outside Europe.

The figure of $7.7 billion cited above for official development assistance from DAC countries amounted to some 0.35 per cent of DAC countries' gross national product. As against this, the International Development Strategy for the Second Development Decade adopted by the General Assembly of the United Nations called for each economically advanced country to increase its official development assistance to a minimum net amount of 0.7 per cent of its gross national product by the middle of the 1970s.[13] In 1971 values, this target would amount to some $15.5 billion.

b. "Additionality" of funds supplied by link schemes

If any scheme were established for providing development finance in connection with SDR allocations, it would be on the understanding that this should not be regarded as justifying any reduction in direct national assistance, present or planned, to developing countries. Nevertheless, it is possible that some decline in other flows to developing countries would in fact occur and, other things being equal, the greater such offsets the less would be the value of a link scheme.

So far as government aid is concerned, there is some reason to hope that in the case of most types of schemes, at any rate, offsetting reductions in national aid would be likely to fall significantly short of the amount of financial assistance provided under the link. In the first place, most governments have reasons for providing aid to specific recipients or for specific purposes over and above the general desire to provide development assistance to poorer nations, and these reasons would continue to operate. Second, the provision of additional aid in a "link" form might reasonably be attractive to governments and parliaments in that their own participation in such a scheme would tend to encourage the participation of other countries as well and thus exercise a multiplier effect. Third, the extent to which any country might be regarded as providing aid through the link would be difficult to measure (except for Type D schemes) and in some cases almost indefinable. On the other hand, particularly during the initial period of adjustment to the link, some developed countries might be disposed to cut the amount of the assistance they provide either because of difficulty in earning SDRs which they would no longer receive in allocations or because they feared an inflationary effect of earning these SDRs by way of additional exports.

The extended Fund facilities would be unlikely to provoke offsetting adjustments in national aid programs. As between the five different categories of "link" arrangements, schemes of Type D, where countries themselves provide development assistance on the basis of the SDR allocations they receive, would be the most likely to evoke offsetting reductions in other forms of national aid. This would be true even on the assumption that the assistance provided by countries in relation to their SDR allocations was channeled through DFIs; it would be even more true if the assistance were provided to developing countries directly. It is difficult to compare Type A schemes, on the one hand, and Types B and C schemes, on the other, from the standpoint of additionality. Insofar as developed countries believe that the DFIs exercise a beneficial effect on the use made of development assistance, they may be less disposed to cut their direct aid on account of link aid

[13] United Nations, General Assembly Resolution No. 2626 (October 24, 1970).

if the latter is routed via the DFIs. The contrary may be true, however, if there were established notions as to the amount of business which DFIs could usefully handle. This would give the advantage to Type B schemes, particularly those following under the second variant where the amount of aid attributable to the link would be difficult to measure. As regards Type E schemes, the main danger of offsetting reductions arises from the possibility that the countries that were paying interest and amortization on the balances held by the Fund might consider that they were financing the linked development assistance.

To the extent that the establishment of an arrangement linking SDR allocations with development financing resulted in a net increase in official (national and international) assistance on concessional terms, it might give rise to yet another partial offset in the form of a decline in private capital flows, either because DFIs, having more funds from official sources, had less need to borrow on private markets or because developing countries, receiving more official assistance, directly or via DFIs, borrowed less from private investors and lenders. This particular offset, however, might well turn out to be negligible, or nonexistent, if the strengthening of economic infrastructure of the recipient countries by official funds opened up, as it often does, more attractive investment opportunities for private capital.

c. Purchasing power of financial resources

All financial resources made available to developing countries under extended Fund facilities and link schemes of Types A, B, C, and E, would presumably be available for expenditure in any country, without "tying" provisions of any kind; one can be less sanguine that the same would be true of schemes of Type D.

The purchasing power in terms of importable goods of untied financial resources provided through the link might be significantly higher than is often the case with the aid provided by national governments. Generally aid-tying results in the recipient country purchasing from the donor country goods and services at higher prices than it would normally pay through international bidding. Haq, in one of the earliest studies on the cost of aid-tying,[14] stated that for "Pakistan the weighted average price of . . . 20 projects" came "out to be 51 per cent higher from the tied sources compared to the international bids," (p. 327) and for the total aid effort, aid-tying raised the average price of procurement, for Pakistan, by about 12 per cent (p. 331). Studies of other countries' aid experience place the excess cost of tied aid to the recipient at between 12 and 24 per cent.[15]

Thus, even in the unlikely contingency that aid provided under link schemes were fully offset by reductions in national aid, the real purchasing power of total aid would be likely to increase.

6. Other Dimensions of Aid

Given the volume of aid provided under any arrangement linking SDR allocations to development finance, its value to the developing countries may nevertheless vary accord-

[14] Mahbub ul Haq, "Tied Credits—A Quantitative Analysis" in *Capital Movements and Economic Development*, Proceedings of a Conference held by the International Economic Association, ed. by John H. Adler (New York, 1967), pp. 326–59.

[15] See *Proceedings of the United Nations Conference on Trade and Development, Second Session, Volume IV: Problems and Policies of Financing* (1961), and Thomas L. Hutcheson and Richard C. Porter, *The Cost of Tying Aid: A Method and Some Colombian Estimates*, Studies in International Finance, No. 30, Princeton University (Princeton, New Jersey: Princeton University Press, 1972), especially p. 5.

ing to (*a*) the terms on which it is provided, (*b*) the extent to which it is put to productive use, and (*c*) the manner in which it is distributed among developing countries.

a. Terms of link assistance

In considering the value of financial assistance given to developing countries, the interest cost of the assistance provided is of comparable importance with the amount. Indeed, it is only if the interest charged is below the economic and social return on the investments financed and below the marginal cost at which the money could be raised on the private capital market—if it could be raised at all—that additional official assistance has any value.

Under schemes (e.g., of Type B) in which additional allocations are made to developing countries, the interest cost to the recipients would not exceed the interest payable on the use of SDRs. This is currently 1½ per cent but is not unlikely to rise as the proportion of SDRs in world reserves increases. Provided that the currency value of SDRs is reasonably well maintained, however, it may be assumed that the interest rate on what amounts to a perpetual loan in SDRs can remain somewhat below the interest rate on short-term assets in reserve currencies, and would thus be substantially below the interest rates of some 7¼ per cent to 8 per cent presently paid by developing countries on the harder type loans made by DFIs (cf. Table 1).

In schemes of Type A, in which allocations are made to DFIs who then use the proceeds for development lending, it is to be expected that, to cover administrative costs, the interest charged to developing countries on loans financed by SDR allocations would be slightly (say, ¾ of 1 per cent) higher than the interest payable by the DFIs. This probably does not constitute a genuine difference from the charges on direct additional allocations to developing countries under Type B schemes since analogous costs (e.g., of finding and appraising projects) would in that case have to be met by the recipient countries themselves. It may be objected that DFIs do not give perpetual loans, so that the debt service burden to be met by developing countries would be higher, on account of repayment, in the case of Type A than in the case of Type B financing. Once again, however, the difference is misleading. DFIs can relend reimbursable loans again and again as reimbursement is made, so that, provided that all interest rates remain constant, the cumulative grant content of successive loans will be no less than in the case of a perpetual loan.

In what has been said above, it has been tacitly assumed that DFIs would use SDRs allocated to them to finance a special category of development loans. This might be inconvenient for institutions such as the IBRD/IDA, where IBRD-type lending is at a higher rate and IDA-type lending at a lower rate than might correspond to the rate of interest on SDRs. However, if it were felt necessary to exercise a strict accounting over the use made by the DFIs of link funds or to ensure that their distribution among recipient countries met certain tests, this would constitute an argument for using them to finance a separate and distinguishable category of development loans.

As was pointed out on pages 73 and 76 above, there are a variety of ways in which DFIs (under Type A schemes) and developing countries (under Type B schemes) can be relieved of part or all of the interest burden on "link" assistance. Techniques which rely on lowering interest on net use of SDRs by developing countries or by all participants have the drawback of depriving the countries in question of the appropriate incentive to hold SDRs. Of the techniques which involve giving interest relief on cumulative allocations, those which confine that relief most narrowly—e.g., to allocations to DFIs under Type A schemes and to the "developmental" part of the allocations to developing countries under Type B schemes—have the advantage of narrowing the amount of gross transfer required to achieve a given net transfer from developed to developing countries.

Such techniques, however, are not easily applicable to schemes of Type B of the second variant. As regards methods of financing the interest relief, those which place the burden squarely on developed countries, in proportion, say, to Fund quotas, rather than on all participants, have the merit of increasing gross transfers but involve the risk that these interest transfers will be counted against the aid efforts of the developed countries. The idea of meeting the SDR cost of the transfer by reducing *pro tanto* new issues of SDRs incurs the objection that it puts a good deal of the burden back on to the less developed countries, who would otherwise have received higher allocations, especially under Type B schemes. Moreover, the interest relief given to developing countries, in whatever form, involves a progressive discrepancy between holdings of SDRs and cumulative allocations, and a progressive decline in the proportion of new reserves in the form of SDRs that come from new allocations.

b. The productivity of the resources used

Here, apart from the question of distribution between countries discussed in the following subsection, there are two elements to be taken into account. The first is the extent to which the resources provided to the developing countries would in fact be used for development purposes. The second considers the soundness of the additional investment projects undertaken by the recipient countries.

In view of the mutual substitutability of resources of domestic and foreign origin, and in view of the impossibility of determining how a country would have used its resources in the absence of development assistance, it is not entirely possible to ensure that all the additional resources provided would in fact be used for development purposes rather than for public or private consumption or the improvement of the country's external position. Nor is it even entirely desirable or economic that a country should use *all* of any additions to its resources for additional development expenditure. Nevertheless, the rationale given for the link scheme is primarily that it will speed up the development of the recipient countries, and countries that forgo the SDR allocations that they might otherwise have expected, or bear the charges with respect to allocations provided for development, will want some assurance that the great bulk of the funds provided are used for development purposes. From this standpoint, extended Fund facilities and schemes which provide resources in the first instance to financial institutions have a certain advantage over schemes (e.g., of Types B and C) which involve direct transfers to developing countries. It might be possible to strengthen Type B schemes from this standpoint if recipients were obliged to give certain assurances to the Fund regarding the development use to be made of the allocations provided. However, it would be difficult to give economic content to such assurances, without extensive understandings on broad economic policies.

As regards the soundness of individual projects also, it will probably be felt to be an advantage of Type A schemes that the funds provided are directed toward projects that have been vetted not only by the recipient countries but also by the DFIs, some of which have accumulated considerable experience in project evaluation.

c. Distribution of assistance among recipients

It would seem to be consonant with the purposes of any link arrangement, and with the circumstances conditioning it, that in determining the appropriate distribution of the funds provided among developing countries account should be taken of three principal considerations:

(i) the relative stage of development of the countries in question;

(ii) the availability of opportunities for productive investment and the likelihood that these opportunities will be exploited; and

(iii) the extent, if any, to which developing countries themselves are forgoing allocations or bearing interest costs in connection with the scheme.

The first two considerations are self-explanatory; the third consideration is the practical one that if, for example, in the case of a Type A scheme, the residual national allocations represent a lower proportion of quota for the more advanced than for the less advanced developing countries, the former would expect to receive a higher proportion of the development loans financed by SDR allocations to DFIs than might naturally follow from considerations (i) and (ii) above, or than they would have expected to receive if the national allocations of all developing countries had represented the same percentage of quota.

Under Type B schemes it would be rather a simple matter, in principle, to combine considerations (i) and (iii) by providing that all developing countries received a higher proportion of allocations to quotas than developed countries; and the poorer developing countries a higher proportion than the more advanced ones. The number of categories into which developing countries could be divided for this purpose would of course be limited by statistical inadequacies and ambiguities.

In the case of Type A schemes where the aid is channeled through DFIs, it would be difficult, even if it were desirable, to hew to any specified distributional scheme by countries. Not only would strict adherence to such a scheme prevent the DFIs from paying due regard to consideration (ii) above, but it would also make it more difficult for them to insist on appropriate criteria for financing investment projects or development programs. Such established practices as an upper limit on the national income per head of recipients of IDA loans, while it represents an effort to give due weight to consideration (i) above, would be difficult to reconcile with consideration (iii). Some of these difficulties could no doubt be overcome by cooperative arrangements among DFIs to administer a special category of SDR-financed development loans.

Type B or Type C schemes thus appear to have a considerable natural advantage over Type A schemes from the standpoint of achieving a specific desired distribution of assistance, in accordance with considerations (i) and (iii). The latter, however, have a natural advantage with respect to (ii) since the DFIs, especially if they act in concert, are well placed to judge the availability of investment opportunities.

A possible solution to the distributional problem could be a mixed system under which part of the SDRs available for link purposes would be distributed to developing countries directly in the form of additional allocations, while the rest would go to DFIs to be distributed at their discretion.

7. The Timing Problem

In considering any link between SDR allocation and development finance, a question arises as to how far variations in such allocations, as determined by the global need to supplement reserves, could be absorbed by DFIs or developing countries without detriment to development, and as to what could be done under various schemes to mitigate the effects of such variations.

The first part of this question is very difficult to answer at this point in the discussion of the international monetary reform. Whether SDR allocations can expand steadily in response to the long-term growth in the global need for reserves or, on the contrary, must vary abruptly from one allocation period to the next depends on whether the aggregate amount and growth of official reserve holdings in the form of currencies can be brought under a sufficient degree of international control and on whether credit-linked reserve growth can be kept within due bounds.

There are various ways in which these difficulties could be overcome, by adjustments on the part both of the Fund and of the DFIs or developing countries.

As has already been indicated, under any type of "link" scheme other than Type C and possibly the second variant of Type B, it would be feasible to vary the proportion of SDR allocations directed to development financing in such a way that the amount assigned to such financing would develop differently from, and in general more steadily than, the amount of allocations as a whole. For example, provisions in the Articles of Agreement relating to the link might be such as to make it possible to change the proportion if need be on the occasion of each decision to allocate. The stability of developmental allocations—to DFIs in the case of Type A schemes, or to developing countries in the case of Type B schemes—might be still further safeguarded if such allocations were made for periods longer than the normal allocations to countries on a quota basis.

There are, no doubt, limits to the extent to which stabilization of the amounts of SDRs assigned to development finance—at the cost of destabilizing the amounts allocated to countries on a quota basis—could be achieved. For example, if it were judged that total allocations in any period should be abnormally low, it might be impossible to maintain allocations to DFIs (in Type A schemes) or "additional" allocations to developing countries (in Type B schemes) without asking developed country participants to accept some cancellation of previous allocations. Though such a situation should arise only when reserves in the world were deemed relatively plentiful, it might be very difficult to secure consent to such a step. In such circumstances, there would be a tendency either to squeeze developmental allocations or, if these had been predetermined, to expand total allocations beyond the point that would be justified on grounds of global reserve need. A general difficulty about all attempts to stabilize developmental allocations by fixing the amounts for long periods ahead is that prudence might tend to set these amounts at a figure which in the light of the secular expansion in the world economy would turn out to be low.

Some contribution to bridging any timing discrepancies could also be expected on the part of the immediate recipients of the development-linked SDRs, whether DFIs in the case of Type A schemes or developing countries themselves in the case of Type B or Type C schemes. These recipients could accumulate reserves during periods whose allocations for development temporarily outstripped development expenditures, and use them during periods when development expenditures exceeded allocations. Such a buffer stocking of liquid assets, however, is not without difficulty in itself, and not without disadvantages from the standpoint of the supply of world reserves.

So far as actual development expenditures are concerned, the difficulties and the disadvantages occasioned by irregular allocations are probably greater in the short run for Type B than for some Type A schemes. The DFIs are accustomed to holding large sums in liquid balances pending disbursement, and would be able to maintain the flow of disbursements associated with past commitments despite the variation in the receipts from allocations to them and from other sources. New commitments admittedly would be more severely affected by irregularity in allocations, though even here the DFIs might be able to maintain a reasonable flow by calling on reserves or market borrowings. Developing countries, on the other hand, might be tempted to spend abnormally high developmental allocations on less valuable projects or even to finance expansion in consumption, and might have greater difficulty in obtaining finance from other sources when developmental allocations were low. This advantage of Type A schemes, however, would apply much less to schemes under which reserves derived from the "link" are segregated from other reserves and used by the DFIs for a specific type of lending.

There is another kind of difficulty in harmonizing the timing of reserve creation and of development assistance which is specific to Type A schemes, namely that which arises

from variations in the amount of SDRs that may be held by DFIs at any time pending their disbursement. There are two techniques whereby DFIs might be able to avoid repercussions on world reserves from such hoarding of SDRs during certain periods. One is for the DFIs to use SDRs immediately on receipt and to hold the proceeds, pending their disbursement, in a variety of currencies.[16] Alternatively, the Fund might regard SDRs held by the DFIs as not forming part of the world reserve stock and, in determining the amount of new allocations, might look upon expected SDR disbursements by DFIs rather than allocations made to them as constituting an addition to world reserves. Neither of these techniques could easily be applied in the case of direct developmental allocations to developing countries.

How far the various techniques described would be successful in overcoming the problems arising from variability in SDR allocations would depend to a considerable extent on the amount of link financing relative to other forms of financing. If DFIs were financed entirely by the link, they might find it difficult to operate smoothly unless they could count on a steady stream of allocations. Also, if DFI financing absorbed too large a proportion of the amount of SDRs created in most years, it would be more difficult to maintain a steady stream of allocations when the need for reserves fluctuated. These considerations argue in favor of avoiding an amount of link financing which would constitute an excessive proportion either of total DFI financing or of the expected normal flow of reserve creation by means of SDRs.

8. Effects on the International Monetary System and the Adjustment Process

Under this head may be considered the effects of the link on (*a*) aggregate demand in the world as a whole, (*b*) decisions to allocate SDRs, (*c*) general confidence in SDRs and the willingness of countries to participate in the SDR system and in allocations of SDRs, (*d*) payments imbalances and their adjustment, and (*e*) the real income of developed countries.

a. Effects on aggregate demand

Normally, new allocations of SDRs are added to the reserves without entering, in the first instance, into the income stream of the recipient countries. They may affect the demand management policies of these countries by encouraging demand expansion or by mitigating the contraction that might otherwise result from balance of payments difficulties. It is, however, the intention of all "link" arrangments that amounts allocated for development purposes should, within a brief period, enter into development spending, and thus into the income stream either of the developing countries themselves or of the developed countries which supply their demands for imports. Thus, the mechanical effect of a link is more expansionary than the allocation of the same amount of SDRs to countries across the board. "Link" aid may also be more expansionary than national aid appropriated as part of budgetary expenditure insofar as countries operate on budget balancing principles, rather than use the budget to achieve a desired level of aggregate demand in their economies.

In national economies, a given increase in government expenditure is more expansionary than a tax reduction of the same amount, but a government's choice between increasing expenditure and reducing taxation is not always made in favor of the latter, or between decreasing expenditure and increasing taxation always in favor of the former. Rather, these decisions are made on the basis of consideration both of the cyclical situa-

[16] The important point here, if a contractionary effect on world reserves is to be avoided, is that the currencies accumulated should not consist to a disproportionate extent of reserve currencies.

tion and of the importance attached to public expenditure (including the provision of resources to underprivileged individuals) as against private expenditure.

By analogy, in the international context, it would be difficult to make decisions on link financing depend from year to year on a judgment of the cyclical situation in the world, from which it does not follow, however, that that situation will at all times be tending toward excessive, rather than deficient, demand. Some sort of balance has to be kept between international objectives (including the provision of resources to low-income countries) and the needs of individual countries.

The formulation of adequate demand policies has to be carried out, in the last resort, on a national basis. These policies, in each country, have to take account not only of demands on national output arising from decisions taken in that country, such as decisions on government expenditure and domestic investment, but also of demands, including the demand for exports, arising out of decisions abroad. To be successful, demand management policies cannot be limited to budget balancing but must be responsive to expenditures arising from different sources. Among these, expenditures attributable to any link financing could add but little to the problem of demand management with which governments, in any event, must deal. The amounts potentially involved, though varying somewhat according to country, would in general constitute an infinitesimal part of the aggregate demand for the products of the countries concerned; for example, a developmental allocation of $1 billion, spent in its entirety on the exports of developed countries, would be unlikely to add more than 1 per mille to the demand for the output of any one of them. (See Table 3.)

b. Effects on decisions to allocate SDRs

Article XXIV, Section 1 of the Articles of Agreement lays down the principles and considerations which should govern all Fund decisions with respect to the allocation and cancellation of special drawing rights, and specifies that in all such decisions "the Fund shall seek to meet the long-term global need, as and when it arises, to supplement existing reserve assets in such manner as will promote the attainment of its purposes and will avoid economic stagnation and deflation as well as excess demand and inflation in the world."

Among the purposes referred to—those specified in Article I—is that of contributing to the development of the productive resources of all members, but it is clear from the context of Article I(ii) that this purpose is to be pursued by the Fund not directly through the provision of development finance but indirectly by facilitating the expansion and balanced growth of international trade.

Advocates of a link between SDR creation and development financing have generally emphasized the principle that, even after the establishment of such a link, the allocation of SDRs should continue to be determined in the light of the global need for reserves and not the need for development financing. It is assumed that this would remain the basic principle guiding the amount of reserve creation. Nevertheless, as a realistic matter, one should assess the risk that, if any link were established, its existence might influence those responsible for arriving at decisions to allocate SDRs in a manner not entirely consistent with this principle.

The existence of a link would tend to give developing countries an additional interest in larger allocations of SDRs, especially in schemes where developmental allocations constituted a constant proportion of the total; such countries, however, generally tend to favor large allocations even in the absence of a link. Any bias introduced into decisions to allocate by the existence of a link is likely to arise out of its effect on developed countries. In this respect a variety of considerations arise and the net effect, if any, which the

Table 3. Exports and Gross National Product of Developed Countries

(In billions of U.S. dollars, unless otherwise indicated)

Developed Countries*	1971 Exports	1971 GNP[1]	Additional Exports[2]	Exports (As percentage of GNP)	Additional Exports[2] (As percentage of GNP)
United States	44.1	1,050.4	.264	4.2	0.03
Canada	17.7	92.2	.019	19.3	0.02
Japan	24.0	224.1	.194	10.7	0.09
Australia	5.1	35.4	.014	14.4	0.04
South Africa	2.2	19.0	.010	11.6	0.05
Belgium-Luxembourg	12.3	30.1	.024	40.9	0.08
France	20.5	162.8	.093	12.6	0.06
Germany, Fed. Rep. of	39.0	216.4	.126	18.0	0.06
Italy	15.1	101.5	.061	14.9	0.06
Netherlands	14.0	36.2	.025	38.7	0.07
Austria	3.1	16.7	.009	18.6	0.05
Denmark	3.6	19.3	.007	18.7	0.04
Finland	2.4	11.4	.007	21.1	0.06
Iceland	0.2	0.6	.000	25.1	. . .
Norway	2.6	14.3	.007	18.2	0.05
Sweden	7.4	35.6	.021	20.8	0.06
United Kingdom	22.4	135.0	.120	16.6	0.09
Total	235.7	2,201.0	1.0	10.7	0.05

*Part I Member Countries of the International Development Association (countries that are more advanced economically and contribute to the resources of the IDA) that participate in the Fund's Special Drawing Account.

[1] In certain cases, gross domestic product.

[2] Per $1 billion "link;" see Table 4.

existence of a link may have on the attitudes of developed countries toward SDR allocations is ambiguous and uncertain. Factors militating in favor of larger allocations could be, first, the desire of developed countries not to hamper the functioning of development agencies or to disappoint the expectations of developing countries and, second, the uncertainty of each developed country, under a "link" arrangement, about precisely how much of any allocation would ultimately accrue to it through additional exports. But the fact that, under a "link," any addition to total allocations would involve an additional transfer of real resources and an addition, however slight, to inflationary pressure would normally provide an incentive in the opposite sense. Much here might depend on the nature of the scheme in question. For a given amount of link finance, schemes in which the amounts assigned to such finance were not closely geared to total allocations, and those in which the countries receiving such finance bore all or most of the interest cost involved in its use, would be less likely to predispose the developed countries to an overconservative view—or more likely to predispose them to an overliberal one—regarding the amount of total allocations.

Whatever may be the weight of these various considerations, it has to be recognized that the present method of bringing SDRs into countries' reserves is not free from pressures either; the issue to be judged, therefore, is whether any method involving a "link" would be open to greater and more dangerous pressures than the existing one.

c. Effects on "confidence" in SDRs

"Confidence" in the SDR is a complex conception which comprises such elements as willingness to become a participant in the Special Drawing Account, willingness to support allocations when these are justified by considerations of international liquidity, willingness to accept allocations rather than to "opt out" under Article XXIV, Section 2(*e*), and willingness to accept SDRs and to hold them. Such confidence is of great importance if the SDR is to become the principal reserve asset in the international monetary system of the future.

Considerable importance in this connection may attach to the repercussions which a "link" scheme would have on the provisions of the Special Drawing Account with respect to interest rates. It has already been suggested that an excessive transfer of the interest burden associated with developmental allocations to the developed countries might make the latter unduly conservative in their appraisal of the global need for SDR allocations in general. It also seems possible that if participation in the Special Drawing Account involved for developed countries obligations with respect to development assistance (such as additional acceptance obligations, contingent repayment obligations in the event of the withdrawal of another participant, and the assumption of interest costs) that were large in relation to direct allocations to the countries in question, such participation might become less attractive both to present participants and to countries now nonparticipants, and might induce a larger use of the "opting-out" provisions if these provided an opportunity to avoid such obligations. Clearly this question arises mainly with respect to Type A and Type B schemes, and not with respect to Type D schemes in which participants in the Special Drawing Account may, if they wish, refuse to join.

Further effects might derive from any arrangements to impose the additional interest burdens arising out of the link on the developed countries. If this were done in proportion to the current allocations of these countries, there might be a considerable incentive for them to opt out of such allocations. If, as is perhaps more probable, these burdens were imposed in proportion to cumulative allocations, the incentive to opt out would be substantially weaker, while if they were imposed in proportion to quotas there would be no incentive to opt out at all. On the other hand, some of the arrangements which provide a relatively weak incentive to "opt out" of individual allocations provide a relatively strong incentive to countries to withdraw from participation altogether.

It is difficult to gauge the strength of such incentives. In order to eliminate all incentive for developed countries either to opt out of individual allocations or to withdraw from participation, it would be necessary either to provide that the interest burden would fall only on those countries that had undertaken to accept it—which would give schemes of Types A and B much of the character of Type D schemes—or else to refrain from imposing on developed countries any of the burden of charges arising with respect to the allocations for development purposes, in which case the developing countries would be receiving assistance in the form of (fairly cheap) loans rather than grants. Perhaps the most plausible conclusion is that in any "link" scheme that might be adopted the extent to which the charges on the allocations would be assumed by developed countries—and this, as already pointed out, is a matter of degree—would be such as to leave little likelihood that either opting out or withdrawal of participation would occur to any significant extent.

It is sometimes argued that the creation of SDRs by development spending rather than by allocation would reduce the willingness of countries to hold SDRs. If so it would be detrimental to all proposals for international monetary reform that involve a voluntary substitution of SDRs for currencies or gold in reserves. It would also tend to increase the propensity to "opt out" of SDR allocations, and might even reduce the amount of such allocations. It is, however, difficult to see why the mere fact that SDRs were put

into circulation by way of development financing should in itself impair the quality of the SDR as an asset. Any deterioration in the "backing" of the asset in the event of the holding country's withdrawal from the Special Drawing Account would be slight if the arrangements suggested at page 76 above were adopted. The main danger of unwillingness to hold SDRs might arise if the establishment of a "link" were to have the consequence that interest rates on SDR holdings were kept unduly low in order to avoid raising the charges on allocations, including developmental allocations.

d. Effects on the adjustment of payments disequilibria

The institution of a "link" scheme and any subsequent expansion of the amounts transferred under a "link," insofar as it was not accompanied by offsetting changes in other forms of financial assistance, might be expected to produce temporary effects on the balances of payments of the countries concerned, leading to possibly longer-lasting effects on the level of their reserves.

So far as the developing countries are concerned, the effects would in most cases be such as to alleviate, at least temporarily, their payments difficulties, and to assist them in reducing the level of their restrictions and raising the level of their reserves. The last-mentioned effect might be somewhat greater under Type B than under Type A schemes. In the absence of knowledge about how "link" aid would be distributed, it is not possible to say much more about the balance of payments effects on these countries.

As regards developed countries which would be called upon to make a net contribution to aid through the "link," it may be assumed that there would be a small and temporary negative influence on their balance of payments as a group corresponding to any increase in the reserve holdings of the developing countries. The major short-run effect on the reserves of individual developed countries, however, might be expected to arise from discrepancies between the proportions in which the several countries would forfeit direct SDR allocations and the proportions in which they would experience an additional demand for their exports. On the assumptions that the developed countries listed in Table 4 would forgo direct allocations in proportion to quota, would achieve in the aggregate an equal amount of additional exports to other countries, and would achieve individually additional exports to other countries in proportion to their existing exports to the latter, the outcome might be along the lines suggested in that table. The actual outcome would probably differ from that shown in Table 4, first because of changes in trade shares that have occurred since 1969, second because of the difference between the composition of marginal and of total demand in developing countries, and third because there might be some tendency for marginal demand for exports to be met more than proportionally from sources where there is ample excess productive capacity.

Short-term balance of payments effects on developed countries might also be complicated by capital flows from countries where there was plenty of excess capacity to meet the additional export demand to countries where there was little excess capacity.

One further observation needs to be made when "link" schemes are considered in the context of the adjustment process. The effect of the introduction of such schemes is that reserve increases in developed countries will to a larger extent take place through current account surpluses and less through SDR allocations to them. Insofar as these countries tend to pursue current account, rather than reserve, aims in their balance of payments policies, the channeling of reserve creation through link schemes could help to relieve tensions in the adjustment process.

e. Magnitude and distribution of any "burden" of the "link"

The question examined in this section is how real income losses (if any) incurred by developed countries as a result of the "link" might be distributed among these countries

Table 4. Forgone SDR Allocation and Additional Exports Provided by Developed Countries Through a Link

(In millions of U.S. dollars)

Developed Countries[1]	Forgone SDRs[2] (1)	Additional Exports[3] (2)	Column (2) less Column (1) (3)
United States	343	264	−79
Canada	56	19	−37
Japan	61	194	133
Australia	34	14	−20
South Africa	16	10	−6
Belgium-Luxembourg	34	24	−10
France	77	92	15
Germany, Fed. Rep. of	82	126	44
Italy	51	61	10
Netherlands	36	25	−11
Austria	14	9	−5
Denmark	13	7	−6
Finland	10	7	−3
Iceland	1	0	−1
Norway	12	7	−5
Sweden	17	21	4
United Kingdom	143	120	−23
Total	1,000	1,000	0

[1] Part I Member Countries of the International Development Association (countries that are more advanced economically and contribute to the resources of IDA) which participate in the Special Drawing Account.

[2] Direct allocations forgone in order to provide the equivalent of $1,000 million for a "link," in equal proportion to quotas of January 1, 1972.

[3] Calculated on the basis of shares in 1969 exports by country. It is further assumed that only the developed countries listed above would accumulate reserves arising from link-financed trade and that all other countries would offset any additional exports by additional imports.

after any necessary balance of payments adjustments had been carried out. It will be assumed that these adjustments would be such that each country that forwent SDR allocations as a result of the "link" would earn a corresponding amount of reserves in the form of SDRs through a surplus in the balance of payments.[17]

In these circumstances, link schemes—provided they did not involve the assumption by developed countries of any part of the interest cost of the amounts made available under such schemes—would affect developed countries adversely only to the extent that the interest they received on the additional SDRs they had to earn fell short of the loss of income from real investment forgone (to make room for a more positive current account) *plus* any net loss of interest income from abroad that may result from an adjustment of

[17] This disregards any small once-for-all loss of reserves to developing countries that may take place as a result of the "link."

the capital account forming part of the total adjustment to the "link." If the rate of return on real investment, the rate of interest on financial capital moving between developed countries, and the rate of interest on SDR holdings were all equal, the link would entail no burden on industrial countries, though it might still benefit developing countries where the return on capital was higher. If the rate of return on real capital in each country were equal to the international interest rate on financial capital and both were in excess of the rate on SDRs, there would be a "link" burden. The magnitude of this burden would equal the amount transferred under the link, multiplied by a factor below unity reflecting the proportional difference between the interest rate on SDRs and that on the other assets. This burden would be distributed among developed countries in proportion to the amount of SDR allocations forgone, i.e., in proportion to quotas.[16] If, by contrast, the interest rate on SDR holdings were equal to the rate on international financial capital and both were below the return on real capital, and if the latter were the same for all developed countries, the "link" burden would be distributed in proportion to the amount of real capital forgone; this, in a world of internationally mobile capital, might be a distribution roughly proportional to gross national product.

In reality, the return on real capital will usually be higher than the interest rate on international financial capital, and that in turn may be expected to be higher than the rate on SDRs. This would imply a distribution of the burden somewhere between those described above.

In schemes involving the assumption by developed countries of the interest cost of developmental allocations there would, of course, be an additional burden on these countries; this burden would presumably be shared among them roughly in proportion to quotas.

9. Conclusion

A great variety of possible schemes for providing finance for development as a by-product of the process of reserve creation through SDR allocation have been briefly considered in this paper. While no attempt has been made to work out in detail the technical aspects of any of these schemes, it appears unlikely that any of them would have to be considered technically inoperable. Their merits and demerits are to be assessed primarily on political and economic grounds.

It would be premature at this stage in the reform of the international monetary system, when it is as yet uncertain what the future of the SDR as a reserve asset will be and to what extent SDR allocations will effectively provide the primary element in the growth of world reserves, to attempt to balance out the pros and cons of "link" schemes in general or of any particular scheme. However, there are some schemes that would almost certainly reduce the cost and improve the quality, and would very probably on balance increase the quantity, of the financial assistance provided for development. On the other hand, great care would be required to ensure that using the SDR system to serve a second purpose—that of promoting development—did not impair its efficiency in the pursuit of its primary aim. The risk cannot be entirely excluded that some of the schemes, particularly those that attempted to go furthest in being helpful to developing countries, might, if applied on too ambitious a scale, impair the willingness of other countries to accumulate SDRs, accept allocations, or even continue participation in the SDR system.

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[16] This follows from the fact that, assuming that each country adjusts to any "link" in such a manner that its reserves are not affected, the loss of real investment (equals the improvement in the current balance) plus the net amount of additional borrowing (the improvement in the capital account) must equal the amount of allocation forgone.

Direct repercussions of "link" schemes on the aggregate demand situation in the world are ambiguous and not likely on balance to be important. The effects of such schemes on total allocations of SDRs will, in all probability, affect the *timing* of allocations much more strongly than their cumulative *total* over time.

This is part of the general difficulty of synchronization between development needs and global reserve needs—a difficulty which cannot be completely resolved but could be mitigated by flexibility on the part of the Fund in the proportion of total allocations directed to development, and by efforts on the part of the recipients to stabilize their development expenditures.

In considering individual "link" schemes, the possibility should be borne in mind of having more than one scheme in operation simultaneously or having "hybrid" schemes which combine features of the various schemes discussed above.

Among the types of link schemes that have been distinguished, Type C schemes, which would give developing countries additional quotas, and Type D schemes, which depend on the net receipts, in the form of interest or amortization, of a possible substitution account, would be likely to yield rather small amounts. The use of SDR issues to finance new longer-term lending facilities in the Fund would be likely to channel only moderate amounts to developing countries, at least initially, but would offer considerable guarantees of effective use of the resources provided and of additionality. As indicated earlier, Type E schemes or extended Fund facilities might be applied in conjunction with schemes of Types A or B.

Type D schemes, under which developed countries would themselves provide development assistance in amounts related to the SDR allocations they receive, are probably at a disadvantage compared with other types of schemes with respect to the amount of assistance likely to be available, its additionality, and the extent to which it is freely expendable in all countries.

Type A schemes (and the analogous Type D and Type E schemes) have the advantage over Type B schemes (and the analogous Types D and E schemes) in that the resources they provide are more certain to be devoted to developmental purposes, and they may be better able to absorb the inevitable variations in the amount of SDRs allocated for development without undue disturbance to actual development expenditure. Type B schemes, however, probably have an advantage over Type A schemes with respect to additionality and are certainly better able to achieve a desired country distribution of the development assistance provided. If Type A schemes are preferred, their weaknesses with respect to additionality and equity of distribution might be minimized if allocations to DFIs were used to finance a new and separate form of lending. The possibility of a hybrid form of scheme, combining the control over use inherent in Type A schemes with the distributional advantages of Type B schemes, should not be overlooked.

An important distinction, which cuts across the lettered categories, is between schemes in which the interest burden arising with respect to the developmental allocations is assumed by developed countries and schemes where it is not so assumed: it is analogous to the distinction between grant and loan aid. Schemes involving grant aid are clearly more beneficial to developing countries than those involving loan aid, but it might be prudent not to go too far in this direction in order to forestall any danger that some developed countries, in their reluctance to assume the interest burden, might refuse allocations or even be tempted to withdraw from participation in the SDR system. However, if the avoidance of special arrangements for the interest payments on developmental allocations led to the maintenance of unduly low interest on SDRs in general, this might be just as dangerous to the monetary system.

Another cross-classification of schemes is between those based on fixed proportions between developmental allocations and those that provide for a steady flow or a steady

rate of growth of developmental allocations from one basic period to the next. The latter arrangement—the case for which is strengthened (under Type A schemes) if the DFIs are obliged to segregate the reserves demand for SDR allocations for a special type of lending—would contribute to the stabilization of development expenditure, but would call for considerable self-discipline on the part of developed countries to ensure that total allocations continue to be governed by considerations germane to the global need for reserves.

If part of SDR creation was put into circulation through Type A schemes, the allowance for such amounts in determining the appropriate magnitude of SDR allocations to countries would have to reflect not the allocations to be made to DFIs during a given basic period, but the amounts likely to be disbursed by them to countries during that period. The deductions to be made for such disbursements would be comparable to the allowances now made for reserve creation in forms other than SDRs, or the allowance that would have to be made for SDRs put into circulation through extended Fund operations.

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Asset Settlement

In February 1973 the Research Department prepared a paper comparing the various proposals that had been suggested in the Committee of Twenty for achieving consolidation, convertibility, and asset settlement. The paper was revised to take into account the discussion in the Executive Board on this topic and is published as (A) below.

A second paper on the same topic, prepared in the Research Department in May 1973, analyzed the technical choices involved in choosing between alternative arrangements for achieving consolidation, convertibility, and asset settlement. This paper, as revised after discussion in the Executive Board, is published as (B) below.

(A) Approaches to Consolidation, Convertibility, and Asset Settlement

(February 28, 1973)

1. Introduction

A number of proposals concerned with consolidation, and aimed at restoring some form of convertibility of official holdings of U.S. dollars into primary reserve assets or at introducing asset settlement for reserve currency countries, were advanced at the meeting of the Deputies of the Committee of Twenty in Paris. Four specific proposals, advanced by Italy, the United States, the United Kingdom, and the Federal Republic of Germany, will be described and compared in the present paper. The texts of these proposals are presented in the annex to this paper.

It may be helpful to preface the discussion by defining the principal terms that are used. "Consolidation" is used to refer to any operation by which the holders of reserves in the form of short-term currency assets exchange these for an alternative form of asset which does not constitute a liquid claim on the reserve center. Consolidation may take two forms. The first, known as "substitution," involves the replacement of liquid reserve currency claims by liquid claims on the international community (SDRs) in the portfolios of reserve holders; the counterpart to this replacement is the acquisition of a claim on the reserve center by the Fund. The second, known as "funding," involves the replacement of liquid reserve currency claims by illiquid reserve currency claims in a bilateral deal between the reserve holder and the reserve center; there might, of course, be a series of such bilateral arrangements pursuant to some internationally agreed principle.

The term "convertibility" is used in the present paper to refer to the right of official holders to obtain conversion of holdings of foreign exchange into other reserve assets. The holder of a convertible currency will be described as having a right to "request conversion," and the issuer as having an obligation to "convert." Under some arrangements there would be an obligation on those acquiring reserve currencies in excess of some limit to exercise their right to request conversion.

"Asset settlement" is defined as a system under which the payments imbalances of all countries, including reserve centers, are settled by the transfer of reserve assets (or else

by the extension of negotiated credits) rather than by variations in outstanding reserve currency liabilities. It therefore places an obligation on the issuer of a reserve currency to ensure the actual conversion of its payments imbalances.

Balance of payments surpluses and deficits are to be interpreted as referring to the official settlements concept.

2. Description of Proposals

All of the proposals to be examined in this paper envisage the possibility of creating a substitution facility in the Fund. This could be done through instituting an account, which will be referred to as a substitution account, that would engage in one or more of three types of transactions.

(i) It would be entitled to sell specially created SDRs against outstanding holdings of reserve currencies. To the extent that such sales occurred, the account would obtain a claim against the reserve center.

(ii) It might engage in transactions with the reserve centers intended to secure asset settlement of the reserve currency countries' imbalances. When a reserve center was in surplus (deficit), the account would buy (sell) its currency, in exchange for SDRs, in an amount that resulted in the reserve center gaining (losing) a quantity of reserve assets equal to its surplus (deficit).

(iii) It might be used to provide foreign exchange in exchange for SDRs to countries with a balance of payments need or to restore their working balances.

A substitution account could appropriately deal with other reserve currencies, e.g., the pound sterling, in the same way as with the U.S. dollar.

If it were decided to create a substitution account it would be necessary to agree on the terms on which the reserve centers would service the account's assets. These terms would cover interest rates, possible amortization, and the unit in which the assets were denominated.

(*a*) *The Italian proposal.* The Italian proposal envisages the creation of a substitution account with all three of the functions listed above. Conversion would cease to be a bilateral matter between reserve holders and reserve centers. Instead, countries requesting conversion of reserve currencies would obtain SDRs from the account, and countries requiring foreign exchange for intervention to finance a deficit might obtain it from the account in exchange for SDRs. The account would sell (buy) SDRs to (from) a reserve center to the extent that the center's surplus (deficit) had been financed by a reduction (increase) of its liabilities, thus securing full asset settlement. There would not normally be any restrictions on the composition of the reserve portfolio of individual countries, except by way of a gentleman's agreement by the major reserve holders to a limited initial substitution of SDRs for reserve currencies.

Countries gaining reserves would do so initially by acquiring foreign exchange in the market, and there would be no obligation on them to request conversion of this foreign exchange into primary reserve assets. If the deficit countries were using SDRs to acquire foreign exchange from the account rather than running down their foreign exchange holdings, the account would lose foreign exchange and gain SDRs, resulting in what may be termed "deconsolidation." (The same result would occur if it was the reserve center that was in deficit and therefore surrendered SDRs to the account.) As a result of such a process the account might exhaust its holdings of a reserve currency, thus making it impossible to reconcile freedom of portfolio choice with asset settlement. In such a situation it is envisaged that asset settlement would be maintained, and a renewed build-up of international reserves would be averted, by invoking the designation mechanism to designate

certain countries to receive SDRs and provide the reserve currency. But this solution would be regarded as only a temporary one: such a revealed preference for reserve currencies would be taken as evidence that there was a need to make the holding of SDRs more attractive.

(b) *The U.S. proposal.* The U.S. approach to the problems discussed in this paper has not been cast in the form of a proposal comparable to the other proposals considered, but it is sufficiently well defined to justify providing a similar summary and analysis. It appears to envisage that if a substitution or analogous facility were to be created, its function would be limited to the first of the three possible roles of a substitution account and would be confined to arranging a once-for-all substitution of a part of existing reserve currency holdings by SDRs, at the option of the holder. The time limit on the use of the substitution facility would not diminish the freedom of choice of the holder, since the latter would normally be able to seek conversion of its holdings later, from the reserve center. However, a country whose holdings of primary reserve assets exceeded a "convertibility point" would lose the right to request conversion of holdings of foreign exchange in excess of that point. In addition, the issuing country would have the right to limit or prohibit other countries from adding to their holdings of its currency, thus compelling other countries to request conversion of any further balances of its currency that they might acquire, or to switch to another currency. It is not clear what would happen if a country were forbidden further accumulation of a currency when its primary reserves were above the convertibility point.

The U.S. paper envisages these arrangements being operated in conjunction with a system of multicurrency ceiling intervention. Under this system the participating countries when in surplus would acquire the currencies of whichever other participants were in deficit, so that the currencies of all participants would become to some extent "reserve currencies," and the use of this term in connection with the U.S. proposal should be interpreted in this broader sense. The currency acquired in intervention could be used in one of three ways: (i) to acquire holdings of their own currency held by other participants; (ii) to hold in their reserves, provided the issuer acquiesced; (iii) to acquire primary reserve assets from the country whose currency was bought. There are reasons (which are discussed later in this paper) for believing that the operation of the U.S. proposal would be strongly influenced by whether or not a convention were established that countries acquiring foreign exchange in intervention should normally be expected to request conversion into primary reserve assets.

The U.S. paper mentions that designation would be superfluous under a system of ceiling intervention, but the designation procedure, or something akin to it, would presumably need to be retained to ensure that countries not participating in the multicurrency intervention arrangements were able to use their SDRs.

(c) *The U.K. proposal.* The U.K. proposal envisages that each country would agree to limit its holdings of each reserve currency to a prespecified level. Countries would be obliged to present any accretion of foreign exchange above this level to the reserve center, which would be obliged to convert it into primary reserve assets. In normal cases the limit would initially be set at no more than the country's holdings of reserve currencies immediately before the scheme came into operation. On periodic settlements, countries would have the option either of restoring their holdings of reserve currencies by purchase against SDRs or of accepting a new and reduced level of reserve currency holdings which would become the new limit for future settlements. Countries would be permitted to exchange their reserve currency holdings for SDRs from the substitution account (either directly or indirectly through the reserve center, which would thereby become entitled to sell its currency to the account in exchange for SDRs up to the same amount), and initially substitution would be limited to the extent to which countries voluntarily availed

themselves of this possibility. However, a country which subsequently ran a deficit and financed this by drawing on its foreign exchange holdings rather than settling in primary reserve assets would thereby also reduce the permitted maximum level of its foreign exchange holdings. A decline in total holdings of a reserve currency could thus result from (i) substitution of SDRs for the reserve currency, (ii) imbalances among other countries, insofar as deficit countries ran down their foreign exchange holdings while surplus countries were unable to add to their holdings because they were already at the permitted level, (iii) a surplus by the reserve center; in the last-mentioned case the reserve center would be entitled to acquire SDRs from the substitution account in an amount equal to its surplus, in exchange for its currency. The account would perform the first two of the possible roles of a substitution account. However, the scheme would also provide for controlled increases in permitted foreign exchange holdings where experience shows the permitted level to be inadequate to provide working balances.

(d) *The German proposal.* The German proposal was advanced by Mr. Pöhl in his statement to the Deputies of the Committee of Twenty during the afternoon of January 24, 1973. It envisages all countries agreeing to keep the main part of their monetary reserves in primary reserve assets, and to restrict foreign exchange reserves to a specified maximum needed as working balances. These maximum limits, which should be narrow ones, would be determined by the Fund according to "uniform principles." The Fund would have the power to grant exceptions in the case of extraordinary developments. There would be an obligation to present foreign exchange in excess of these limits for conversion into primary reserve assets; there would be no right to request conversion of foreign exchange holdings so long as they were below the limits. The right to hold working balances would be limited to the intervention currency or currencies of the country concerned. All foreign exchange reserves should be held with the monetary authorities of the reserve center.

The system would require the consolidation of the existing reserve currency holdings in excess of working balances. Insofar as it was desired to change only the composition, and not the level, of reserves, this could be accomplished through substitution of assets in the Fund, such as SDRs, for reserve currencies. Any substitution facility created for this purpose would be limited to the first of the three possible roles of a substitution account. However, holdings of reserve currencies which originated in the abnormal capital flows of recent years should be regarded as only a temporary addition to world reserves and should be liquidated as and when the capital flows are reversed; this could be accomplished by the separation of such balances into bilateral accounts that would be used only to finance a reflux of capital to the United States. No details were presented on the method that would be used to establish when a country would be entitled to draw on such a bilateral account.

3. Comparison of the Proposals

A number of objectives have been mentioned as relevant in selecting arrangements regarding consolidation, convertibility, and asset settlement. It would appear that the following list, the order of which is not intended to imply any judgment on the relative importance of the different objectives, provides a reasonably complete coverage of the objectives that have been judged to be relevant:

(i) the avoidance of political tension arising from the decision as to whether to convert;

(ii) an equitable participation in the adjustment process by reserve centers;

(iii) the avoidance of undue pressure on deficit countries as a result of excessive surplus positions of some other countries;

(iv) the control of international liquidity;

(v) the provision of supplementary liquidity to meet abnormal situations;

(vi) the enhancement of the role of the SDR;

(vii) the possibility for reserve centers to participate on an equal footing in exchange rate flexibility;

(viii) freedom of portfolio choice in determining the composition of official reserves;

(ix) an equitable allocation of the benefits of reserve creation;

(x) the avoidance of a build-up of reserve currencies to the point of precipitating confidence crises.

These objectives are accorded different priorities by different countries, and this is one of the reasons underlying the differences between the proposals that have been advanced. The following analysis attempts to clarify the relationships between the different plans and the objectives that have been listed above. It does this by considering six features, each of which is first briefly related to the objectives. This is then followed by a discussion on a comparative basis of the extent to which each feature is represented in the different plans.

(a) Multilateral settlement

The proposal that conversion should be centered multilaterally in the Fund rather than continuing to be a bilateral matter between reserve holders and reserve centers is of relevance in connection with objective (i). It has been argued that the system of convertibility as it operated in the 1960s made decisions to convert or not to convert in part dependent on political considerations. The Italian plan seeks to prevent a repetition of this by making asset settlement mandatory and placing the responsibility for exercising conversion in the Fund. The German and U.K. proposals would tend to avert such a repetition by placing an obligation on countries to seek conversion of additional balances. The position under the U.S. plan would seem to depend on whether a convention was established providing that conversion should be expected in normal circumstances.

(b) Asset settlement

Asset settlement is relevant to objectives (ii), (iv), (vi), and (x), i.e., it is a method of ensuring that a reserve center in deficit participates in the initiation of adjustment, a means of avoiding an uncontrolled expansion of international liquidity, and it is necessary to ensure that future reserve growth is concentrated in SDRs and does not again lead to confidence crises. It is also relevant to objective (ix) so far as the future growth of reserves is concerned.

The Italian and U.K. proposals would both achieve full asset settlement by employing the substitution account for this purpose, although the Italian proposal might have to rely on the designation mechanism when the account ran out of currencies. The German proposal would achieve something close to asset settlement, but variations in working balances within the permitted limits would leave scope for some deviation. It is not fully clear to what extent the U.S. proposal would achieve asset settlement. If in practice the countries that participated in the multicurrency intervention scheme normally presented for conversion any balances of any currency acquired under that scheme, the U.S. plan would achieve asset settlement at least to the extent that any imbalances occurred among countries participating in multicurrency intervention. How far this would produce overall asset settlement would depend on the extent of the participation in multicurrency intervention and on the size of imbalances with the rest of the world. If, on the other hand,

there were no presumption of conversion of balances acquired (e.g., because the countries that acquired balances in various currencies preferred, on account of a large interest differential, to hold these balances rather than acquire SDRs) operations under the U.S. plan would not approach asset settlement. Deficits might at least in part take the form of increases in currency liabilities, and there would be no assurance that surpluses of reserve centers would result in corresponding increases in reserve assets rather than in a rundown of reserve currency balances. Such a rundown could also occur independently of the accruing balance of payments position of the reserve center as holders of balances of convertible currencies changed their view on the relative attractiveness of various reserve assets.

Insofar as the U.S. proposal envisages the nonconversion of surpluses arising from temporary payments phenomena—for example, sudden or reversible speculative pressures—it provides an exception to asset settlement that is addressed to objective (v). The elasticity provided to the system in this manner might in some respects be similar to that provided by inter-central bank swaps in the past. The German plan recognizes that it might be desirable to allow the Fund to grant exceptions in the case of "extraordinary developments." The Italian and U.K. proposals do not contain explicit suggestions as to how to meet this kind of need for elasticity. The possibility that this need might be met by some kind of facility in the Fund was mentioned in Chapter V of the reform report.† Any scheme that meets the need for this kind of elasticity will have to rely on discretion as to when the facility is to be utilized, which would tend to run counter to objective (i).

(c) *Restrictions on the freedom of reserve composition*

Asset settlement for the existing reserve centers is a necessary but not sufficient condition for the establishment of control over the volume of international liquidity (objective (iv)). It would also be necessary to prevent the accumulation of additional reserves on international markets (such as the Euro-dollar market) and in the form of additional currencies. Such measures would tend to run counter to freedom of portfolio choice, objective (viii). This would also be true of restrictions that arose from granting the issuing country the right to prohibit further accumulations of its currency, restrictions placed on the holding of primary reserves by means of convertibility points, and any use that was made of the designation mechanism.

The German proposal closely specifies the composition of each country's reserve portfolio, and requires full initial consolidation. It would therefore tend to promote maximum control over the volume of international liquidity, at the expense of severely curtailing freedom of portfolio choice. The U.K. plan places a one-way constraint on the freedom of reserve composition: it involves no compulsory initial consolidation and provides freedom to switch into SDRs whenever desired, but any rundown of foreign exchange holdings not restored during periodic settlements would be irreversible and countries would also be prohibited from switching their reserves into new forms.

The U.K. plan would again bring the volume of liquidity under control, but at the cost of restrictions on the freedom of portfolio choice which, though minimal in the short run, might gradually become more onerous.

The Italian plan would again rely on voluntary initial consolidation and provide the freedom to switch into SDRs whenever desired. It would not permit countries to switch freely from SDRs to foreign exchange, but countries in deficit could continue to use SDRs or currencies as they desired. Countries in surplus would hold increments to their reserves in whichever form they might prefer (provided, however, that, if the substitution

†Above, pp. 47-52.

account should run short of currencies, their freedom would be circumscribed by the designation mechanism). Thus, the effective freedom of portfolio choice might be substantially greater than under the German and U.K. plans, but this might be bought at the expense of effective control of the volume of liquidity insofar as there was no constraint on the right to switch gradually into new forms of reserve media.[1]

The position under the U.S. plan would depend very much upon the conventions that were established. If countries were not normally expected to request conversion there would be no assurance that the volume of liquidity could be internationally controlled, but freedom of portfolio choice would be maximized (apart from the restrictions on countries in excess of their convertibility points and the obligation to accept SDRs when designated from countries not participating in the multicurrency intervention system). On the other hand, if countries were normally expected to request conversion there would be much greater certainty of controlling the volume of liquidity but much less freedom of portfolio choice. The element in the U.S. proposal that the country of issue should have the right to limit official holdings of its currency would provide a mechanism that could be used by a country that did not want to become a reserve center to prevent the switching of reserves into its currency. The U.S. proposal would also provide flexibility which could be used to allow some countries, e.g., the oil producers, to accumulate official balances for investment purposes without disrupting the normal operation of the system.

The U.S. proposal to limit the holding of primary reserves by establishing convertibility points is addressed to objective (iii); it is intended to ensure that reserve accumulations by a surplus country beyond some point would not endanger the reserve positions of deficit countries. The particular feature is related to the system of "ceiling intervention" proposed in the U.S. plan; the protection that it would provide would accrue to the particular countries whose currencies were purchased under the intervention scheme by the surplus country.

Restrictions on the freedom of reserve composition are also relevant to the exercise of exchange rate flexibility by reserve centers (objective (vii)). If the rest of the world were prohibited from adding to its holdings of a reserve currency, it would be unable to prevent a downward float desired by the reserve center. Both the U.K. and German proposals incorporate such a prohibition on adding to reserve currency balances. The U.S. plan would also enable a reserve center to secure a downward float by simultaneously prohibiting all other countries adding to their balances of its currency and declaring its currency temporarily inconvertible.

(d) Substitution

Substitution promotes objective (vi), the establishment of the position of the SDR, in the sense that it would reflect an enhanced commitment by the Fund membership to the use of SDRs in their reserves. At the same time, substitution, depending on the scale on which it takes place, increases the need to establish the SDR as a desired reserve asset, and unless accompanied by adequate steps in that direction, may tend to weaken the willingness of countries to hold SDRs. Substitution is also relevant to objective (vii), since reserve centers may find that their reserve role inhibits an active use of exchange rate policy. It should be noted that in the context of schemes involving asset settlement through the intermediation of a substitution account, substitution (or consolidation more generally) is *not* required to protect the reserves of a reserve center against the claims for conversion beyond the amount of any payments deficit of that center: the provisions of asset

[1]A possible solution to this problem is mentioned in Section 4.

settlement provide that protection. In the context of the U.S. scheme, however, where asset settlement is not assured, large-scale substitution would help to provide such protection.

The German proposal goes furthest toward full, immediate, and compulsory consolidation, but it allows an element of choice between substitution and funding. The U.K. plan starts without any necessary substitution but provides for irreversible, though largely voluntary, moves in the direction of substitution. The Italian plan begins with a minimum initial substitution under a gentleman's agreement but otherwise envisages substitution being entirely voluntary, and does not preclude subsequent deconsolidation. The U.S. plan provides for voluntary initial substitution accompanied by absence of a firm assurance against a renewed build-up of reserve currency balances. One effect of the inability of countries to replenish reserve currency holdings when in surplus (as proposed in the U.K. scheme) might be to make countries unduly reluctant to run down their reserve currency holdings, which could slow down consolidation.

(e) Funding

Funding of reserve currency balances could be into long-term assets or into special bilateral accounts that could only be drawn on in specified circumstances, e.g., to finance a reflux of recent abnormal capital flows. The German plan provides for funding in the second of these forms. Such funding would promote objective (ix) by allowing any existing excess liquidity to be run down when return flows of short-term capital occurred, which would then make room for additional SDR creation. Funding would also reduce the amount of substitution.

(f) Amortization of existing holdings of reserve currencies

There are differing views as to the desirability of amortization. Insofar as such amortization took place over time and the consequent reduction in international reserves was made up by the issuance of additional SDRs to participants generally, some of the benefits of past reserve creation would be shifted from the reserve centers to participants as a whole (objective (ix)). In general, amortization would be possible to the extent that substitution had occurred. However, under the Italian plan any amortization would reduce the ceiling at which the freedom of reserve composition would have to be curtailed by invoking the designation mechanism. Under the U.S. plan, amortization might be negated by a renewed build-up of reserve currency balances. Neither of those problems would arise with respect to amortization under the German and U.K. plans.

4. Interchangeability of Features of Different Plans

It is apparent from the preceding discussion that there are conflicts between some of the objectives that have been listed. For example, full freedom of portfolio choice is incompatible with the establishment of control over the volume of international liquidity and the equitable allocation of the benefits of reserve creation. It has been suggested since the discussion in the Committee of Twenty that there is considerable scope for combining features from different plans with a view to constructing a system that would better reconcile the various objectives.

Mr. Ossola's letter to the Deputies of the Committee of Twenty suggested that a provision that the issuing country be allowed to prohibit or limit holdings of its currency could complement the Italian plan. The Italian plan as first formulated provided no mechanism to prevent switches into new forms of reserve media. Even with the suggested addition international liquidity might still escape complete control: (i) if a new reserve center declined to utilize its right to prohibit additional holdings of its currency; and

(ii) through switches into the Euro-markets where there is no "issuing country" to impose limitations. On the other hand, agreement by countries to forgo switching reserves into new forms would permit control of the volume of liquidity while still allowing free portfolio choice between SDRs and traditional reserve currencies.

Mr. Ossola's letter also points out that the Italian proposal is consistent with bilateral funding as envisaged in the German plan. The same could no doubt be said of the U.K. and U.S. plans.

It is possible to envisage introducing a ratchet mechanism into the Italian plan, similar to that in the U.K. plan but on a global, rather than an individual country, basis, so as to prevent deconsolidation occurring. This could be done by using designation, rather than sale from the substitution account's holdings of a reserve currency, to meet a participant's need for currencies, either throughout or at least only after some specified small decline in the holdings of the account. This would have the effect of reducing free portfolio choice somewhat more than in the original Italian proposal.

Although only the U.S. plan specifically provides flexibility to accommodate the investment needs of (e.g.) the oil producers, it would be possible to introduce analogous arrangements into the other plans.

A number of other ways have been mentioned in which one could combine features of one plan into other plans. A feature similar to the "convertibility points" of the U.S. plan could be introduced into any of the other plans. The Italian and U.K. plans did not explicitly include proposals for providing "elasticity," but both could be supplemented by a special facility in the Fund or swap facilities outside the Fund, and in the latter case either with or without Fund surveillance. All of the plans would be consistent with a system of multicurrency ceiling intervention provided its settlement arrangements were compatible with asset settlement.

ANNEX

The Italian Proposal: Asset Settlement with Primary Reserves and Voluntary Consolidation of Reserve Currencies: A Unified Approach[2]

A Note by Mr. Rinaldo Ossola and Mr. Silvano Palumbo, Italy

For the second meeting of the Deputies of the Committee of Twenty, we circulated statements on the Program of Work, on the General Exchange of Views, and on the Adjustment Process. For the third meeting, we have thought it might also be useful to put down in writing our views on how asset settlement and voluntary consolidation of foreign exchange reserves may be joined together in a simple and effective manner. We shall, moreover, examine how gold could be voluntarily consolidated, and indicate what role the various reserve assets could play in the new system.

1. Over the last year, a consensus has emerged that the fundamental objectives of the international monetary system cannot be achieved without an effective adjustment process which requires, *inter alia*, that all countries settle payments imbalances with primary reserves, either owned or borrowed. Convertibility, or more generally, asset settlement, is thus generally considered an important instrument, although not the sole one, for promoting the proper functioning of the adjustment process. It should also be noted that if reserve centers are no longer allowed to finance deficits and surpluses by increasing or

[2] This proposal was originally circulated in a document to the Deputies of the Committee of Twenty.

decreasing their short-term liabilities, but are obliged to use primary reserves, international liquidity would be effectively brought under collective control.

In practice, of course, because of the special role of the dollar in the system, only the United States has been in a position of not having to finance imbalances with primary reserves. The issue is thus what is the most suitable arrangement for the dollar in the new system. The legacy of the past has been a huge overhang of dollar balances, both private and official. Quite clearly, in the short to medium term, the United States cannot be expected to be able to convert other than new dollar balances, because its ratio of primary reserves to liabilities is low.

This raises the difficult technical problem of distinguishing between "old" and "new" dollar holdings. If old and new dollars were commingled, even with equilibrium in the U.S. balance of payments, deficit countries could settle imbalances with dollars which would be new dollars for the surplus countries, but old ones for the world as a whole. Consolidation of old dollars, which would meet this problem, could be either arranged bilaterally between official dollar holders and the United States, or multilaterally through the Fund. In the first case, countries would acquire long-term bonds issued by the United States and denominated, presumably, in SDRs. Such an approach raises three distinct problems:

(*a*) If these bonds could be converted before maturity, bilateral decisions would continue to affect the level of international liquidity; if they could not be converted, countries would lose the liquidity of substantial portions of their reserves.

(*b*) Since countries would *in any event* still hold large amounts of old dollars in their reserves, the United States would not be assured of obtaining reserve assets, should it be in surplus, nor of being asked to convert only to the extent of its eventual deficit.

(*c*) More generally, a partial consolidation in U.S. bonds could well enhance the role of the dollar as a reserve instrument.

It should also be borne in mind that one of the major political difficulties of the former monetary system was that convertibility was bilateral. This meant that if a country did not ask for conversion, it was generally felt that pressure had been brought to bear by the United States; on the other hand, if it did request conversion, this was interpreted as a political decision rather than a purely economic one. The political ill feelings generated by such a system must be avoided in the future by making the whole convertibility process a multilateral one.

2. Consolidation of dollar balances through the Fund seems the best way to solve these problems. If it is mandatory—and it is most doubtful that all countries, or even a large majority, would agree to this—the level of working balances that each country would be allowed to hold would have to be determined. These balances would almost certainly be set at a fairly high level. As a result, there would still be substantial amounts of old dollars in circulation. The implications of this need not be belabored.

These considerations led us last July to propose a voluntary consolidation scheme, which was incorporated in the Executive Directors' reform report as the so-called third approach (see Chapter III, pp. 35–40 [above]). This approach can be summarized as follows. A "substitution facility" would be established and the Fund would stand ready at any time to convert reserve currency balances into SDRs to whatever extent countries wish. With regard to the United States, the Fund would periodically determine, say at the end of each year, whether it had registered a deficit, a surplus, or equilibrium in its external accounts. If the United States registered a deficit, say, of $3 billion, the Fund would ask the United States to redeem that amount in primary reserve assets (such redemption could initially be only partial, as suggested in the reform report). If the United States had

a surplus, it would be entitled to obtain SDRs from the Fund in exchange for dollars to the extent that the surplus had been financed by a reduction of its liabilities. If the United States were instead in equilibrium, no settlement would be required and the dollars presented to the Fund would all make for a reduction of U.S. liabilities to other countries. Through this facility the Fund would also stand ready to sell reserve currencies against SDRs, subject, of course, to the purchaser having a balance of payments need. It should be clear that, by consolidating dollar balances against SDRs, countries would be only changing the *composition* of their reserves, and that SDRs could be used in settlement of any obligations stemming from purchases of U.S. goods, services, and financial assets just as freely as dollars.

We do not think it likely that there will be a shift from the dollar as a vehicle currency, at least in the near future. But, in the longer run, the emergence of new vehicle currencies, say, a European currency, may well induce private holders to effect such a shift. Be that as it may, we think monetary authorities to which such dollars would be sold should be allowed to consolidate them in the same manner as any other dollar balances.

With such a facility, there would be little reason to limit voluntary transfers of SDRs among countries. Participants having a need to use SDRs could do so through the facility itself, thus doing away with the present cumbersome designation procedures. Nevertheless, the designation mechanism should be maintained as a back-up system should any difficulties arise.

It is most doubtful however that the above changes would be sufficient *per se* to induce countries to part with their dollar balances. SDRs will thus have to be made much more attractive than hitherto. In particular, two changes stand out as necessary. First, the rate of interest on SDRs should be brought in line with equivalent market rates. Second, the reconstitution provision should be abrogated so as to allow SDRs to be fully usable, thus eliminating the present connotation of credit from SDRs.

To give the facility sufficient room for maneuver from the beginning, a gentlemen's agreement should be struck among countries having substantial balances of dollars, say, over $1 billion, that they would immediately consolidate at least 10 per cent of their holdings. This would, from the outset, place some $6 billion at the facility's disposal. Nevertheless, should the facility's dollar holdings be smaller than U.S. deficits, a temporary solution could be for the Fund to "designate" countries to consolidate dollars against SDRs to the necessary extent. However, such an approach would introduce an element of compulsion which could be undesirable if it were to be used often.

If this voluntary system led to the conversion of large amounts of dollar balances, so much the better. If, instead, only small amounts were consolidated, we would have to search for the reasons of such behavior and consider possible remedies. Most likely, the unwillingness of countries to acquire more SDRs would be accounted for by the SDR not having been made attractive enough.

This approach would tend to solve various problems at once. First, the United States would finance its payments imbalances with primary reserves through the intermediation of the Fund, even if only a portion of old dollars were consolidated. Second, there would be no need to determine the appropriate level of countries' working balances. Third, asset settlement would cease to be bilateral because it would be the responsibility of the Fund, as representative of the whole community, to ensure asset settlement by the United States.

Such a consolidation scheme for reserve currencies would have other advantages. It would be essentially voluntary and thus quite flexible, something we think essential for

the success of any new system. Moreover, the Fund would be placed at the center of the whole settlement process, thus enhancing its role in the new monetary system.

3. The facility's reserve currency balances could become either a perpetual debt of the issuers vis-à-vis the Fund on which interest would be paid at market rates, or a debt to be amortized in accordance with agreed criteria. While amortization would initially entail larger annual service charges, it would eventually lead to the elimination of such commitments. As a result, there is little difference between amortizing or not.

It should be clear that requiring the reserve centers to amortize the facility's holdings would require them to target a basic surplus of at least the amount of the annual service charge. Although such a transfer of resources may be viewed as appropriate, in the present circumstances it would inevitably raise other problems which would probably be best dealt with at a later stage. We thus feel that while, on balance, amortization may be desirable, its implementation should be deferred until the new system has been sufficiently strengthened to withstand additional strains.

4. Consolidation along the above lines would thrust additional tasks on SDRs and tend to increase substantially the amount of SDRs in circulation. Consequently, countries would be required to assume additional acceptance obligations. This, it is sometimes argued, would tend to "pollute" the SDR, that is to say, to make it a less desirable asset to hold. The alternative approach that has been suggested is to consolidate dollar holdings by creating special deposits in the Fund denominated in SDRs. We are certainly ready to discuss the respective merits of the two schemes, being fully conscious that there are valid reasons for different countries to prefer different portfolio mixes. It is indeed for this very reason that we have proposed an optional consolidation approach which would leave countries relatively free to determine the desired composition of reserves.

5. The system we are proposing should be viewed as a flexible one which would allow consolidation and asset settlement to start immediately. The functioning of such a system could be periodically assessed in the light of experience, which would also suggest what future measures, if any, are required.

It is likely that, over time, the dollar would practically cease to be a reserve instrument, at least for major countries, though it would continue to be the principal intervention currency. It is instead likely to remain a reserve asset for those countries which value highly the contacts such balances allow them to have with commercial banks in other countries. If the stock of old dollars is progressively converted into SDRs and new dollars are promptly withdrawn from circulation, and if world reserves are increased by allocating SDRs, this instrument will increasingly assume the reserve role hitherto played by the dollar.

Similarly, gold will also have a diminishing role as a reserve instrument. The consolidation facility we have proposed for reserve currencies could also be used for gold, as countries would be allowed to sell gold at the official price to the facility against SDRs. Countries would be more willing to avail themselves of this option if they could retain physical possession of the metal, simply earmarking it to the facility. Even with such an arrangement, however, we are not sanguine over the prospect of countries consolidating large amounts of gold.

It is thus likely that, for some time to come, countries will continue to be reluctant to "lose" their gold, viewing it essentially as some sort of national treasure. For those countries whose gold holdings are a small proportion of their total reserves, the virtual immobilization of gold poses few problems. For other countries, however, this could raise difficult problems, which to meet we have suggested "swaps" with the Fund of gold against SDRs. In this way, the gold portion of reserves could be used when in deficit and reacquired when in surplus. Furthermore, should the United States also be unwilling to

countenance the loss of gold to settle payments imbalances, such swaps would place it in a position of immediately obtaining a supply of "usable chips" in the new asset settlement regime without first having to register a series of large surpluses.

The U.S. Proposal: Some Comments on the Nature of Reserve Assets in the Context of a Reformed International Monetary System[3]

The proposals for monetary reform outlined by the U.S. assume a generalized system of convertibility. Specifically, most countries will choose to establish and maintain central rates for their currencies, and as a corollary, will stand ready to convert officially held balances of their currencies into international reserve assets or into the currency of the country requesting conversion.

Such convertibility arrangements are dependent for their effectiveness and sustainability on other elements in the system and must be related to them. One indispensable requirement is equitable and effective "disciplines" for balance-of-payments adjustment by all nations, large and small, surplus and deficit. A related need is a means of assuring reasonable balance in the system as a whole between the availability of, and the requirements for, reserve assets. Thus, the system should be capable of reconciling the aggregate volume of reserves, in appropriate forms, with the amount of reserves that countries individually are able and willing to hold without producing generalized pressures (*a*) toward either inflation or deflation or (*b*) on either surplus or deficit countries.

The U.S. proposals set forth at the last Deputies' meeting present a framework for meeting these requirements in the context of a system of general convertibility. The purpose of the present paper is to comment on the form, character, and role of reserve assets within such a system.

Today's world is characterized by large imbalances both in reserve positions and in payments positions. A new system aimed at maintaining a broad equilibrium can become fully operational only after a transitional period during which the international balance of payments is brought into a better equilibrium; the heritage of the past, in the form of distortions in reserve holdings, is reduced or otherwise dealt with; and nations' willingness and capacity for meeting the obligations of the system are demonstrated. In this connection, one important and pertinent transitional question is whether, and if so what, facilities should be introduced for consolidating or changing the form of pre-existing currency reserve holdings. The U.S. has suggested that careful study be given to proposals dealing with this matter, for example, by exchanging part of existing reserve currency holdings into a special issue of SDR, at the option of the holder. Such proposals will need to be studied in the light of the structure of the new system to be introduced, keeping in mind that such arrangements cannot substitute for effective machinery for payments adjustment and other features to assure the continuing stability of the system. For this reason, this paper, as well as our earlier paper on reserve indicators, focuses on the more permanent structure of the system and not on techniques for dealing with these transitional matters.

1. The Unit of Account for Currencies and Reserve Assets

Any system incorporating established exchange rates and reserve assets can usefully employ a "common denominator"—a unit of account, numeraire, standard or yardstick—to serve as the common expression of currency rates and as a common measure of

[3] This proposal was originally circulated in a document to the Deputies of the Committee of Twenty.

the value of reserve assets. Although it is not necessary to use a particular reserve asset as the unit of account—an abstract unit is theoretically possible—it is convenient to do so. We anticipate greater reliance should and will be placed on the SDR (taking into account agreed changes in existing SDR provisions as touched upon later) as a reserve asset in the future. We propose that that same instrument serve as the unit of account of the system.

The usefulness of the SDR as the unit of account will be enhanced by the elimination of two potential sources of instability which have been particularly troubling with respect to gold and national currencies.

First, the system should not be subject to strains arising from private demands for the unit of account-reserve asset itself. The SDR has no commodity uses, and there are no plans, at least at present, for allowing the SDR to be held as a financial asset in private hands. The value of the SDR unit of account in terms of the generality of national currencies would not be affected by occurrences on often volatile commodity markets, nor dominated by a national decision to change the relative value of an individual currency.

Second, the aggregate needs of the system for official reserves would readily and equitably be met by changing the volume at the prevailing price rather than by increasing or decreasing the value of the SDR in terms of currencies generally. Provisions similar to those presently relating to uniform changes in par values would no longer be necessary, and speculative anticipation of such action would not be generated.

Elimination of potential disturbances from forces extraneous to the operation and technical requirements of the monetary system should enhance the effective operation of that system. A reserve indicator mechanism of the kind proposed by the United States, providing even-handed inducements to both deficit and surplus countries to adjust their imbalances by exchange rate changes or otherwise, would tend to maintain the "purchasing power" of the SDR against the generality of national currencies. We believe this result is broadly appropriate and equitable.

2. The Form of Reserve Assets

As discussed below, among the alternative forms of reserve assets, the U.S. supports an increasing reliance on the SDR as the primary source of world reserve growth over time; favors a progressive reduction in the role of gold; and envisages a much reduced but some continuing role for foreign exchange.

a. Currencies as reserves

The striking increase in the currency component of world reserves since the early 1950's—from one fourth of total reserves then to two thirds today—can be traced in large part to two broad causes, neither of which should be operative in terms of the kind of system proposed. During most of the period, the Bretton Woods system provided no other practicable way to create the international reserves needed to accompany the unprecedented growth in trade and payments that the world experienced. Toward the end of the period—especially 1970 and 1971 - the rapid acceleration in currency holdings was of a different character, and reflected the gross and unsustainable imbalances in payments that had arisen, accompanying heavy speculation, and the breakdown of the Bretton Woods system.

These sources of persistent and large reserve currency growth should not be operative in a reformed system of the type proposed. Nevertheless, official holdings of foreign exchange can provide some flexibility for those countries that wish to hold some amount

of currencies in their reserves. In foreseeable circumstances, such holdings can also provide a needed element of elasticity for the system as a whole. For these reasons, while a build-up in foreign exchange holdings should not be encouraged as a part of the basic structure or design of the system, neither does the effective operation of the system require banning all holdings of foreign exchange in amounts larger than what might narrowly be defined as working balances.

Even in the framework of a system which effectively promotes broad payments equilibrium over time, nations will, for a variety of perfectly legitimate reasons, insist upon scope to run *temporary* surpluses at any given point in time—for example, to respond to sudden and reversible speculative pressures. It may be neither feasible nor desirable to provide enough primary reserves on an actual or contingency basis to finance such temporary surpluses in a manner that avoids unwanted adjustment pressures on the countries losing primary reserves. Indeed, if primary reserves were created on a scale larger than necessary to meet "normal" needs to take account of these situations, the risks of generalized inflationary pressures and lack of adjustment incentives would be evident. Yet, if reserves were not available through some mechanism, essentially short-term disturbances would undermine the desired stability of the system.

In practice, we believe there would be a great danger that a rigid system which prohibited foreign exchange holdings would break down under the normal pressures which can develop in a liberal world trading and payments order, when the level of international transactions is inevitably very large in comparison with the level of world reserves. Inability of the international reserve mechanism to adapt flexibly in periods of strain could seriously constrain the effort to move toward a more liberal trade and payments system.

At the same time, the system should not be dependent on large and growing official foreign exchange holdings as it sometimes was in the past. In the normal operation of the system, nations should have the right, and the system should have the capacity, to convert official currency holdings into primary reserves. A nation should not be compelled to hold currencies except in the exceptional instances in which its total reserve holdings are permitted to pass through a "convertibility point" (representing the maximum accumulation of primary reserves for that country justified in terms of the global availability of primary reserves).

The U.S. also envisages an important safeguard on the use of foreign exchange as reserves. The country of issue could limit or prohibit further accumulations of its currency by official institutions in other countries. This provision might be particularly helpful in a reformed system in which, as we envisage it, national currencies would be on a more equal footing, and in which there would be a greater number of national currencies purchased in the process of market intervention than in the past.

By such a limitation on currency accumulations, the country of issue could require another nation accumulating its currency either to convert further accumulations into primary reserves (SDRs, gold, IMF position) or to switch into the currency of a third country, assuming the third country acquiesced. Future currency accumulations of foreign exchange in reserves would thus not occur in situations where either the holding country or the issuing country felt it was inappropriate.

b. Gold as reserves

We believe that the role of gold in the international monetary system will and should continue to diminish, and we would support orderly procedures to facilitate that process.

A declining role for gold is fully consistent with the long-term trend of monetary history. Governments long ago recognized the inadequacy of gold as a basis for national

monetary systems, and in recent decades the dependence of the international economy on that metal has diminished sharply. With the supply of new gold both physically and geographically limited, with its commodity uses competing inevitably and increasingly with its monetary uses, and with residual noncommercial availabilities in no way related to the liquidity needs of a prosperous and expanding international economy, the world has naturally shifted toward other monetary assets.

The current situation—where speculative pressures on a thin and volatile commodity market have led to a price much higher than the official gold price—is evidence of the instabilities and tensions which are inherent in a system based on gold or other commodities. When the commodity price is substantially above the official price—as at present—there are proposals to raise the official price openly or covertly to the market price, and a consequent reluctance of central banks to use it in settlement. (The alleged effects of a "freezing" of gold at present are often exaggerated—excluding the U.S., total gold holdings of IMF members represent less than one quarter of their total reserves, and only a very few of these countries hold as much as half of their reserves in the form of gold.) Such a change in the official price would represent a major increase in reserves—an increase bearing no relation to a considered international decision as to the appropriate level of reserves and capriciously and inequitably distributed among nations. Moreover, there is nothing to suggest that any new price is the "correct" price; and little prospect that any given price would remain satisfactory for any period of time in the sense of both achieving consistency with desired reserve totals and of being free from future uncertainty. In particular, any established monetary price for gold will either frequently be out of line with the price tendencies prevailing on the private market or, if the official community again tried to stabilize the private price, face the system with unpredictable and large fluctuations in levels of primary reserves.

In our view, the indicated course is to retain the present official price; to allow or encourage gold to flow out of reserves in an unhurried way; to seek cooperative multilateral arrangements for reducing the potential for instability and tensions resulting from the two-gold-price structure; and to shift toward greater use of SDRs for primary reserves.

Consistent with the reduced use of gold and the increased importance of the SDR as the central reserve asset, the official price of gold should be expressed in terms of SDRs (1 oz. equals SDR 35) rather than the reverse. The prohibition on purchases of gold for monetary reserves would remain, but arrangements should be developed by which official holders can sell gold in the private markets—in effect providing a one-way channel by which gold could move out of but not back into official reserves. Various approaches for such official sales of gold (including by the IMF) in the private market should be examined with loss of gold to the system balanced by SDR creation.

c. SDRs as reserves

In a system envisaging progressively greater reliance on the SDR, use of the SDR should be freed from unnecessary restrictions.

Present IMF provisions which provide for gold payments should be changed to envisage payments in SDRs as an alternative or substitute.

To facilitate an increased role for the SDR, that instrument should be freed of encumbrances of reconstitution obligations, holding limits, requirement of need, and designation procedures which would be unnecessary in a reformed system.

These special features of the SDR mechanism were considered necessary when that instrument was considered a subsidiary—or at least a new and untested—asset; when the

appropriate role of gold, SDRs and reserve currencies was unsettled; and when inducements to adjust were inadequate. The need for such special features would be reduced or eliminated in a system in which limitations on imbalances, however financed, were enforced through adjustment mechanisms much more effective than the existing SDR provisions, and when SDRs come to play a more prominent role. Indeed, if the SDR is to play that role effectively, it must have maximum practicable utility, with only those restrictions on its use clearly necessary to the functioning of the system.

The *reconstitution obligation* was designed to preclude the permanent use of the whole of a country's SDR allocation to finance a deficit. Motives for the provision varied. Some wished to draw a distinction between the usability of SDRs and other reserve assets. To some extent, it may have been felt that the provision would help induce adjustment pressures on deficit countries. Some were concerned that excessive use of SDRs in preference to other assets might impair confidence in the SDR in the early years.

This reconstitution obligation, applying to only one reserve asset whose relative share was not yet large among total reserves, did not have serious repercussions. However, as the SDR becomes the principal reserve asset, its usability relative to other assets needs to be assured, and a reconstitution provision is an inadequate substitute for an adjustment mechanism (such as the U.S. proposes) that gives effective incentives to both deficit and surplus countries. Confidence in SDRs will depend on a much wider and deeper array of factors than an artificial provision such as reconstitution.

There is a widespread view that the reconstitution obligation is inconsistent with the status of the SDR as an important international monetary asset, is operationally complex, and is unnecessary. The United States shares this view and believes that all forms of reconstitution obligation should be eliminated as part of a new system.

What is commonly called the "holding limit" in the SDR mechanism is in fact a positive—though limited—obligation for participants to acquire SDRs in certain specified circumstances, thus assuring [that] a seller of SDRs could find a buyer. The limit to this obligation is presently attained when a participant's SDR holdings reach three times its net cumulative allocations.

The U.S. believes the holding limit can and should be eliminated in the context of the system it has proposed. The sale of SDRs to a country exercising its right of conversion of foreign exchange holdings should be capable of fully discharging the convertibility obligation, and the call for conversion should itself indicate a willingness to hold SDRs. If the intervention system in the reformed system is one of "ceiling" intervention (whereby the country whose currency is at the upper margin accumulates other currencies at their lower margin and—if it chooses—presents such currencies to the countries of issue for conversion into SDRs or other primary assets) the problem of assuring "willing" holders of SDRs would be handled more or less automatically.

The *requirement that "need"* govern a participant's use of SDRs was designed to avoid sale simply for the purpose of changing the composition of a country's reserve holdings, thereby pushing other countries toward their holding limits and indirectly giving rise to excessive demands for gold in a system in which the United States followed the policy of freely selling gold against dollars. Such safeguards appear less necessary in a system in which reliance on currency holdings will be reduced, conversion demands can be met through SDRs themselves, and appropriately designed reserve indicators provide equitable adjustment pressures.

Finally, the *designation procedure* was included in the SDR mechanism to give assurance to participants that a determined location would always be found for the transfer of SDRs which a participant wished to use (within the overall rules of the mechanism) in or-

der to obtain an equivalent amount of needed currency. Together with the obligation on the part of other participants to provide such currency inherent in the "holding limit," the designation procedure constituted the basic guarantee to participants that they could use SDRs to finance payments deficits.

If, as indicated earlier, the basic intervention obligation were one of "ceiling" intervention, SDR transactions would generally be of a type in which the demand for conversion itself expressed a willingness to hold SDRs, and no designation procedure would be essential. However, the need for some residual provision akin to designation should be examined in relation to transactions not arising from conversion demands.

A further question arises with respect to the interest rate on the SDR. The value of the SDR lies in the fact that it is a stable and widely usable asset with its volume under international control, free from private speculative influences and insulated from variations in the value of individual currencies. Interest does not appear an essential attribute of an ultimate "money" asset; it has no precedent either in gold internationally or in currency domestically.

The U.K. Proposal: A Possible Scheme of Asset Settlement[4]

1. The purpose of this paper is to set out in more detail the U.K. proposal which was the second of the three technical approaches to asset settlement described in the IMF Executive Directors' report on the reform of the international monetary system, transmitted to the Governors last August. It is hoped that the paper may assist the Deputies in making a comparative judgment between this and other approaches, as they have been invited to do in the Chairman's annotated agenda.

2. The framework of this approach was conceived against the background of several objectives which were thought to be desirable, and it may be helpful to list them explicitly.

> First, it is desirable that reserve movements of individual countries should correspond closely with their payments surpluses and deficits (subject to special arrangements to deal with short-term capital movements).
>
> Secondly, with the objective of achieving control within fairly strict limits of future variations in the total amount of world liquidity, the supply of other reserve assets should be brought under control and the international neutral reserve asset (i.e., the SDR, modified as necessary) should be encouraged to play an increasingly dominant role.
>
> Thirdly, within the constraints imposed by other objectives of the scheme, countries should be allowed some freedom in determining the composition of their reserve holdings.
>
> Fourthly, some special arrangement may be desirable to provide reserve centres with the means of meeting any very large demands made upon them for conversion of existing reserve currency holdings; a similar arrangement may be desirable to prevent too rapid an absorption of world liquidity resulting from surpluses of reserve currency countries.

3. The technique proposed places obligations both upon reserve centres and upon other countries, both being necessary to match the transactions concerned. Reserve cen-

[4] This proposal was originally circulated in a document to the Deputies of the Committee of Twenty.

tres would be obliged to convert into SDRs any additional balances of their currency newly acquired by official holders in other countries, and these other countries would similarly be obliged to present to the reserve centres for conversion into SDRs any foreign exchange holdings newly acquired by them above some level previously specified. This level would not, in general, be higher than the country's holdings of reserve currencies immediately before the new system came into operation, but there could be provision for controlled increases if these became necessary because the previous level of working balances in foreign currency had been shown to be inadequate.

4. Countries other than reserve centres which ran deficits could match them by a reduction in their holdings of reserve currencies. On periodic settlements, they would have the option either of restoring their holdings of reserve currencies by purchase against SDRs (which could be one mechanism of enabling reserve centres to earn SDRs); or of accepting a new and reduced level of reserve currency holdings, which would, however, become a new limit for future settlements. In the latter case, in order to preserve the facility for reserve centres to earn SDRs, they should be empowered to purchase them from the IMF against their own currencies to the extent that official holdings of their own currencies had declined.

5. As an important extension of the substitution facility through the IMF indicated at the end of the preceding paragraph, it could be arranged that countries would be free at any time, and to whatever extent they wished, to convert their holdings of reserve currencies into SDRs by a transaction either with the reserve centre or with the IMF. The reduction in their holdings of reserve currencies which this would involve would establish, as in the case of reduction through a deficit, a new level of currency balances as a limit above which the obligation to present balances for conversion would apply.

6. Further extending the point in the last two paragraphs, it should be noted that the proprosed scheme does not depend on initial consolidation of reserve assets into SDRs by countries other than reserve centres, but does provide—at the choice of the reserve currency holder—a mechanism through which existing reserve currency assets could, either initially or at any subsequent time, be consolidated. The situation would be that any country choosing to consolidate could present its holdings of reserve currencies to the reserve centre or the IMF and receive SDRs in exchange (on this latter choice, the reserve centre whose currency had been exchanged in this way would assume a liability to the IMF). Although precise details would need to be worked out, in principle the interest on SDRs issued from the IMF consolidation account would be serviced by interest received from currency balances held by the account.

7. Finally, it should be noted that the scheme could easily accommodate a situation in which a particular country, at some intermediate stage between settlements, might need access to foreign currency working balances, on the basis that any time the country in question could offer SDRs to the appropriate reserve centre, always providing that its total foreign currency balances did not exceed the limits which had been set.

The German Proposal: Statement of Mr. Karl-Otto Pöhl (Germany) on the Problem of Reserve Currencies and Asset Settlement[5]

I regard the control over the accumulation of reserve currencies as one of the essential elements of the reform. In order to achieve such control, it will not only be necessary to ensure the financing of payments balances with primary reserve assets. It will also be

[5] This is the text of Mr. Pöhl's statement to the Deputies of the Committee of Twenty on the afternoon of January 24, 1973.

necessary to avoid the creation of additional foreign exchange reserves through the investment of official balances on international financial markets and in nondollar currencies. The liquidity creating effects of such practices are now well understood. The Fund's Annual Report shows that these sources have contributed to world reserves the equivalent of SDR 9 billion in 1970 and SDR 7 billion in 1971.

It seems to me, therefore, that the introduction of asset settlement for dollar balances does not suffice; it would cope only partially with the problem. The other sources of reserves need to be dealt with as well. Of course, one could envisage creating a substitution facility for the U.S. dollar and prohibit, in addition, the accumulation of additional reserves on international markets or in nondollar currencies. I have noted with interest, in this context, the proposal of our American friends that a country should be allowed to "limit or prohibit further accumulation of its currency by official institutions in other countries."

I wonder, therefore, whether a more formal approach could not be adopted, which would even more effectively prevent an undue expansion of exchange reserves.

This approach comes close to the concept put forward by our British and Dutch colleagues. It differs from these concepts mainly in that it envisages a faster replacement of reserve currencies by primary reserve assets. The essentials of such an approach would be the following:

1. All countries agree to keep the main part of monetary reserves in primary assets (gold, SDRs, IMF positions) and to hold foreign exchange reserves only up to a specified maximum needed as working balances.
2. These maximum limits would be determined from time to time by the IMF according to uniform principles. These limits would have to be rather narrow; otherwise there could still be disturbing fluctuations in the volume of foreign exchange holdings. In the case of extraordinary developments, the Fund might grant exceptions.
3. To the extent that the foreign exchange holdings exceed these limits, they would have to be converted into primary reserves. As long as they remain below these limits, there would be no right to convert.
4. The right to hold working balances would extend only to the intervention currency or currencies of the country concerned. Other currencies should not be held in the reserves. I would regard it as desirable to hold all foreign exchange reserves with the monetary authorities of the reserve currency country, and to exclude holdings on private markets and with private institutions.

Such an approach does require some limitation on the freedom to determine a country's reserve composition. But some such limitation will, in my view, be necessary in any event if we are to achieve such control, and I would hope very much that we can agree to such limitation in the interest of the working of the monetary system as a whole. An important advantage of this approach, as I see it, would be the distributional aspect. The new liquidity would then be distributed according to the rules governing SDR allocations, whereas the alternative, the random expansion of foreign exchange holdings, leads to a very uneven distribution of new liquidity, which has been criticised by so many Deputies.

A final word on the *overhang of existing reserve currency balances*. Certainly, some form of "consolidation" is necessary if we want to reestablish the principle of asset settlement. If it is our aim to reduce substantially the foreign exchange component in monetary reserves there are strong reasons to exchange this overhang for Fund assets—either into SDRs or into a similar obligation of the Fund.

Special treatment could, however, be accorded to those balances which have their origin in the large capital flows of recent years. These balances should be regarded only as a temporary addition to world reserves; they should disappear when these flows are reversed. These balances, therefore, could appropriately be funded bilaterally: they would be separated from other foreign exchange assets with the provision that they should and could be used for intervention only when the capital returns to the United States. Such a treatment of these currency holdings would have two advantages: with the return flow of short-term capital, excess liquidity would be reduced, and additional room would be brought about for the distribution of newly created liquidity to *all* IMF members on an equitable basis, that is, according to the rules governing SDR allocations.

(B) Technical Choices Involved in Arrangements Regarding Consolidation, Convertibility, and Asset Settlement (May 16, 1973)

Four approaches to the problems of consolidation, convertibility, and asset settlement were suggested at the meeting of the Committee of Twenty Deputies in Paris and subsequently examined and discussed by the Executive Board. The resulting paper was essentially addressed to a comparison of the proposals advanced by Italy, the United States, the United Kingdom, and The Federal Republic of Germany. As a result, it tended to emphasize differences between these proposals. For purposes of further discussion it may be useful to examine the extent to which the different approaches merely adopt different techniques in pursuing similar aims. The present paper provides such an analysis of three of the principal areas in which proposals must be formulated.

1. Asset Settlement and Convertibility

Convertibility is, of course, a means to an end and not an end in itself. The main ends that most advocates of "convertibility" have in mind are those of providing asset settlement as a necessary condition for establishing international control over the global volume of liquidity, and limiting the borrowing powers of the reserve centers so as to increase the symmetry of the adjustment process. All the techniques that have been proposed could, with appropriate supplementary arrangements, lead to approximate or exact asset settlement for the deficits and surpluses of all countries.

(*a*) Under *multicurrency intervention arrangements*, asset settlement would be achieved, as between the countries included within the arrangements, provided that debit and credit positions arising under these arrangements were regularly cleared, i.e., provided that the right of convertibility was in fact exercised. Conversely, it would not necessarily be even approximately achieved if countries were able (either with or without the consent of the issuing country) to retain balances acquired in the course of intervention, or to request conversion of outstanding balances. The degree of approximation to asset settlement under this approach would also depend upon the relative importance of countries outside the scope of the multicurrency intervention system and on any arrangements for these countries of the type discussed below.

(*b*) Under a system of predominantly *dollar intervention*, there are two ways in which approximate asset settlement could be attained.

(1) The first involves an understanding that acquisitions of reserve currencies in excess of a specified level, e.g., working balances, would be presented for conversion to the reserve center, and that any needed replenishment of working balances would be achieved by the sale of primary reserve assets to the reserve center. This approach presupposes an initial reduction of currency holdings to agreed and relatively small working balances, if there is to be an assurance that surpluses of the reserve centers would lead to their acquiring reserve assets.

(2) The second method involves an arrangement under which a reserve center would sell SDRs to a substitution facility to the extent that its liabilities to foreign official holders increased, or buy SDRs from the facility to the extent that such liabilities decreased. This method does not require a large initial reduction in the holdings of reserve currency balances, although it would not preclude such a reduction.

The second approach would necessarily be run through the Fund, since it involves determination by the Fund of the size of the deficits or surpluses to be settled and their settlement via a substitution facility; it would thus involve "multilateral settlement." It

would, however, also be possible to organize multilateral clearing arrangements in the Fund under other proposals if this should be deemed desirable.

If multicurrency intervention arrangements were adopted and it were desired to prevent a limited participation in the system from eroding asset settlement, arrangements similar to either of those described in the context of a dollar intervention system could be adopted. That is, either countries outside the scope of the multicurrency intervention system might agree to limit currency holdings to working balances, as in (*b*) (1), or else a substitution facility might undertake transactions with reserve centers, as in (*b*) (2), to the extent that the currency holdings of nonparticipants changed. Conversely, if minor departures from asset settlement were deemed acceptable, this could be accomplished, under (*b*) (1), by excluding certain countries from the obligation to keep reserve currencies down to working balances, or, under (*b*) (2), by excluding certain assets from the definition of foreign official holdings of balances of the currency of the reserve center. The exclusion under (*b*) (1) could apply, for example, to nonmembers of the Fund, or to nonparticipants in the Special Drawing Account, or to countries with reserves below a certain level. The exclusion under (*b*) (2) could apply, for example, to long-term assets.

2. Consolidation

The extent of consolidation that is necessary would depend upon the form of the arrangements selected to establish asset settlement, but the technical form of the arrangements to permit consolidation could be essentially similar in any event. All of the arrangements would require the maintenance of some balances in intervention currencies, although with a multicurrency intervention system the participants' needs might be restricted to balances acquired in ceiling intervention and held pending settlement, or to the minimal working balances required to operate floor intervention in conjunction with the right to draw on temporary financing facilities made available by other participants. Under all of the approaches, present holdings of currency balances could be reduced in two ways: (*a*) by funding, e.g., into long-term claims on the reserve center, or into bilateral accounts which could be drawn on only to finance specific flows, such as a reflux of capital to the reserve center; and (*b*) by substitution, i.e., by exchanging part of the remainder of currency holdings for SDRs, or possibly for other liquid assets issued either by the reserve center or the Fund.

Substitution into SDRs could be effected through the creation of a substitution account in the Fund. Such an account would acquire claims on the reserve centers with the reserve currencies that holders gave up in exchange for SDRs. One of the problems that would arise in creating a substitution account would be that of determining equitable terms for the valuation and servicing of the account's claims on the reserve centers; this problem is not pursued further in the present paper. A second problem is that of deciding whether substitution should be (i) a once-for-all operation, (ii) open-ended but irreversible, or (iii) open-ended and reversible. A once-for-all operation would lead to a reduction in the stock of outstanding reserve currencies such as would be needed to introduce (*b*) (1). An open-ended and irreversible operation would provide a continuing opportunity for countries to exchange their reserve currencies for SDRs. An open-ended and reversible operation would permit them to obtain SDRs for reserve currencies, and also reserve currencies for SDRs (deconsolidation). A third area for decision is whether to use the substitution account as an instrument for establishing asset settlement, as under (*b*) (2). If this were done, it would raise the problem of defining the change in liabilities of the reserve center that should determine the size of the required transaction between the reserve center and the account. This could be approached either by taking the reserve center's official settlements deficit or surplus, or by summing for all members the changes in their reserve currency assets. Apart from reporting errors, the two approaches differ in

that the former would exclude, and the latter would include, the increase (decrease) in foreign official holdings of balances of the reserve currency in the Euro-currency markets.

3. Restrictions on the Freedom of Reserve Composition

If asset settlement were achieved through the restriction of reserve currency holdings of all countries to working balances rather narrowly defined, this would substantially restrict the freedom of reserve composition.

If asset settlement were established by means of a substitution facility, the restriction on the freedom of reserve composition as between SDRs and reserve currencies would be much less severe. Switches from reserve currency to SDRs would be accommodated by the substitution facility. Switches from SDRs to reserve currency would not, however, be entirely free unless the substitution facility were reversible and free from replenishment problems. With a nonreversible substitution facility individual countries would be able to increase their holdings of reserve currencies over time, e.g., by using their SDRs when in deficit and retaining the reserve currencies they acquired when in surplus. This would, however, be possible only to the extent that other countries or the substitution facility ran down their reserve currency holdings; moreover, any amortization that occurred would provide an alternative way in which the substitution facility's reserve currency holdings would tend to be depleted. If reserve substitution were carried so far as to compel the substitution facility to replenish its stock of reserve currency, this could only be done by a process of designation which would to some extent impair the free choice of reserve assets. This restraint on the acquisition of reserve currencies might become more onerous as time progressed, especially if maximum total or national holdings of reserve currencies were subject to a ratchet mechanism, but any easing of the restraint would necessarily involve the modification of asset settlement and an equal reduction in the scope for creating SDRs consistent with the establishment of a desired total level of world liquidity. Establishment of a multicurrency intervention system as normally conceived would involve more severe restrictions on the freedom of reserve composition of the participating countries, though not of other countries.

Switches of reserves from one reserve currency to another would not in themselves change the volume of liquidity and therefore the potential for SDR creation, provided that imbalances between the reserve centers were settled in reserve assets. However, the fundamental conflict between freedom of reserve composition and removal of the instabilities caused by reserve switching would in this instance be manifested in the need that would arise for adjustment policies on the part of the reserve centers whose liabilities were changing.

It is a matter for consideration as to whether any explicit restrictions on composition should be imposed on the holding countries or should operate via the issuing country. It is difficult to see how one could completely avoid the holding countries accepting some limitation on their freedom of action, since in the case of the Euro-currency markets there is no "issuing country" that would be in a position to forbid further diversification into those markets. In addition, in the absence of full asset settlement between the reserve centers, the imposition of restrictions through the medium of the issuing country would make the volume of liquidity partially dependent upon the policies adopted by the issuing countries and their relations with reserve holders.

4. Other Features

Certain other features contained in some of the proposals are not logically dependent on the decisions made on the preceding questions and could be grafted onto whatever ar-

rangements were adopted on the central questions. These include, for example, the measures selected to provide supplementary liquidity to meet abnormal situations, the introduction of convertibility points or similar arrangements to deal with excessive reserve increases, or special investment funds to insulate reserve accumulations of developing countries both from asset settlement and from the exercise of restrictions on excessive reserves.

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Sale of the Fund's Gold

In May 1974, as various questions concerning gold were being discussed in the Committee of Twenty, a paper prepared by the Economic Counsellor and Director of the Research Department, J.J. Polak, was circulated to the Executive Board. In this paper, Mr. Polak raised the possibility that the Fund's holdings of gold might be sold.

Paper on Gold
(May 15, 1974)

A number of ideas have been put forward in meetings of the Deputies of the Committee of Twenty on means to "mobilize" members' gold holdings. Very little attention has been paid, on the other hand, to means to "mobilize" the gold holdings of the Fund or the implications of these various ideas for the Fund's gold holdings. Since gold is an important source of liquidity to the Fund and since the Fund's gold holdings, at SDR 5.4 billion, are the second largest official gold holdings in the world, these questions deserve consideration before a balanced view can be taken on any of the various approaches to the gold problem. The following tentative remarks are addressed to these aspects of the gold questions as an aid to such an appraisal.

The second and third approaches on gold contained in the Nairobi *Outline* (paragraph 30)† envisaged abolition of the official price of gold. This idea was also embraced in the tentative ideas on gold put forward on behalf of the European Economic Community (EEC) at the most recent meeting of the Deputies of the Committee of Twenty in Paris. Without a firm price, gold can hardly perform the central role assigned to it in the present Articles. Indeed, in the ideas put forward by the EEC it is suggested that "monetary authorities would have ... no obligation whatever to enter into any particular transaction [in gold]." If, by amendment, this particular approach to gold were generally adopted, gold would cease to have the significance to the Fund that it has under the present Articles as an assured means to acquire any needed currency by the Fund *requiring* a member to sell its currency to the Fund for replenishment purposes (Article VII, Section 2(ii)). This would have two important consequences for the Fund.

1. If its gold holdings were no longer usable for the Fund to acquire currencies, it would be logical for the Fund to dispose of these gold holdings under powers it does not now have, in one way or another. One possibility would be to distribute the gold to members in proportion to their quotas. Another and perhaps more interesting possibility would be for the Fund gradually over time to sell its gold holdings in the market and to

† "Establishment of a Facility Based on Special Drawing Rights in the International Monetary Fund and Modifications in the Rules and Practices of the Fund: A Report by the Executive Directors to the Board of Governors Proposing Amendment of the Articles of Agreement." See *Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1968* (Washington: International Monetary Fund, 1968), p. 146; also reproduced in Margaret Garritsen de Vries, *The International Monetary Fund, 1966–1971: The System Under Stress*, Vol. II, *Documents* (Washington: International Monetary Fund, 1976), pp. 67–68.

invest the proceeds. Since the gold was contributed to the Fund interest free, the Fund would be able, from a financial point of view, to invest the proceeds of the sale at a zero or a low interest rate. (The Fund might want to invest the proceeds of a relatively small proportion of its gold, equivalent to its reserves, at a normal interest rate in order to cover an important part of its administrative expenditure.) It would seem natural that any investment at zero or low interest rates would be for the benefit of developing countries, e.g., in development finance institutions. It may be noted in passing that the spending of this money by these institutions would have been preceded by the sale of gold in the market; hence the two legs of the operation combined would be neutral from an inflationary point of view.

2. If this approach were taken, it would then also be necessary to create an alternative assured source of liquidity for the Fund. This could, for example, be brought about if the Fund created (once and for all) an amount of SDRs equivalent to its gold stock at the time of the reform, with full opportunity to use SDRs to acquire needed currencies.

At the May meeting of the Deputies of the Committee of Twenty in Paris, it was also pointed out by the representative of the Managing Director that the approach to gold put forward on behalf of the EEC did not, in fact, ensure a gold-holding country the ability to use its gold, except by sale to the free market. It was pointed out, however, that an assured outlet could be created if the Fund stood ready to buy gold from members against SDRs at a price in the neighborhood of the free market price. To be able to do this the Fund would need to have the power to create SDRs for such purchases.

Any gold so acquired by the Fund could also be sold gradually in the market. Since the SDRs issued to members in exchange for gold would carry the SDR interest rate, the Fund would need to invest the proceeds of the sale of *this* gold in such a manner as to give it at least a corresponding yield.

The suggestion of gradual sales over time of gold acquired from members raises two further issues: (*a*) The difference in time between the acquisition of gold by the Fund and its sale in the market might lead to a price difference. It would be for consideration whether any such differences would accrue to (be borne by) the Fund or the selling member, or be shared in some manner between them. An argument that could be made in favor of the Fund assuming at least part of the risk might be its ability to absorb potential losses from profits on its own gold and perhaps also on the basis of some small margin below the market price that it could charge for gold purchases. (*b*) The Fund could hardly be expected to pay interest on SDRs issued for gold until it in turn had sold the gold and invested the proceeds. During the interim, the selling member would presumably bear the interest costs attached to the SDRs issued to it in exchange for gold.

If the Fund were to become a relatively large seller of gold—from its own stocks and/or gold acquired from members—particular attention would have to be paid to the possible effects that the Fund's gold operations might have on price developments in the gold market. Careful guidelines would have to be drawn so as to ensure that sales by the Fund would help to avoid, rather than contribute to, disorderly market conditions.

PART TWO

The Committee of Twenty

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Background to Formation of the Committee of Twenty

Early in 1972 the idea of establishing a separate body to negotiate reform of the international monetary system had begun to be considered. The main forum that was considered was a committee of the Fund's Board of Governors. A paper prepared by the General Counsel and Director of the Legal Department, Joseph Gold, in January 1972 presented an illustrative plan for a committee of the Board of Governors to serve as a forum for the reform negotiations. That paper contained as an attachment a detailed paper that the General Counsel had prepared in 1969 on how a committee of the Board of Governors might work. These papers are published as (A) below.

In March 1972, after the Executive Directors had held seminars in which they discussed such a committee, two supplements to the paper of January 1972 were prepared by the staff and circulated to the Executive Board. These supplements showed the variants of the illustrative plan for a committee of the Board of Governors that had been suggested by the Executive Directors. The two supplements appear as (B) and (C) below.

(A) An Advisory Committee of the Board of Governors Outline of an Illustrative Plan

(January 24, 1972)

1. Introduction

When the informal meetings of executive directors were held in 1969 to discuss various reforms, a number of executive directors expressed interest in the idea that the Board of Governors should establish an advisory committee to consider issues affecting the international monetary system which would fall within the committee's terms of reference. The Legal Department prepared Discussion Paper No. 35 (May 16, 1969), which is reproduced as the attachment to this memorandum.

There has been renewed interest on the part of some executive directors and others in arrangements comparable to those that are examined in Discussion Paper No. 35, particularly in connection with the forthcoming deliberations on the evolution of the international monetary system. The Executive Directors might consider it opportune to revive discussion of the establishment of an advisory committee of the Board of Governors. In order to facilitate any such discussion, the present memorandum sets forth the outline of an illustrative plan for a committee based on Discussion Paper No. 35.

2. Outline of Illustrative Plan

(a) Membership

The member or members that had appointed or elected an executive director would be regarded as a constituency. Each constituency would appoint two ministers having

primary financial responsibilities or governors of central banks (referred to herein as principals) of a member or members in the constituency. The two principals need not come from the same member. Each principal would appoint a deputy, but the two principals could make a joint appointment of a single deputy. A deputy need not come from the same member as the principals. There could be provision also for the appointment of a temporary deputy who would be able to attend a meeting of the committee in the absence of the deputy.

(b) Mode of appointment

The members of the committee would be appointed before the conclusion of the Annual Meeting of the Board of Governors in each year in which the regular elections of executive directors take place. The governors for the Fund in each constituency would agree on the appointments. The governor with the largest quota in a constituency would inform the Secretary of the Fund of the appointments to the committee.

(c) Term

The members of the committee appointed under *(a)* would serve for the period of the two years between regular elections of executive directors. A special procedure could be adopted for the first committee if it were to be appointed before the 1972 Annual Meeting. The successor in office of a principal would complete the term of his predecessor.

(d) The level of meetings

The committee would meet either at the level of principals or at the level of deputies. In the absence of a principal, his deputy would be able to act for him.

(e) Chairmen

The principals and deputies would meet before the end of the Annual Meeting of the Board of Governors at which they were appointed and each group would select its chairman. Chairmen would hold office for the full period, unless the committee prescribed some shorter period.

(f) Managing Director

The Managing Director would be a member of the committee as a principal. He would appoint members of the staff of the Fund to attend meetings as his deputies.

(g) Meetings

The committee would be convoked at the level of principals or deputies by the appropriate chairman. The committee would meet, either as principals or deputies, at least once a year between Annual Meetings of the Board of Governors, and at such other times as the chairman thought desirable after consulting principals or deputies as the case might be. Meetings would be held at the headquarters of the Fund or at such other place as the chairman determined after consulting principals or deputies as the case might be.

(h) Meetings of deputies and executive directors

Meetings of the deputies and executive directors of the Fund would be held for any purpose within *(m)* below by agreement between the chairman of the deputies and the Managing Director.

(i) Attendance

The quorum for a meeting of principals or deputies would be a majority of the committee. The committee would be able to determine the number of advisors that each member of the committee could bring to meetings. The committee would be able to invite persons other than principals or deputies to participate in its meetings.

(j) Procedures and administration

The committee would establish its own working procedures. The staff of the Fund would provide services to the committee.

(k) Reports

Any recommendations or views of the committee would be adopted by the sense of the meeting, but minority views would be recorded and reported. Any reports of the principals, including recommendations or views, would be made to the Board of Governors, and would be available to the Executive Directors. Reports of the deputies, including recommendations or views, would be made to the principals, and would be available to the Executive Directors.

(l) Establishment

The Board of Governors would establish the committee by a resolution which included the main elements in broad outline. The full "charter" of the committee would be set forth in a By-Law of the Board of Governors.

(m) Terms of reference

The mandatory meeting between Annual Meetings of the Board of Governors would be held to review international monetary developments. The committee could be convoked on other occasions to advise the Board of Governors on any question within the reserved powers of the Board of Governors, or on any other question if it affected the international monetary system as a whole. The chairman, after consulting principals or deputies as the case might be, would determine whether a meeting should be held to consider a question.

ATTACHMENT

A Note on an Advisory Committee of the Board of Governors
Discussion Paper No. 35

(May 16, 1969)

I. Past Practices

It may be useful to recall past practice in connection with the appointment of committees of the Board of Governors and comparable procedures.

1. Board of Governors Committees

(a) Procedures committee

At the Inaugural Meeting in Savannah in March 1946, the Boards of Governors of the Fund and the Bank set up a Joint Procedures Committee to deal exclusively with procedural matters and to be available for consultation with the Chairman of the Board of

Governors immediately after the Inaugural Meeting until the next Annual Meeting. The original proposal by the Governor for the United States was to establish an "Executive Committee," which was described as a "steering committee," to which matters might be referred, "particularly in the way of procedure." The name proposed for the committee was believed to connote some conflict with the powers and functions of the Executive Directors, and therefore the name "Procedures Committee" was substituted. Later in the Inaugural Meeting, a proposal was made to refer the question of one member's request for a quota adjustment to the Procedures Committee in order to avoid the delay that might be involved in a referral to the Executive Directors. Chairman Vinson, in taking the position that the matter should be studied by the Executive Directors first, said "I do think it would be inadvisable for the Procedures Committee, which, as you all remember, is not a committee on substantive matters, to consider this particular issue."[1]

The terms of reference of the First Joint Procedures Committee were as follows:

> RESOLVED:
>
> That a Procedures Committee of twelve Governors be constituted, consisting of those Governors who were appointed members of the Executive Committee of the Board at this meeting of the Board to be available after the termination of this meeting and until the next annual meeting of the Board for consultation at the discretion of the Chairman, normally by correspondence and also, if occasion required, by convening immediately before the annual meeting of the Board.

Similar terms of reference have been granted to each of the subsequent Joint Procedures Committees.

The terms of reference and membership of the current Joint Procedures Committee are set forth in Report No. III of the 1967/68 Joint Procedures Committee as follows:

> The Committee recommends that the Governors for Argentina be Chairmen, and that the Governors for Belgium and Nepal be Vice Chairmen, of the Boards of Governors of the Bank and its affiliates and of the Fund, to hold office until the close of the next Annual Meetings.
>
> It is further recommended that, as in the past, a Joint Procedures Committee be established to be available, after the termination of these Meetings and until the close of the next Annual Meetings, for consultation at the discretion of the Chairman normally by correspondence and, if the occasion requires, by convening; and that this Committee shall consist of the Governors for the following members: Argentina, Belgium, Costa Rica, Dominican Republic, France, Gabon, Germany, India, Italy, Kuwait, Libya, Nepal, Philippines, Rwanda, Saudi Arabia, Sweden, Trinidad and Tobago, United Kingdom, United States, and Zambia.
>
> It is recommended that the Chairmen of the Joint Procedures Committee shall be the Governors for Argentina and the Vice Chairmen shall be the Governors for Belgium and Nepal, and that the Governor for Zambia shall serve as Reporting Member.[2]

At the 1957 Annual Meeting, the Chairman of the Joint Procedures Committee noted a suggestion from the Secretaries that the procedure for the Meeting be simplified by the elimination of special committees. Since that time it has not been the practice to appoint special committees to discuss substantive business. The Joint Procedures Committee now considers the items of business on the agenda of a Meeting and the recommendations of the Executive Directors with respect to them, and the Committee recommends action by the Board of Governors on these matters.

According to some observers, the Joint Procedures Committee assumed greater importance at the 1968 Annual Meeting. Questions have been raised in connection with the

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[1] No official report of the proceedings was issued, but the Temporary Secretary prepared a compilation entitled *Selected Documents, Board of Governors' Inaugural Meetings.*

[2] International Monetary Fund, *Summary Proceedings of the Twenty-Third Annual Meeting of the Board of Governors,* September 30–October 4, 1968 (Washington, 1969), pp. 285–86.

right of attendance by delegations whose governors are not members of the Committee and the rules that are followed in determining the composition of the Committee. It was noted in the discussion of these questions that there are no rules on the membership of the Committee but that the practice since the first Joint Procedures Committee in 1946 has been to limit attendance at meetings of the Committee to members of the Committee. The Secretary explained at a meeting of the Executive Directors "that the membership of the Procedures Committee was carefully arranged to ensure that, aside from the countries appointing Executive Directors, a balance among the various geographical areas was maintained, with no country going too long without a seat." In commenting on the remarks that had been made about the Procedures Committee at the meeting, the Acting Chairman of the Executive Directors said "that for many years its meetings had been attended only by the Executive Directors of the member countries, whereas now that the Committee had assumed a more active role, suggestions for reforms were being made."

The Secretary recently circulated to the Executive Board a document on Annual Meeting arrangements which contains the following passage with respect to the composition of the Procedures Committee and attendance of nonmembers of the Committee at its meetings:

> The Procedures Committee generally includes the members appointing Executive Directors, and about 15 more selected so as to provide a wide geographical representation and balanced frequency of membership of individual countries. As an alternative to the suggestion that all nonmember Governors attend the Procedures Committee as observers—which would make a very large gathering—arrangements could be made for elected Executive Directors to attend Procedures Committee Meetings so as to be able to inform Governors of non-Committee countries of the proceedings.

(b) Special committees

Before the 1957 Annual Meeting, there was much discussion of both substantive and procedural questions during Annual Meetings in committees established by the Board of Governors. From time to time, committees were established to consider certain subjects covered in the Annual Reports, e.g., Organization and Administration (1949), Exchange Policy (1950), Exchange Restrictions (1950), Gold (1949), Exchange Restrictions and Fund Transactions (1951), Payments, Par Values, and Gold (1951). The terms of reference, composition, and chairmanship of the committees were established by the Board of Governors on the recommendations of the Procedures Committee. The Managing Director participated in the discussions of some of these committees. The committees reported to the Board of Governors and sometimes recommended a resolution for adoption by the Board. Some of these resolutions contemplated action by the Executive Directors.

On a few occasions, the technique of subcommittees was used. This took place at the 1946 Annual Meeting when the Committee on Rules and Regulations established a subcommittee to consider a proposed resolution on silver submitted by the Governor for Mexico and another subcommittee to consider a request by Denmark that arrangements be made by which the Danish Governor might vote for one of the executive directors elected at the Inaugural Meeting. In 1967 the Chairman of the Board of Governors was authorized to appoint a subcommittee of the Procedures Committee to draft a proposed resolution on the stabilization of commodity prices.

As mentioned in *(a)* above, during the 1957 Annual Meeting the Chairman of the Joint Procedures Committee noted a suggestion for simplifying the procedure of the Meeting by eliminating committees that discussed aspects of the Annual Report. Since that Meeting it has not been the practice to appoint special committees for the discussion of substantive business.

(c) Discussion groups

At the 1949 Annual Meeting, the Board of Governors established two discussion groups, one of which was to consider exchange and monetary policy and the other to consider exchange restrictions and monetary reserves. These groups were appointed in accordance with the recommendation of the Joint Procedures Committee of the 1948 Annual Meeting that "consideration should be given to the desirability of encouraging full and open discussions among the Governors on matters of substance and policy relating to the Fund." This proposal had been made by the Governor for the United States. The Managing Director was the Chairman of these two groups, and he made an oral report to the Board of Governors on the deliberations of the groups. This same recommendation of the 1948 Joint Procedures Committee was responsible for the appointment of committees at the 1950 Annual Meeting, but discussion groups have not been established on any other occasion.

(d) Proposal for midyear meetings

At the 1956 Annual Meeting of the Board of Governors, the Governor for Canada suggested that more of the executive directors might be chosen from senior officials of treasuries or central banks who continued to have operating responsibilities in their own countries. These executive directors would come to Washington "a few times a year for scheduled meetings to deal with policy questions and other important matters which were ripe for consideration." He pointed out that Western European officials had an opportunity to consult among themselves in the Managing Board of the European Payments Union, the Bank for International Settlements, and elsewhere, "and I believe that the adoption of similar working methods by the Fund might be of great benefit to non-European members. By the same token, it might be beneficial for European countries to hear the views and learn at first hand the problems of other countries which the opportunity to talk things over would provide." The Chancellor of the Exchequer of the United Kingdom supported the Canadian proposal.[3]

Mr. Jacobsson felt that he could not concur in this proposal, but it is understood that it led him to suggest consideration of a meeting in Washington in February of each year or in every other year of senior officials from treasuries and central banks, without excluding finance ministers or governors of central banks if countries should wish to have them attend. The purpose of these meetings would be to discuss informally the world payments and economic situation, to allow personal contacts among the officials of different countries, and to permit the spokesmen of individual countries to raise in a confidential manner any new problems relating to the Fund's work or general objectives. Attendance by the ten members with the largest quotas and by ten others on a rotational basis was suggested. The Executive Directors and a limited number of staff would be entitled to attend.

In his speech at the 1957 Annual Meeting, Mr. Jacobsson, when commenting on the Canadian proposal, said that

> It would be possible to hold at the headquarters of the Fund every year, or every second year, a meeting of a limited number of highly placed persons in the various member countries, and among them senior operating officials, to discuss informally some of the problems facing the Fund and its members.†

[3] International Monetary Fund, *Summary Proceedings of the Eleventh Annual Meeting of the Board of Governors*, September 1956 (Washington, 1956) pp. 33, 34, and 46.

† International Monetary Fund, *Summary Proceedings of the Twelfth Annual Meeting of the Board of Governors*, September 1957 (Washington, 1957), p. 21.

Much work was done in the Fund at staff level, with the Managing Director taking an active interest, on arrangements for "midyear meetings," as they came to be called. A major feature of this work was the attempt to determine the composition of those attending. One suggestion from the staff was that the members invited to attend would be those serving on the Joint Procedures Committee on the ground that the Committee was available until the next Annual Meeting. It was also suggested by the staff that the membership of the Committee be increased from twelve to eighteen or nineteen, and that it should always include the ten members with the largest quotas. In addition, nine (or even ten) would be chosen in rotation from Europe, Latin America, the Middle East, and the Far East. The members chosen from each geographical group could vary from year to year, but the intention would be that each member country would serve on the Committee at least once every five or six years. The frequency as thus calculated of appearance on the Committee was based on the smaller membership of the late 1950s.

The idea of a midyear meeting was considered sufficiently realistic to warrant the tentative reservation of space at a local hotel for February 1959, but on November 28, 1958 the Managing Director decided not to carry the matter forward.

(e) Proposed committee for "Stage 2"

At one time, a Board of Governors Committee was considered for what was called "Stage 2" of the liquidity debate.

The United States prepared a proposal for a Board of Governors Advisory Committee on Reserve Creation that would have been composed of the ministers and central bank governors from each of the Ten, and from two members in Africa, three in Asia, one in "non-Ten" Europe, two in Latin America, and one in Oceania and South Africa. The committee was to vote in accordance with the weighted voting system of the Articles. The Managing Director did not endorse this proposal. He preferred an advisory committee of the Deputies of the Ten and executive directors, in part because the formula would make use of the ready-made geographical representation embodied in the Executive Directors. At an informal session, there was a range of reactions among executive directors to these ideas, including outright opposition to any committee of the Board of Governors. The discussion led to no consensus, but the Managing Director stressed that his idea avoided political problems because all members would be represented as in the Executive Directors. In contrast to the U.S. proposal, there would have been no voting in the committee.

The Deputies of the Ten considered the possibility of an Advisory Committee of the Board of Governors on Reserve Creation, composed of the finance ministers and central bank governors of the Group of Ten and ministers and central bank governors from the main geographical areas, selected broadly in proportion to their shares in total quotas. The committee would prepare a specific contingency plan and report to the Board of Governors. The deputies did not accept this proposal in their report of July 8, 1966. Instead, the communiqué of The Hague meeting (July 25–26, 1966) recommended joint meetings of executive directors and deputies. The Executive Directors authorized the Managing Director to make arrangements for these meetings, and four joint meetings were held in late 1966 and the spring of 1967.

II. Legal Aspects

Some legal questions may be asked in connection with the establishment of an Advisory Committee of the Board of Governors.

1. Status of Committee

There is no provision empowering the Board of Governors to appoint committees, but Article XII, Section 3(*k*) provides as follows for committees appointed by the Executive Directors:

> The Executive Directors may appoint such committees as they deem advisable. Membership of committees need not be limited to governors or directors or their alternates.

It is likely that no express provision was thought necessary for the Board of Governors because it is a normal feature of the powers of an organ, and *a fortiori* a senior organ, to appoint committees. It has been seen that the Board of Governors has appointed committees on numerous occasions, and this is common practice among other international organizations as well. The Executive Directors exercise powers that in the main are delegated to them, and probably for this reason it was thought desirable to make it clear that they could appoint subordinate bodies in the form of committees.

Article XII, Section 3(*k*) speaks of the power of the Executive Directors to appoint committees without declaring that they are to be committees of the Executive Directors. It might be suggested, therefore, that the Executive Directors have the authority under this provision to appoint committees of the Board of Governors. This proposition should be approached skeptically. According to normal parliamentary practice, committees appointed by an organ are responsible to that organ. This would preclude the establishment by the Executive Directors of a committee that answered to the Board of Governors. The reference to "governors" in Article XII, Section 3(*k*) does not justify a different conclusion. Even if a committee established by the Executive Directors were to be composed entirely of governors, that committee would still be a committee of, and answerable to, the Executive Directors.

2. Membership

It is not completely clear whether the second sentence of Article XII, Section 3(*k*) applies only to committees of the Executive Directors or applies to committees of the Board of Governors also. In any event, there is every reason to assume that the powers of the Board of Governors are as broad as those of the Executive Directors in determining the membership of committees. Therefore, membership in committees appointed by the Board of Governors need not be confined to governors but could include other persons. It could be provided, for example, that finance ministers or central bank governors could be members of a committee of the Board of Governors even though they were not governors. The conclusion that the Board of Governors may determine the composition of its committees as it sees fit corresponds with the practice of other international organizations.

The governors of the Fund are finance ministers or central bank governors in almost equal proportions. In some member countries, it is prescribed by statute that the central bank governor shall be the governor for the Fund. In others, the central bank, either alone or in collaboration with others, appoints the governor for the Fund. Sometimes, the Executive has the power to name the governor; and, under some statutes, this power is to be exercised on the basis of nominations by the central bank or according to some other procedure. There are other statutes under which the finance minister, either alone or in collaboration with other ministers, is empowered to carry out the member's obligations arising from acceptance of the Articles. Presumably, the finance minister is able to appoint the governor and may appoint himself or some other person.

One question that arises is whether an alternate governor would be entitled to sit as the substitute for a governor on any committee to which the governor was appointed. There is nothing explicit on this in the Articles or the By-Laws. Article XII, Section 2(*a*)

deals with alternate governors in relation to the Board of Governors itself, and it is implied that they are entitled to attend meetings and vote when the governor is not present. This follows from the sentence: "No alternate may vote except in the absence of his principal."

It has been the practice for alternate governors to attend committee meetings whether or not their principals were present. There appears to be no reason, however, why it could not be provided by the Board of Governors that attendance at the meetings of a particular committee was to be confined to governors to the exclusion of alternate governors. The language of Article XII, Section 3(*k*) supports the view that the appointment of a governor to a committee does not give the alternate an absolute right to sit in place of the governor. The second sentence declares that "[m]embership of committees need not be limited to governors or directors or their alternates." If the appointment of a governor carried with it the invariable right of the alternate to sit in place of the governor, there would have been no need to mention alternates. It is true that this sentence may refer only to committees of the Executive Directors, but there is no reason why the principle would not be the same for committees of the Board of Governors.

In any event, the question would not even arise if appointments to a committee were made not *qua* governor but in some other capacity. For example, if the committee consisted of member countries or persons appointed as finance ministers or central bank governors, there would be no basis at all for the contention that if some of them were also governors of the Fund their alternates would be entitled to sit and could not be prevented from sitting.

3. Attendance at Meetings

In the case of all Committees of the Executive Directors, and all but one of the Committees of the Board of Governors, nonmembers of a committee may attend committee meetings as observers. In the case of the Procedures Committee of the Board of Governors, the rule is that attendance by nonmembers as observers is precluded. If the past practice of the Procedures Committee were followed, nonmembers would not be entitled to attend as observers at meetings of an advisory committee of the Board of Governors, but could be invited to attend if they had a special interest in the subject of discussion.

Another problem that would arise would be the role of members of the committee who were not officials of a participant in the Special Drawing Account if the subject to be discussed was a matter pertaining exclusively to the Special Drawing Account. The general principle of the amendments is that governors for nonparticipants and executive directors not appointed or elected by at least one participant may attend and speak at meetings of the Board of Governors or Executive Directors, respectively, but are not entitled to vote on matters pertaining exclusively to the Special Drawing Account (see Article XXVII (*a*)). It would be necessary to decide the role of the officials that have been referred to when the committee was called upon to advise on a matter pertaining exclusively to the Special Drawing Account.

It has been the uniform practice for the Managing Director and such members of the staff as he may indicate to attend all meetings of committees of the Board of Governors.

4. Committee Action

It has not been the practice for committees of the Board of Governors to *vote* on the topics discussed by them. Committee reports have expressed the views of individual governors as well as any consensus reached and embodied in a recommendation. However, there is nothing in the Articles or in the By-Laws on Board of Governors committees. Rule C-11 of the Rules and Regulations declares that

> There shall be no formal voting in committees and subcommittees. The Chairman of the committee or subcommittee shall determine the sense of the meeting (including alternative points of view) which shall be reported.†

This is drafted in general language, but its inclusion and place in the Rules and Regulations indicate that it refers to committees and subcommittees of the Executive Directors only. The Board of Governors has followed a similar practice, but in the case of the Interpretation Committee there will be explicit authority for voting in the amendments. It follows from the normal rule that committees do not take decisions that the role of the committee now under discussion would be advisory. The reports of an advisory committee could include any diversity of views and show which members composed the majority and which the minority if there was no consensus.

In connection with the foregoing it may be useful to deal with the question whether members of a committee would have a "representative" capacity. They would not have that capacity in the sense that they would bind any member or members by the expression of their views or by joining in a recommendation. If there were to be some procedure by which a member of the Committee was selected by several member countries, he would represent them not in the legal sense that he was their mandatory but in the sense that he was thought by them to be likely to reflect their general viewpoint. It would be left to him to decide whether and how to ascertain their views on a particular question and whether he would express their views in the deliberations of the committee.

III. Procedural Aspects

The main topics to be considered in establishing an advisory committee can be grouped under three headings: (1) composition, (2) operating procedures, and (3) terms of reference. This section of the paper deals with (1) and (2). In determining any aspect of the committee under these headings, there is a choice among many possibilities. Not all of these can be set forth here, and those that are mentioned are illustrative only.

It is assumed that if an advisory committee were established, it would be done either by amendment of the By-Laws or by a Resolution of the Board of Governors.

(a) Size

Several principles would appear to have a bearing on the selection of an appropriate number of persons to serve on an advisory committee. The group should be small enough to be able to hold meetings informally and at short notice and, if possible, without undue public attention. At the same time, the number should be large enough so as to reflect the broad interests of Fund membership, geographic as well as economic and financial. It would be possible to start with a number considered ideal and then to make an allocation on the basis of these principles, or it would be possible to start with the principles and see what number one arrived at. Alternatively, it would be possible simply to match the number of executive directors on the ground that this was the number already considered by the Board of Governors satisfactory for the purposes of the Fund because the Board has increased the number of executive directors step by step from the original twelve. The size of the committee referred to here relates to member countries. If it were decided that each country should be represented by more than one official, the membership of the committee would be increased correspondingly.

† The Rules and Regulations are reproduced below, pp. 457–81; at p. 460.

(b) Selection

There are many criteria, operating singly or in combination, by which membership of a committee could be determined. Geographic areas, size of quotas, and use of member currencies in Fund operations are criteria that affect the composition of the Executive Directors. These criteria play a part in the separate election of executive directors by the American Republics that do not appoint executive directors (Article XII, Section 3(*b*) (iii)); the appointment of executive directors by the five members with the largest quotas (Article XII, Section 3(*b*) (i)); and additional appointed directors (Article XII, Section 3(*c*)). The criteria, if applied to a committee, would not have to operate in the same way as they do in connection with the composition of the Executive Directors. For example, the criterion of size of quota could be made to apply by grouping all quotas into categories by size.

If the composition of the Executive Directors were followed, the membership of a committee could duplicate the countries of executive directors. Alternatively, each seat on the Executive Directors could be regarded as a constituency, and the member country or countries composing the constituency could designate the persons to sit on the committee. If more than one person were to sit, either as principals or alternates, they could be from the same member country or from different member countries within the constituency.

If the criterion for selecting the committee were not self-executing, but involved some principle of choice, authority to make the choice could be exercised by the Managing Director or the Chairman of the Board of Governors or by both acting jointly or by the Board of Governors on the nomination of the Executive Directors. For example, any one of these could select a country from each group determined by geography or size of quota, or in some other way. Alternatively, all those constituting a group could select one of their number in some manner which they regarded as satisfactory.

(c) Membership

As already indicated, the members of a committee could be appointed as governors, but, alternatively, they could be appointed in some other official capacity or even in their personal capacity. It has been indicated also that if they were appointed in some official capacity other than that of governors of the Fund, they might be ministers of finance or central bank governors. Another possibility would be to select member countries, and permit each of them to designate the person or persons to participate in meetings generally or in particular meetings. There would have to be appropriate provisions with respect to alternates or temporary alternates if it was decided that they were not precluded.

(d) Term of appointment

If the analogy of the election of Executive Directors were followed, the term of appointment to a committee would be two years. If more frequent rotation was considered desirable, the term could be one year. Designations could be made at the time of an Annual Meeting of the Board of Governors, but this would not be essential.

(e) Chairman

The chairman of the committee could be chosen by the committee itself, or he could be selected by the Chairman of the Board of Governors or in some other way, or he could be the Chairman of the Board of Governors. The term of the office would have to be determined.

(*f*) *Frequency of meetings*

Meetings could be held at fixed periods or on call or by some combination of the two. The procedure for calling meetings could be affected by the terms of reference of the committee, and this topic is considered further under that heading below.

(*g*) *Other procedural problems*

As in the case of all committees, it would be necessary to consider a number of procedural questions, among which the place of meetings, quorum, agenda, minutes, and expenses can be listed. There is little point in pursuing these or related aspects at this time. It should be noted that it has been assumed that an advisory committee would be a standing committee. It is not inconceivable that a committee could be called into being when the occasion demanded, but under a By-Law previously adopted. It is also possible to conceive of different advisory committees for different purposes. An obvious basis for distinction could be issues relating exclusively to the Special Drawing Account and all other issues.

IV. Terms of Reference

A committee established to advise the Board of Governors would report to the Board of Governors whenever it had completed its consideration of some topic. There are two basically different approaches to the terms of reference of a committee. The first would be to attempt a definition of the terms of reference, with more or less detail; the second would be to avoid definition altogether but instead rely on a procedure for remitting topics to the committee. It is also possible to conceive of a combination of the two approaches.

Under the first course, i.e., the definition of the terms of reference, the minimum would appear to be some or all of the matters reserved to the Board of Governors. It is normal practice for the Executive Directors to make a recommendation to the Board of Governors on the exercise of any of these reserved powers, and it could be provided, therefore, that the Executive Directors would recommend whether their substantive recommendation should be considered by the committee. The Board of Governors could decide in its By-Law that the committee should be convened when the Executive Directors so recommended. This would obviate any embarrassment that might be involved in convening a committee of the Board of Governors by a decision of the Executive Directors.

Under Article XII, Section 2(*b*), as amended, and under Article XXVII (*a*)(i), the powers of the Board of Governors that may not be delegated to the Executive Directors are powers to

(i) Admit new members and determine the conditions of their admission.

(ii) Approve a revision of quotas, or to decide on the payment or on the mitigation of the effects of payment, of increases in quotas proposed as the result of a general review of quotas.

(iii) Approve a uniform change in the par values of the currencies of all members, or to decide when such a change is made that the provisions relating to the maintenance of gold value of the Fund's assets shall not apply.

(iv) Make arrangements to cooperate with other international organizations (other than informal arrangements of a temporary or administrative character).

(v) Determine the distribution of the net income of the Fund.

(vi) Require a member to withdraw.

(vii) Decide to liquidate the Fund.

(viii) Decide appeals from interpretations of the Articles given by the Executive Directors.

(ix) Revise the provisions on repurchase or revise and supplement the rules for the distribution of repurchases among types of reserves.
(x) Make transfers to general reserve from any special reserve.
(xi) Prescribe other holders of special drawing rights and terms and conditions under Article XXIII, Section 3.
(xii) Allocate or cancel special drawing rights, determine the rates, and basic periods under Article XXIV, Section 2(*a*), (*b*), and (*c*).
(xiii) Change decisions because of unexpected major developments under Article XXIV, Section 3.
(xiv) Prescribe additional transactions or categories of transactions in which special drawing rights may be used by agreement under Article XXV, Section 2(*b*)(ii).
(xv) Adopt, modify, or abrogate rules for reconstitution under Article XXV, Section 6(*b*).
(xvi) Liquidate the Special Drawing Account under Article XXXI (*a*).

Presumably, item (viii) would not be within the province of any advisory committee because of the establishment of the Interpretation Committee under Article XVIII (*b*). The further definition of terms of reference could be in broad terms. It could refer to issues of importance affecting the international monetary system. It would be necessary to provide some procedure by which to settle whether a question met this test. This could be decided by the Executive Directors.

The last suggestion leads to consideration of a purely procedural determination of the questions that would be considered by a committee. Three initiatives could be considered: the Executive Directors, some minimum number of members, and the Board of Governors. A question could be remitted to the committee without defined terms of reference whenever the Executive Directors made a recommendation that the question should be considered by the committee. They might make that recommendation whether or not they were making a recommendation to the Board of Governors on the substance of some issue. In addition, by analogy to Article XII, Section 2(*c*), a question could go to the committee if that were requested by a specified number of members or by members having a specified proportion of the total voting power. If an issue were to arise in the Board of Governors, for example on the introduction of a proposed resolution, it could be remitted to the committee, which could then recommend the form in which the issue could go to the Executive Directors for study and recommendation, or could advise on some other course that it thought appropriate. The decision by the Board of Governors to remit to the committee an issue that arose in this way could be taken ad hoc or it could be remitted under some standard procedure incorporated in a By-Law.

(B) A Special Committee of the Board of Governors Outline of an Illustrative Plan with Variant Provisions Supplement 1

(March 7, 1972)

This memorandum repeats the outline of the illustrative plan for a committee of the Board of Governors,† together with summaries in context of the variant provisions that have been advanced at the two seminars of the Executive Directors on this matter. The first paragraph under each heading is quoted from the paper of January 1972; the numbered paragraphs are variants that have been suggested.

Some participants in the discussion thought that the word "advisory" could be misleading in describing the work of the committee, and the words "executive" and "steering" were suggested. For the time being the word "special" can be employed instead of "advisory."

(a) Membership

The member or members that had appointed or elected an executive director would be regarded as a constituency. Each constituency would appoint two ministers having primary financial responsibilities of governors of central banks (referred to herein as principals) of a member or members in the constituency. The two principals need not come from the same member. Each principal would appoint a deputy, but the two principals could make a joint appointment of a single deputy. A deputy need not come from the same member as the principals. There could be provision also for the appointment of a temporary deputy who would be able to attend a meeting of the committee in the absence of the deputy.

(1) Each constituency would select a single person to serve on the committee, whether a minister or a governor, to be assisted by an alternate and a deputy. This provision would result in a committee of 21, including the Managing Director, with alternates and deputies (or deputies for principals and for alternates).

(2) As in (1), but without deputies.

(3) As in (1) or (2), but the committee would be limited to ministers with financial responsibilities. A committee of ministerial rank would be most appropriate for the consideration of issues that were political in nature or had become political because of an impasse.

(4) An alternative to the committee would be the election of nonresident executive directors.

(5) The committee would be composed of a small number of persons designated by five categories of countries.

(b) Mode of appointment

The members of the committee would be appointed before the conclusion of the Annual Meeting of the Board of Governors in each year in which the regular elections of executive directors take place. The governors for the Fund in each constituency would agree on the appointments. The governor with the largest quota in a constituency would inform the Secretary of the Fund of the appointments to the committee.

(1) No other approaches were suggested.

† See above, pp. 129–31.

(c) Term

The members of the committee appointed under (*a*) would serve for the period of the two years between regular elections of executive directors. A special procedure could be adopted for the first committee if it were to be appointed before the 1972 Annual Meeting. The successor in office of a principal would complete the term of his predecessor.

(1) No other approaches were suggested.

(d) The level of meetings

The committee would meet either at the level of principals or at the level of deputies. In the absence of a principal, his deputy would be able to act for him.

(1) Under (*a*)(2) above, there would be only one level. The Executive Directors would be responsible for the preparation of studies and conduct the preliminary exchange of views to facilitate the work of the committee.

(2) A small steering committee would be established.

(e) Chairmen

The principals and deputies would meet before the end of the Annual Meeting of the Board of Governors at which they were appointed and each group would select its chairman. Chairmen would hold office for the full period, unless the committee prescribed some shorter period.

(1) A nonpolitical chairman, such as the Managing Director, would be designated ex officio.

(2) The Chairman of the Board of Governors would be the chairman of the committee and would call meetings and establish agendas in consultation with the Managing Director.

(f) Managing Director

The Managing Director would be a member of the committee as a principal. He would appoint members of the staff of the Fund to attend meetings as his deputies.

(1) No other approaches were suggested.

(g) Meetings

The committee would be convoked at the level of principals or deputies by the appropriate chairman. The committee would meet, either as principals or deputies, at least once a year between Annual Meetings of the Board of Governors, and at such other times as the chairman thought desirable after consulting principals or deputies as the case might be. Meetings would be held at the headquarters of the Fund or at such other place as the chairman determined after consulting principals or deputies as the case might be.

(1) Under (*a*)(2) above, the committee would not meet at the level of deputies.

(h) Meetings of deputies and executive directors

Meetings of the deputies and executive directors of the Fund would be held for any purpose within (*m*) below by agreement between the chairman of the deputies and the Managing Director.

(1) Under (*a*)(2) above, there would be alternates but not deputies, and it was not contemplated that the committee would meet at the level of alternates as such. Alternates, however, would be able to substitute for their principals in the normal manner.

(i) Attendance

The quorum for a meeting of principals or deputies would be a majority of the committee. The committee would be able to determine the number of advisors that each member of the committee could bring to meetings. The committee would be able to invite persons other than principals or deputies to participate in its meetings.

(1) No other approaches were suggested.

(j) Procedures and administration

The committee would establish its own working procedures. The staff of the Fund would provide services to the committee.

(1) See (*d*)(1) above, second sentence.

(k) Reports

Any recommendations or views of the committee would be adopted by the sense of the meeting, but minority views would be recorded and reported. Any reports of the principals, including recommendations or views, would be made to the Board of Governors, and would be available to the Executive Directors. Reports of the deputies, including recommendations or views, would be made to the principals, and would be available to the Executive Directors.

(1) Questions connected with the way in which the committee would arrive at its views and make its reports were raised and are considered in a separate memorandum.

(2) See (*d*)(1) above, second sentence.

(l) Establishment

The Board of Governors would establish the committee by a resolution which included the main elements in broad outline. The full "charter" of the committee would be set forth in a By-Law of the Board of Governors.

(1) A committee would be established only on an ad hoc basis when important issues such as amendments to the Articles of Agreement or the resolution of a monetary crisis had to be dealt with at the political level.

(2) Separate committees would be constituted ad hoc to consider different subjects.

(3) A standing committee would be constituted but would meet only in the circumstances described in (1) above.

(4) A committee would be constituted now to consider the issues of reform of the monetary system.

(5) As in (4), but the committee would be transformed into a standing committee at a later date if experience justified this course.

(6) The Articles of Agreement would be amended to permit the formal establishment of the committee as an organ of the Fund.

(m) Terms of reference

The mandatory meeting between Annual Meetings of the Board of Governors would be held to review international monetary developments. The committee could be convoked on other occasions to advise the Board of Governors on any question within the reserved powers of the Board of Governors, or on any other question if it affected the international monetary system as a whole. The chairman, after consulting principals or deputies as the case might be, would determine whether a meeting should be held to consider a question.

(1) The committee would consider only the present issues of reform of the monetary system.

(2) A committee or committees would consider specific subjects, such as the consolidation of reserve assets.

(3) The standing committee would consider amendments to the Articles of Agreement.

(4) The standing committee would be prepared to act quickly to help resolve monetary crises.

(5) The standing committee would be able to determine its own terms of reference to some extent.

(6) The committee would be able to consider issues that were additional to those in the monetary field, such as trade barriers and voluntary restraints on exports, burden sharing in aid to developing countries, and military defense. No present body had such terms of reference, and there was a need for it as a prerequisite to negotiations on monetary reform.

(7) The committee would not have a broad mandate to consider any question affecting the monetary system but would consider specific questions referred to it by the Executive Directors because they had not been able to reach agreement on the questions.

(8) The committee would initiate a report to a member under Article XII, Section 8 when the adjustment process required it.

(C) A Special Committee of the Board of Governors Outline of an Illustrative Plan with Revised Variant Provisions Supplement 2

(March 31, 1972)

This memorandum repeats the outline of the illustrative plan for a special committee of the Board of Governors,† together with summaries in context of variant provisions based upon the discussion of the outline and Supplement 1‡ in four seminars of the Executive Directors. The first paragraph under each heading is quoted from the paper of January 1972; the numbered paragraphs are variants that have been suggested.

(a) Membership

The member or members that had appointed or elected an executive director would be regarded as a constituency. Each constituency would appoint two ministers having primary financial responsibilities or governors of central banks (referred to herein as principals) of a member or members in the constituency. The two principals need not come from the same member. Each principal would appoint a deputy, but the two principals could make a joint appointment of a single deputy. A deputy need not come from the same member as the principals. There could be provision also for the appointment of a temporary deputy who would be able to attend a meeting of the committee in the absence of the deputy.

PRINCIPALS

(1) Each constituency would select a single principal to serve on the committee, whether a minister or a governor of a central bank.

(2) The constituencies that had appointed executive directors would each appoint a single principal, and the others would each appoint two.

(3) As in (1), but the selection of principals would be limited to ministers with financial responsibilities.

(4) The selection of principals would be limited to governors of the Fund.

ALTERNATES AND DEPUTIES

(5) Each principal would appoint an alternate as well as a deputy.

(6) Executive directors could be designated as deputies.

(7) Each principal would appoint an alternate but not a deputy.

(b) Mode of appointment

The members of the committee would be appointed before the conclusion of the Annual Meeting of the Board of Governors in each year in which the regular elections of executive directors take place. The governors for the Fund in each constituency would agree on the appointments. The governor with the largest quota in a constituency would inform the Secretary of the Fund of the appointments to the committee.

(1) No other approaches were suggested, but it was proposed that the committee should be appointed as soon as possible.

† See above, pp. 129–31.
‡ See above, pp. 142–45.

(c) Term

The members of the committee appointed under *(a)* would serve for the period of the two years between regular elections of executive directors. A special procedure could be adopted for the first committee if it were to be appointed before the 1972 Annual Meeting. The successor in office of a principal would complete the term of his predecessor.

(1) No other approaches were suggested.

(d) The level of meetings

The committee would meet either at the level of principals or at the level of deputies. In the absence of a principal, his deputy would be able to act for him.

(1) Under *(a)*(7) above, there would be only one level. The Executive Directors would be responsible for the preparation of studies and conduct the preliminary exchange of views to facilitate the work of the committee, without prejudice to the right of principals to introduce proposals and papers in the committee.

(e) Chairmen

The principals and deputies would meet before the end of the Annual Meeting of the Board of Governors at which they were appointed and each group would select its chairman. Chairmen would hold office for the full period, unless the committee prescribed some shorter period.

(1) A nonpolitical chairman, such as the Managing Director, would be designated ex officio.

(f) Managing Director

The Managing Director would be a member of the committee as a principal. He would appoint members of the staff of the Fund to attend meetings as his deputies.

(1) The Deputy Managing Director would be designated as the Managing Director's alternate.

(g) Meetings

The committee would be convoked at the level of principals or deputies by the appropriate chairman. The committee would meet, either as principals or deputies, at least once a year between Annual Meetings of the Board of Governors, and at such other times as the chairman thought desirable after consulting principals or deputies as the case might be. Meetings would be held at the headquarters of the Fund or at such other place as the chairman determined after consulting principals or deputies as the case might be.

(1) Under *(a)*(7) above, the committee would not meet at the level of deputies.

(2) The committee would decide upon the circumstances in which it should meet.

(h) Meetings of deputies and executive directors

Meetings of the deputies and executive directors of the Fund would be held for any purpose within *(m)* below by agreement between the chairman of the deputies and the Managing Director.

(1) Under *(a)*(7) above, there would be alternates but not deputies, and the committee would not meet at the level of alternates as such.

(2) Meetings of the deputies and executive directors would be limited to the preparation of agenda for meetings of the principals.

(i) Attendance

The quorum for a meeting of principals or deputies would be a majority of the committee. The committee would be able to determine the number of advisors that each member of the committee could bring to meetings. The committee would be able to invite persons other than principals or deputies to participate in its meetings.

(1) Advisors could be specialists in other than monetary matters.

(j) Procedures and administration

The committee would establish its own working procedures. The staff of the Fund would provide services to the committee.

(1) The services of the staff would be made available under the general supervision of the Executive Directors.

(2) The committee would be able to invite experts to give advice, or co-opt persons not covered by (*a*) above, or collaborate with other groups or organizations and their staffs.

(k) Reports

Any recommendations or views of the committee would be adopted by the sense of the meeting, but minority views would be recorded and reported. Any reports of the principals, including recommendations or views, would be made to the Board of Governors, and would be available to the Executive Directors. Reports of the deputies, including recommendations or views, would be made to the principals, and would be available to the Executive Directors.

(1) Weighted voting could be recognized in some form in connection with recommendations or views.

(l) Establishment

The Board of Governors would establish the committee by a resolution which included the main elements in broad outline. The full "charter" of the committee would be set forth in a By-Law of the Board of Governors.

(1) A committee would be established only on an ad hoc basis to consider proposed amendments to the Articles of Agreement.

(2) A committee would be constituted now to consider the issues of reform of the monetary system.

(3) As in (2), but the committee could be transformed into a standing committee at a later date if experience justified this course.

(4) As in (2), but the Articles of Agreement could be amended to permit the formal establishment of the committee as an organ of the Fund if experience justified this course.

(m) Terms of reference

The mandatory meeting between Annual Meetings of the Board of Governors would be held to review international monetary developments. The committee could be convoked on other occasions to advise the Board of Governors on any question within the reserved powers of the Board of Governors, or on any other question if it affected the international monetary system as a whole. The chairman, after consulting principals or

deputies as the case might be, would determine whether a meeting should be held to consider a question.

(1) The committee would consider only the present issues of reform of the monetary system.

(2) The committee would consider proposed amendments to the Articles of Agreement.

(3) The committee would have a general mandate which would enable it to determine its own terms of reference for practical purposes.

(4) The committee would be able to consider issues associated with those of a monetary character, such as trade policies.

(5) The committee would not have a broad mandate to consider any question affecting the monetary system but would consider specific questions referred to it by the Executive Directors because they had not been able to reach agreement on the questions.

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Establishment of the Committee of Twenty

On July 26, 1972, the Board of Governors of the Fund adopted the following resolution establishing the ad hoc Committee on Reform of the International Monetary System and Related Issues (Committee of Twenty) to negotiate a reformed international monetary system.

Establishment of a Committee on Reform of the International Monetary System and Related Issues
(July 26, 1972)

Resolution No. 27-10 of the Board of Governors

WHEREAS there is an urgent need for a thorough review and reform of the international monetary system in the light of major international developments over the last several years; and

WHEREAS reform of the international monetary system should be considered in relation to existing or prospective arrangements among countries, including those involving international trade, the flow of capital, investment, or development assistance, that could affect attainment of the purposes of the Fund under the present or amended Articles; and

WHEREAS the reform should meet the present and future needs of the world economy; and

WHEREAS in order to bring about the necessary reform it is desirable to establish a committee, composed of governors of the Fund, ministers, or others of comparable rank, to advise and make recommendations to the Board of Governors; and

WHEREAS it is generally recognized that decisions relating to the reform should be taken with the full participation of both developed and developing member countries;

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

1. *Composition of the Committee*

(a) There shall be established an ad hoc Committee of the Board of Governors on Reform of the International Monetary System and Related Issues. The members of the Committee shall be appointed by the members of the Fund. Each member of the Fund that appoints an executive director and each group of members of the Fund that elected an executive director on or after the date on which the last regular election took place shall appoint one member of the Committee, who shall serve until a new appointment is made. Each member of the Committee shall appoint not more than two associates, who shall be entitled to participate in meetings of the Committee. If a member of the Committee does not attend a meeting of the Committee, he shall be entitled to designate another person to take his place at that meeting.

(b) The members of the Committee shall select a Chairman, who shall serve for such period as the Committee determines. The Chairman of the Board of Governors shall convene the first meeting of the Committee and shall preside over it until a Chairman has been selected.

(*c*) The Committee shall determine the number of advisors that each member of the Committee may bring to its meetings.

(*d*) The Managing Director shall participate in the meetings of the Committee and may designate a representative to take his place at any meeting he does not attend.

2. *Terms of Reference of the Committee*

(*a*) The Committee shall advise and report to the Board of Governors with respect to all aspects of reform of the international monetary system, including proposals for amendments of the Articles of Agreement of the Fund, taking into consideration any reports and recommendations by the Executive Directors to the Board of Governors pursuant to Resolution No. 26-9 of the Board of Governors.

(*b*) In considering and reporting on the matters covered by (*a*) above, the Committee shall give full attention to the interrelation between these matters and existing or prospective arrangements among countries, including those that involve international trade, the flow of capital, investment, or development assistance, that could affect attainment of the purposes of the Fund under the present or amended Articles.

3. *Deputies*

(*a*) There shall be established the Deputies, who shall be composed of the deputies appointed by the members of the Committee, and who shall meet as often as necessary to prepare the work of the Committee. Each member of the Committee shall be entitled to have not more than two deputies.

(*b*) The Committee shall select the Chairman of the Deputies.

(*c*) Executive directors shall be entitled to participate in the meetings of the Deputies.

(*d*) The Managing Director shall designate not more than two members of the staff of the Fund to represent him at meetings of the Deputies.

(*e*) The Deputies shall determine the number of advisors who may attend the meetings of the Deputies.

4. *Arrangements for Work*

(*a*) The Managing Director and the Chairman of the Deputies shall establish appropriate arrangements to bring about an effective coordination of the work of the Executive Directors in connection with reform of the international monetary system pursuant to Resolution No. 26-9 and the work of the Deputies.

(*b*) The Chairman of the Committee or of the Deputies, after consulting the members of the Committee or the deputies as the case may be, shall make any arrangements that are considered necessary for studies by qualified persons or for furthering the work of the Committee or of the Deputies in any other way.

5. *Procedures*

(*a*) The Committee shall meet as often as is necessary for proceeding with its work. Meetings shall be convened by the Chairman after consulting the members of the Committee. The Chairman shall consult the members of the Committee if so requested by any member of the Committee.

(*b*) Meetings of the Committee and of the Deputies shall be held within the metropolitan area in which the Fund has its principal office or at such other places as the re-

spective Chairmen determine after consulting the members of the Committee or the deputies as the case may be.

(*c*) In reporting any recommendations or views of the Committee, the Chairman shall seek to establish a sense of the meeting. In the event of a failure to reach a unanimous view, all views shall be reported, and the members holding such views shall be identified. Reports of the Committee or of the Deputies shall be made available to the Executive Directors. The Committee may publish any of its reports.

(*d*) The Committee and the Deputies may invite other persons to attend meetings and may determine any other aspect of their own procedures that is not established by this Resolution.

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Interim Report and First Outline of Reform of the Committee of Twenty

The ad hoc Committee on Reform of the International Monetary System and Related Issues (Committee of Twenty) began deliberations in September 1972. In September 1973 the Chairman of the Committee, Mr. Ali Wardhana of Indonesia, submitted to the Fund's Board of Governors an interim report to which he attached a First Outline of Reform that had been prepared by the Chairman and Vice-Chairmen of the Deputies of the Committee of Twenty. The report and the Outline are reproduced as (A) below.

In September 1973, the Board of Governors adopted a resolution which took note of the interim report and urged the Committee to complete its work as soon as possible. The resolution appears as (B) below.

(A) Report to the Board of Governors of the International Monetary Fund by the Chairman of the Committee on Reform of the International Monetary System and Related Issues

(September 24, 1973)

On July 26, 1972, the Board of Governors adopted Resolution 27-10 which established the Committee and instructed it to advise and report to the Board of Governors with respect to all aspects of reform of the international monetary system. During the past year the Committee has met four times, most recently on September 23, 1973, and has been assisted by the Deputies who have worked intensively on the various aspects of reform. I attach a First Outline of Reform which has been prepared by the Chairman and Vice-Chairmen of the Deputies and which, in my view, reflects the stage reached in the Committee's discussions. This Outline covers the main aspects of monetary reform. It does not distinguish between those matters which would have to be dealt with by amendment of the Articles of Agreement of the Fund and those which might be incorporated in a code of conduct outside the Articles. It does not cover questions concerning the quota structure and possible changes in the General Account, which fall to be considered at a later stage; and it makes only a few references to questions of the structure of the Fund, on which discussion is not far advanced.

As is apparent from the Outline, much has been achieved but much remains to be done.

The general shape of the reformed system has been defined and significant progress has been made on some important issues. Arrangements for adjustment and convertibility are to be effective in avoiding the protracted imbalances which led to the breakdown of the Bretton Woods system; symmetrical in relation to all member countries, large or small, developed or developing, in surplus or in deficit; and consistent with each other and with the volume of global liquidity. The SDR is to become the principal reserve asset

of the reformed system, with the role of gold and of reserve currencies being reduced. Economic development and the flow of real resources from developed to developing countries are to be promoted.

On the other hand, important issues have not yet been resolved; and further consideration and study must be given to many matters, including the operational provisions of the reformed system. This position reflects the complex and difficult nature of international monetary reform which involves changes in the patterns of countries' behavior that have persisted for many years. Moreover, agreement on particular issues reached during the process of discussion must be dependent on final agreement of the whole range of issues of reform; and agreement of principle in particular areas must be dependent on satisfactory settlement of the operational provisions in those areas.

The Committee intends to continue its efforts to arrive as soon as possible at final recommendations for a reform of the international monetary system. In view of the urgency of completing this task, the Committee intends to settle the issues of reform by July 31, 1974, in good time for the Annual Meeting which is to be held in Washington in September 1974. To this end the Committee plans to meet in January and to hold a further meeting in the spring. The Committee has also given instructions to the Deputies to work further on the various aspects of monetary reform, giving attention to the related issues. In particular the Deputies have been asked, in cooperation with the Executive Board of the Fund, to continue their work on future arrangements for adjustment and convertibility, including the details of a reserve indicator structure and of a possible multicurrency intervention system, and to study and advise the Committee further on unresolved issues in the fields of primary reserve assets, consolidation and management of currency reserves, and the link and credit facilities in favor of developing countries, as well as the more general question of how to promote the flow of real resources from developed to developing countries.

First Outline of Reform

This First Outline of Reform, which is forwarded to the Board of Governors under cover of a Report by the Chairman of the Committee on Reform of the International Monetary System and Related Issues, has been prepared by the Chairman and Vice-Chairmen of the Deputies. It reflects in the view of the Chairman of the Committee the stage reached in the Committee's discussions. It records agreement on some issues, and disagreement on others to which further consideration will have to be given. In a number of cases it records suggestions which are not generally accepted or points to the need for further detailed study. Where agreement is recorded, it is subject, particularly in the fields of adjustment and convertibility, to further agreement on operational provisions as well as to eventual agreement on the reform as a whole.

Introduction

1. It is generally agreed that there is need for a reformed world monetary order, based on cooperation and consultation within the framework of a strengthened International Monetary Fund, that will encourage the growth of world trade and employment, promote economic development, and help to avoid both inflation and deflation. The main features of the international monetary reform should include:

(*a*) an effective and symmetrical adjustment process, including better functioning of the exchange rate mechanism, with the exchange rate regine based on stable but adjustable par values and floating rates recognized as providing a useful technique in particular situations;

(*b*) cooperation in dealing with disequilibrating capital flows;

(*c*) the introduction of an appropriate degree and form of convertibility for the settlement of imbalances, with symmetrical obligations on all countries;

(*d*) better international management of global liquidity, with the SDR becoming the principal reserve asset and the role of gold and of reserve currencies being reduced;

(*e*) consistency between arrangements for adjustment, convertibility, and global liquidity;

(*f*) the promotion of the flow of real resources to developing countries.

2. It is recognized that the attainment of the purposes of the reform depends also upon arrangements for international trade, capital, investment, and development assistance including the access of developing countries to markets in developed countries; and it is agreed that the principles which govern the international monetary reform and arrangements in these related areas must be consistent.

Adjustment

3. There shall be a better working of the adjustment process in which adequate methods to assure timely and effective balance of payments adjustment by both surplus and deficit countries will be assisted by improved international consultation in the Fund, including the use of objective indicators. Countries will take such prompt and adequate adjustment action, domestic or external, as may be needed to avoid protracted payments imbalances. Countries should direct their policies to keeping their official reserves within limits which would be internationally agreed from time to time in the Fund and which would be consistent with the volume of global liquidity. For this purpose a reserve indicator structure should be established, subject to a more detailed study of the operational provisions involved. In choosing among different forms of adjustment action, countries should take into account repercussions on other countries as well as internal considerations.

4. In connection with adjustment it is envisaged that the Fund will introduce new procedures, involving special meetings, at regular intervals, of a Fund consultative body at an appropriate level ("the consultative body"). It has been suggested that the consultative body might be the resident Executive Board or, alternatively, a body to which constituencies could or would send representatives from capitals. In these special meetings

(*a*) the world payments situation would be surveyed in relation both to the general working of the adjustment process and to developments affecting global liquidity. These surveys would allow for periodic consideration of balance of payments aims and for a review of the aggregate flow of real resources to developing countries and its financing; and

(*b*) particular cases of imbalance that individually or collectively have significant international repercussions, as determined by criteria to be established, would be examined.

5. A country would become subject to examination under paragraph 4(b) if either

(*a*) there had been a disproportionate movement in its official reserves; or

(*b*) in the judgment of the Managing Director, following informal soundings among Executive Directors, there was prima facie evidence that the country was facing significant imbalance, even though this was not indicated by a disproportionate movement in the country's official reserves.

6. In the process of examination under paragraph 4(*b*), representatives of the country examined would be expected to comment on the country's economic prospects, including particularly its basic balance of payments position and prospects, on its external objectives, and on what domestic or external action, if any, it had taken or intended to take. An assessment by the consultative body would establish whether there was a need for adjustment. In making this assessment, the consultative body would take account of all relevant considerations, including the factors mentioned above; it would examine the consistency of the country's reserve and current account aims and policies with those of other countries, and would attach major importance to disproportionate movements of reserves. Account would be taken of the special characteristics of developing countries that make it difficult for them to achieve prompt adjustment without seriously damaging their long-term development programs. Following an assessment the consultative body would, where appropriate, call upon the country concerned to adopt or reinforce policies to correct its imbalance. A country in choosing between different forms of policy should take account of views expressed in the course of the examination on the form and size of policy action.

7. The Fund will continue to hold annual consultations with member countries. In the course of these consultations the Fund would, inter alia, assess the country's payments performance on the same basis as in paragraph 6 and taking into account all the factors mentioned there, and would, where appropriate, call upon the country concerned to adopt or reinforce policies to correct its imbalance if it had not been so called upon in a preceding special meeting.

8. It is agreed that in the revised adjustment procedures, as also in relation to convertibility, separate arrangements will need to be made for a limited number of countries with large reserves deriving from depletable resources and with small populations, e.g., certain oil producing countries.

PRESSURES

9. Provision will be made for graduated pressures to be applied to both surplus and deficit countries in cases of large and persistent imbalance. Proposals have been made for both financial pressures and other pressures. Further study will be needed of these proposals. In particular, it is not agreed how financial pressures should be activated and whether or not there should be other pressures as described in paragraph 11.

10. It has been suggested that pressures would start with financial pressures of a mild form, such as penalty rates of interest on net creditor or net debtor positions in the Fund. A more severe financial pressure which has been suggested is that, if a country's reserves rise to a predetermined point, that country would lose the right to convert further accruals of currency balances, and would be required to deposit such further accruals with the Fund at progressively increasing negative interest rates. There will be further consideration of these possible forms of financial pressures, including the question of penalty or negative interest rates in the case of the more severe pressure mentioned above. There will also be further consideration of the basis on which financial pressures might be activated. Such pressures could be activated by a positive decision of the Fund, at an appropriate level, following a finding that the country had failed to take adequate corrective measures after it had been called upon to do so. It is not agreed whether or not they could be activiated on the basis of a disproportionate movement in a country's reserves, either presumptively (i.e., unless the Fund decides that pressures are unwarranted), or—in the case of the more severe pressure mentioned above—automatically.

11. It has been suggested that, for cases of more extreme imbalance, other pressures should be available, such as the publication of a Fund report on the position of the coun-

try concerned, and trade or other current account restrictions against countries in persistent large surplus. If there were to be pressures of this sort, they would be activated by a positive decision of the Fund following a finding that the country had failed to take adequate corrective measures after it had been called upon to do so; the authority to activate these pressures would rest ultimately, either directly or upon appeal, with a Committee of Fund Governors.

THE EXCHANGE RATE MECHANISM

12. In the reformed system exchange rates will continue to be a matter for international concern and consultation. Competitive depreciation or undervaluation will be avoided. The exchange rate mechanism will remain based on stable but adjustable par values, and countries should not make inappropriate par value changes. On the other hand, countries should, whether in surplus or deficit, make appropriate par value changes promptly. Changes in par values will continue to be subject to Fund approval. Further consideration will be given to whether or not there should be simplified procedures, under appropriate safeguards, for small par value changes.

13. Countries may adopt floating rates in particular situations, subject to Fund authorization, surveillance, and review. Authorization to float will relieve a country of its obligation to observe the margins mentioned in paragraph 14. There will be further study of the possibility both of defining in advance particular situations in which countries might adopt floating rates and of developing a code of conduct, to be observed both by countries with floating rates and by other countries in relation to a floating currency which would be designed to ensure consistency with international payments equilibrium. This study will cover the question of whether Fund authorization to float should depend upon a judgment in each particular case or whether it should be readily granted to countries undertaking to observe such a code of conduct or other agreed rules.

14. Except when authorized to adopt floating rates, countries will maintain the market exchange rates for their currencies within agreed maximum margins in relation to their parities. It is agreed that it would be desirable that there should be a symmetrical system in which the maximum margins for all currencies, including intervention currencies, should be the same, and should be 2¼ per cent on either side of parity. There will be further study of how symmetry can be achieved. An appropriate Fund body should be empowered to change the agreed maximum margins on a qualified majority.

MULTICURRENCY INTERVENTION

15. A detailed examination will be made of the practicality and desirability of establishing a system of multicurrency intervention in which countries whose currencies are widely traded in exchange markets might participate. The object of such a system would be to promote greater symmetry among participating countries with regard to exchange rate policy and intervention and settlement obligations; and it would make possible the establishment of symmetrical margins as mentioned in paragraph 14. Attention will be paid to the implications of such a system for nonparticipating countries.

CONTROLS

16. There will be a strong presumption against the use of controls on current account transactions or payments for balance of payments purposes. In this connection arrangements will be made for continuing close coordination between the Fund and GATT. Countries will not use controls over capital transactions for the purpose of maintaining inappropriate exchange rates or, more generally, of avoiding appropriate adjustment action.

17. Wherever possible developing countries will be exempted from controls imposed by other countries, particularly from import controls and controls over outward long-term investment. The special circumstances of developing countries will be taken into account by the Fund in assessing controls which these countries feel it necessary to apply.

Disequilibrating Capital Flows

18. Countries will cooperate in actions designed to limit disequilibrating capital flows and in arrangements to finance and offset them. Actions that countries might choose to adopt could include a more satisfactory degree of harmonization of monetary policies, subject to the requirements of domestic demand management; prompt adjustment of inappropriate par values, use of wider margins, and the adoption of floating rates in particular situations; and the use of administrative controls, including dual exchange markets and fiscal incentives. There should be improved consultation in the Fund on actions designed to limit disequilibrating capital flows, with the following objectives: first, to increase their effectiveness and to minimize harmful effects on third countries; and secondly, to avoid unnecessary proliferation and escalation of controls and the additional flows which might be prompted by anticipation thereof.

19. Insofar as countries use controls to limit disequilibrating capital flows, they should avoid an excessive degree of administrative restriction which could damage trade and beneficial capital flows and should not retain controls longer than needed. Such controls should be applied without discrimination except as stated in paragraph 17; in this connection there will be further consideration of the special position of countries which maintain close financial ties.

Convertibility

20. It is agreed that the basic objectives to be accommodated in the reformed convertibility system should be symmetry of obligations on all countries including those whose currencies are held in official reserves; the better management of global reserves and the avoidance of uncontrolled growth of reserve currency balances; adequate elasticity; and as much freedom for countries to choose the composition of their reserves as is consistent with the overall objectives of the reform.

21. All countries maintaining par values will settle in reserve assets those official balances of their currencies which are presented to them for conversion. It is not agreed whether, beyond this, there should be more mandatory settlement arrangements in which countries whose currencies are held in official reserves would settle imbalances fully in reserve assets, with some accompanying limitation on other countries' accumulation of reserve currency holdings. It is, however, agreed that the amount of international liquidity and, in particular, the aggregate volume of official currency holdings should be kept under international surveillance and management, taking into account any necessary increase over time in official currency holdings in relation to the growth of international transactions.

22. There will be further consideration of the mechanism for settlements including consideration of whether there should be direct settlement between countries or whether it should be wholly or partly centralized in the Fund. There will also be further consideration of means, including a possible substitution facility as envisaged in paragraph 31, to protect the system from any net conversion of the overhang of existing reserve currency balances.

23. It is generally recognized that there is a need for some elasticity within the settlement system, particularly to finance disequilibrating capital flows, and that provision for such elasticity should be consistent with other aspects of the reform. There will be further

consideration of the appropriate degree and form of elasticity, which it has been suggested might

(i) be limited to credit facilities, including Fund credit and official bilateral short-term credit, under international surveillance;

(ii) include, in addition to (i), a provision that the right of member countries to present currency balances for conversion into reserve assets would be suspended when their primary reserves exceeded a predetermined level and that the settlement obligation of the issuer would be correspondingly suspended; or

(iii) include, in addition to (i), provision for relaxation of the normal convertibility obligations by a collective decision in the Fund.

24. Provision could be made, if necessary, to permit the introduction of convertibility by stages.

Primary Reserve Assets

25. The SDR will become the principal reserve asset and the role of gold and reserve currencies will be reduced. The SDR will also be the numeraire in terms of which par values will be expressed.

26. Allocation of SDRs will be such as to ensure that the volume of global reserves is adequate in conformity with the adjustment and settlement systems. There will be further discussion of appropriate procedures for determination of global reserve needs and for decision-making on SDR allocation and cancellation.

27. The effective yield on the SDR should be high enough to make it attractive to acquire and hold but not so high as to make countries reluctant to use the SDR when in deficit. For this purpose, it has been suggested that the value of the SDR in transactions against currencies should be maintained equal to an average of a group of currencies and that the SDR should carry an average market interest rate. Alternatively, it has been suggested that the value of the SDR in transactions against currencies should be maintained equal to an average of a group of strong currencies and that the SDR should carry an interest rate lower than an average market interest rate. Another suggested alternative is that the value of the SDR in transactions against currencies should be maintained by the balance of revaluations and devaluations of currencies in general and that the SDR should carry a low or zero rate of interest.

28. Further thought will be given to the question of a possible provision to permit the Fund uniformly to change the value of the SDR in transactions against currencies in a manner appropriate to the alternative adopted under paragraph 27.

29. In the light of the agreed objective that the SDR should become the principal reserve asset, consideration will be given to revising the rules governing its use with a view to relaxing existing constraints. The suggestions for relaxation that have been made include

(i) Abolition of the limits on acceptance obligations and the reconstitution obligations.

(ii) Some relaxation of the requirement of need for the use of SDRs.

(iii) Authority for willing partners to enter into transactions in SDRs without designation by the Fund.

(iv) Authorization for the General Account to accept or use SDRs in all transactions and operations in which it can accept or use gold or currencies.

(v) Authorization for the Fund to designate any international or regional institution of an official and financial character as a holder of SDRs.

(vi) Authorization for the Fund to permit additional types of transactions and operations in SDRs.

(vii) Authorization for the Fund to modify the provisions on opting out of decisions to allocate SDRs.

Consideration will be given to other aspects of the SDR, including its name, with a view to promoting public understanding.

30. Appropriate arrangements will be made for gold in the reformed system in the light of the agreed objective that the SDR should become the principal reserve asset. Under one alternative, monetary authorities, including the Fund, would be free to sell, but not to buy, gold in the market at the market price; they would not undertake transactions with each other at a price different from the official price, which would be retained and would not be subject to a uniform increase. Under another alternative, the official price of gold would be abolished and monetary authorities, including the Fund, would be free to deal in gold with one another at a market-related price and to sell gold in the market. Another alternative would modify the preceding one by authorizing monetary authorities also to buy gold in the market.

Consolidation and Management of Currency Reserves

31. In order to facilitate a resumption of general convertibility, provision will be made for consolidation of outstanding reserve currency balances at the outset of the reform, provided that satisfactory terms can be agreed. This consolidation could take the form of

(*a*) bilateral funding in amounts and on terms to be agreed between holders and issuers; and/or

(*b*) substitution into SDRs through a facility in the Fund, on the basis of terms to be negotiated.

Provision could also be made for continuing voluntary substitution of reserve currency balances through this facility, under rules to be agreed, and for amortization of currency balances placed in the facility.

32. Further consideration will be given to the question whether any profits or losses resulting from the operation of a substitution facility such as is envisaged in paragraph 31 should accrue to the issuers of currency balances held in the facility or to the Fund.

33. Countries will cooperate in the management of their currency reserves so as to avoid disequilibrating movements of official funds. Among the possible provisions for achieving this objective, the following have been suggested:

(i) A country whose currency is held in official reserves should be able to require other countries to limit or convert into other reserve assets further increases in their holdings of its currency.

(ii) Countries should periodically choose the composition of their currency reserves and should undertake not to change it without prior consultation with the Fund.

(iii) Countries should not add to their currency reserve placements outside the territory of the country of issue except within limits to be agreed with the Fund.

The Link and Credit Facilities in Favor of Developing Countries

34. In the light of the agreed objective to promote economic development, the reformed monetary system will contain arrangements to promote an increasing flow of real

resources from the developed to developing countries. If these arrangements were to include a link between development assistance and SDR allocation, this could take one of the following forms:

(*a*) A link would be established between development finance and SDR allocation, the total volume of which will be determined exclusively on the basis of global liquidity needs. This link would take the form of the direct distribution to developing countries of a larger proportion of SDR allocations than they would receive on the basis of their share in Fund quotas. Link resources so allocated would be distributed to all developing countries in such a way as to be relatively favorable to the least developed countries.

(*b*) A link would be established between development finance and SDR allocation, the total volume of which will be determined exclusively on the basis of global liquidity needs. This link would take the form of direct allocation to international and regional development finance institutions of a predetermined share of SDR allocations. Link resources distributed to development finance institutions would be disbursed to developing countries on the basis of development need and in such a way as to be relatively favorable to the least developed countries. The use of link funds by development finance institutions, including their distribution and terms, would reflect the nature and purpose of these resources.

35. A detailed examination will be made of proposals for establishing a new facility in the Fund to provide longer-term balance of payments finance for developing countries.

(B) Reform of the International Monetary System (September 28, 1973)

Resolution No. 28-5 of the Board of Governors

WHEREAS the Chairman of the ad hoc Committee of the Board of Governors on Reform of the International Monetary System and Related Issues, established pursuant to Board of Governors Resolution No. 27-10, has submitted a Report on the present status of its work and a First Outline of Reform; and

WHEREAS, as stated in the said Report, the Committee, assisted by its Deputies, has defined the general shape of the reformed system, has made significant progress on some important issues, and intends to continue its efforts to arrive as soon as possible at final recommendations for a reform of the international monetary system;

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

1. The Report of the Chairman of the Committee is noted, and the Committee is commended for its efforts; and

2. The Committee is urged to complete, as soon as possible, its task in accordance with Paragraph 2 of Resolution No. 27-10.

Final Report and Outline of Reform of the Committee of Twenty

In June 1974 the ad hoc Committee on Reform of the International Monetary System and Related Issues (Committee of Twenty) sent to the Board of Governors of the Fund the following final report to which was attached a final Outline of Reform.

Report to the Board of Governors of the International Monetary Fund by the Committee on Reform of the International Monetary System and Related Issues

(June 14, 1974)

On July 26, 1972, the Board of Governors adopted Resolution 27-10, which established the Committee and instructed it to advise and report to the Board of Governors with respect to all aspects of reform of the international monetary system. On September 24, 1973, during the Annual Meeting in Nairobi, the Chairman of the Committee, Mr. Ali Wardhana, submitted to the Board of Governors an interim report on the work of the Committee, together with a First Outline of Reform which had been prepared by the Chairman and Vice-Chairmen of the Deputies and which, in his view, reflected the stage then reached in the Committee's discussions. In that report it was stated that the Committee intended to settle the issues of reform by July 31, 1974. The Committee now presents its final report, together with an *Outline of Reform*.

Since the Nairobi meeting, the uncertainties affecting the world economic outlook, related to inflation, the energy situation, and other unsettled conditions, have increased. Major changes are occurring in the world balance of payments structure, and it is not yet clear to what extent the positions of individual countries will be altered or how adjustment will be achieved.

These conditions of greater uncertainty have led to a change of emphasis in the work of the Committee. It has been recognized that priority should be given to certain aspects of reform which have become all the more urgent. Thus, for example, during the current period of exceptional and widespread payments imbalances, there is a particular need to maintain close international consultation and surveillance of countries' balance of payments policies in the Fund, and to develop orderly means of financing these imbalances, including means of supplying on appropriate terms the increased needs of many developing countries for financial resources. On the other hand, it is recognized that other aspects of reform will need to be developed and implemented at a later date. Thus, for example, it may be some time before there is a return to a system based on stable but adjustable par values or to general convertibility; nor will the full arrangements for management of the adjustment process and of global liquidity necessarily be feasible in the period immediately ahead.

Given, therefore, that there will be an interim period before a reformed system can be finally agreed and fully implemented, the Committee regards it as of the highest importance that immediate steps should be taken to begin an evolutionary process of reform, and that other action taken in this field during the interim period should be consistent with the principles of reform.

These considerations are reflected in the attached *Outline of Reform*. The *Outline* and the accompanying Annexes also reflect the detailed work which has been done by the Deputies since the Nairobi meeting.

The *Outline* itself is in two parts. Part I, The Reformed System, records the outcome of the Committee's discussion of international monetary reform and indicates the general direction in which the Committee believes that the system could evolve in the future. This involves an enlargement of the scope of international surveillance and management in a number of important areas, and a consequently larger role for the Fund. It is envisaged that there should be more effective and symmetrical adjustment procedures which, while leaving the choice of particular policies as far as possible to the country concerned, will nevertheless ensure, through a process of assessment supported by reserve indicators and by graduated pressures, that appropriate action is taken where necessary; that the convertibility system should promote the better management of global liquidity and the avoidance of uncontrolled growth of reserve currency balances, and that the SDR should become the principal reserve asset, with the role of gold and of reserve currencies being reduced; and that there should be arrangements to give positive encouragement to economic development and to promote an increasing net flow of real resources to developing countries.

Part I of the *Outline* contains references to the accompanying Annexes. As stated above, the Committee has recognized that, in view of present uncertainties, it is not appropriate to attempt now to determine the full details of all aspects of the system, many of which can better be decided in the light of future developments. A number of areas, within which agreement has not yet been reached on some important aspects, are treated more fully in the Annexes. These Annexes have been prepared by the Chairman and Vice-Chairmen of the Deputies to record the state of discussion in these areas, and to provide illustrative schemes and operational detail. It is envisaged that arrangements in these areas, as they may be agreed, should be implemented as and when the Fund judges it feasible to do so, and that the Fund might in some cases introduce such arrangements initially on an experimental basis with a view to subsequent agreement on full implementation.

Part II of the *Outline* sets out the immediate steps on which the Committee is agreed. These include the establishment of an Interim Committee of the Board of Governors and subsequently of a Council; the strengthening of Fund procedures for close international consultation and surveillance of the adjustment process; the adoption of appropriate guidelines for the management of floating exchange rates during the present period of widespread floating; establishment of a facility in the Fund to assist members in meeting the initial impact of increased oil import costs; the reinforcement of the presumption against restrictions on trade and payments for balance of payments purposes; improvement of procedures in the Fund for management of global liquidity, and further international study in the Fund of arrangements for gold in the light of the agreed objectives of reform; the adoption of an interim method of valuing the SDR in transactions against currencies; measures to supply the needs of developing countries, as well as reconsideration of the possibility and modalities of establishing a link between development assistance and SDR allocation, and arrangements for carrying forward the study of the broad question of the transfer of real resources; and the preparation of draft amendments of the

Articles of Agreement, for further examination by the Interim Committee and for possible recommendation at an appropriate time to the Board of Governors.

Outline of Reform

PREFACE

The Committee recognizes that, in view of present uncertainties related to inflation, the energy situation, and other unsettled conditions, it is not appropriate to attempt to determine the full details of all aspects of the future international monetary system, many of which can better be decided in the light of future developments. Part I of this *Outline*, The Reformed System, records the outcome of the Committee's discussion of international monetary reform and indicates the general direction in which the Committee believes that the system could evolve in the future. A number of areas, within which agreement has not yet been reached on some important aspects, are treated more fully in the Annexes accompanying the *Outline*. These Annexes have been prepared by the Chairman and Vice-Chairmen of the Deputies to record the state of the discussion in these areas, and to provide illustrative schemes and operational detail. It is envisaged that arrangements in these areas, as they may be agreed, should be implemented as and when the Fund judges it feasible to do so, and that the Fund might in some cases introduce such arrangements initially on an experimental basis with a view to subsequent agreement on full implementation. Part II of the *Outline*, Immediate Steps, sets out the steps which the Committee is agreed should be taken immediately.

PART I. THE REFORMED SYSTEM

Introduction

1. It is agreed that there is need for a reformed world monetary order, based on cooperation and consultation within the framework of a strengthed International Monetary Fund, that will encourage the growth of world trade and employment, promote economic development, and help to avoid both inflation and deflation.

2. The main features of the international monetary reform will include

(*a*) an effective and symmetrical adjustment process, including better functioning of the exchange rate mechanism, with the exchange rate regime based on stable but adjustable par values and with floating rates recognized as providing a useful technique in particular situations;

(*b*) cooperation in dealing with disequilibrating capital flows;

(*c*) the introduction of an appropriate form of convertibility for the settlement of imbalances, with symmetrical obligations on all countries;

(*d*) better international management of global liquidity, with the SDR becoming the principal reserve asset and the role of gold and of reserve currencies being reduced;

(*e*) consistency between arrangements for adjustment, convertibility, and global liquidity; and

(*f*) the promotion of the net flow of real resources to developing countries.

3. It is recognized that the attainment of the purposes of the reform depends also upon arrangements for international trade, capital, investment, and development assis-

tance, including the access of developing countries to markets in developed countries; and it is agreed that the principles which govern the international monetary system and arrangements in these related areas must be consistent.

Adjustment

4. There will be a better working of the adjustment process in which adequate methods to assure timely and effective balance of payments adjustment by both surplus and deficit countries will be assisted by improved international consultation in the Fund, including the use of objective indicators. To this end

(*a*) Countries will take such prompt and adequate adjustment action, domestic or external, as may be needed to avoid protracted payments imbalances. In choosing among different forms of adjustment action, countries will take into account repercussions on other countries as well as internal considerations.

(*b*) Countries will aim to keep their official reserves within limits which will be internationally agreed from time to time in the Fund and which will be consistent with the volume of global liquidity. For this purpose reserve indicators will be established on a basis to be agreed in the Fund. Possible operational provisions in connection with reserve indicators, with an illustrative scheme, are discussed in Annex 1.

(*c*) Countries will apply adjustment measures in a manner designed to protect the net flow of real resources to developing countries, so as to help to achieve any internationally agreed resource transfer targets that they have adopted. Deficit countries in designing their adjustment measures will seek so far as possible not to reduce the access of developing countries and international development finance institutions to their financial markets, nor to reduce the volume of official development assistance or harden its terms and conditions. Surplus countries, particularly those that are not meeting internationally agreed resource transfer targets that they have adopted, will seek so far as possible to increase aid and relax any restrictions on the access of developing countries and international development finance institutions to their financial markets.

5. Fund consultation and surveillance regarding the adjustment process will take place at two levels, the Executive Board and the Council to be established under paragraph 31, as follows:

(*a*) The Council will oversee the continuing operation of the adjustment process. In this connection the Council will at regular intervals review developments in world payments and liquidity and the aggregate net flow of real resources to developing countries. In addition, it may examine particular cases of imbalance which in the light of their international repercussions are referred to it by the Executive Board or are considered by the Council to be of special significance.

(*b*) The Executive Board will at regular intervals

(i) survey the world payments situation in relation both to the general working of the adjustment process and to developments affecting global liquidity, with periodic consideration of balance of payments aims;

(ii) review the aggregate net flow of real resources to developing countries and its financing, and the consistency of countries' balance of payments aims and policies with any internationally agreed resource transfer targets that they have adopted; and

(iii) examine particular cases of imbalance that have significant international repercussions.

The Executive Board will as appropriate report to the Council on these matters.

6. Countries will become subject to examination under paragraph 5(*b*) (iii) if either

(*a*) there has been a disproportionate movement in their official reserves; or

(*b*) in the judgment of the Managing Director, following informal soundings among Executive Directors, there is prima facie evidence that a country is facing significant imbalance, even though this is not indicated by a disproportionate movement in its reserves.

7. In the process of examination under paragraph 5(*b*)(iii), representatives of the country will be expected to comment on the country's economic prospects, including particularly its basic balance of payments position and prospects, on its external objectives, and on what domestic or external action, if any, it has taken or intends to take. An assessment by the Executive Board will establish whether there is a need for adjustment. In making its assessment, the Executive Board will take account of all relevant considerations, including the factors mentioned above; it will examine the consistency of the country's reserve and current account aims and policies with those of other countries, and will attach major importance to disproportionate movements of reserves. Account will be taken of the special characteristics of developing countries that make it difficult for them to achieve prompt adjustment without seriously damaging their long-term development programs. Following an assessment the Executive Board will, where appropriate, call upon the country concerned to adopt or reinforce policies to correct its imbalance. A country in choosing between different forms of policy will take account of views expressed in the course of the examination on the form and size of policy action.

8. The Fund will contine to hold its normal consultations with member countries. In the course of these consultations the Executive Board will, inter alia, assess the country's payments performance on the same basis as in paragraph 7 and taking into account the factors mentioned there, and will, where appropriate, call upon the country concerned to adopt or reinforce policies to correct its imbalance if it has not previously been so called upon under paragraph 7.

9. It is agreed that in the adjustment procedures described above separate arrangements will need to be made for a limited number of countries with large reserves deriving from depletable resources and with a low capacity to absorb imports.

10. Normally the provisions of paragraphs 7 and 8 for assessment supported by reserve indicators would be expected to lead to appropriate adjustment action. If they do not do so the Fund will have available graduated pressures to be applied to countries in large and persistent imbalance, whether surplus or deficit. The possibility of the activation of such pressures could of itself encourage timely and effective adjustment action. In considering the application of pressures the Fund will take into account the factors mentioned in paragraph 7. The possible forms and methods of activation of graduated pressures are set out in Annex 2.

The Exchange Rate Mechanism

11. In the reformed system exchange rates will continue to be a matter for international concern and consultation. Competitive depreciation or undervaluation will be avoided. The exchange rate mechanism will remain based on stable but adjustable par values, and countries should not make inappropriate par value changes. On the other hand, countries should, whether in surplus or deficit, make appropriate par value changes promptly. Changes in par values will continue to be subject to Fund approval.

The Fund may establish simplified procedures for approving small par value changes under appropriate safeguards.

12. Countries will undertake obligations to maintain specified maximum exchange rate margins for their currencies, except when authorized to adopt floating rates. The Fund will be empowered to vary the specified maximum margins on a qualified majority. It is agreed that it would be desirable that the system of exchange margins and intervention should be more symmetrical than that which existed in practice under the Bretton Woods system. Two possible approaches to a more symmetrical intervention system are discussed in Annex 3.

13. Countries may adopt floating rates in particular situations, subject to Fund authorization, surveillance, and review. Such authorization will relieve a country of its obligations with regard to the maintenance of specified margins mentioned in paragraph 12. Such authorization will be given in accordance with provisions to be agreed, on condition that the country undertakes to conform with agreed guidelines for conduct. Guidelines will also be established for intervention by other countries in a floating currency. Authorization to float may be withdrawn if the country fails to conform with the guidelines for conduct, or if the Fund decides that continued authorization to float would be inconsistent with the international interest. Possible provisions for the authorization of floating and guidelines for floating are discussed in Annex 4.

Controls

14. There will be a strong presumption against the use of controls on current account transactions or payments for balance of payments purposes. In this connection arrangements will be made for continuing close coordination between the Fund and the GATT.

15. Countries will not use controls over capital transactions for the purpose of maintaining inappropriate exchange rates or, more generally, of avoiding appropriate adjustment action. Insofar as countries use capital controls, they should avoid an excessive degree of administrative restriction which could damage trade and beneficial capital flows and should not retain controls longer than needed. Such controls should be applied without discrimination except as stated in paragraph 16; in this connection appropriate recognition will be given to the special position of countries that maintain close financial ties or that establish an economic and monetary union among themselves.

16. Wherever possible developing countries will be exempted from controls imposed by other countries, particularly from import controls and controls over outward long-term investment. The special circumstances of developing countries will be taken into account by the Fund in assessing controls which these countries feel it necessary to apply. In addition, developed countries should seek to remove legal, institutional, and administrative obstacles to the access of developing countries to their financial markets. For their part, developing countries should seek to avoid policies which would discourage the flow of private capital to them.

Disequilibrating Capital Flows

17. Countries will cooperate in actions designed to limit disequilibrating capital flows and in arrangements to finance and offset them. Actions that countries might choose to adopt could include a more satisfactory degree of harmonization of monetary policies, subject to the requirements of domestic demand management; prompt adjustment of inappropriate par values, use of wider margins, and the adoption of floating rates in particular situations; and the use of administrative controls, including dual exchange markets and fiscal incentives. There will be improved consultation in the Fund on actions designed to limit disequilibrating capital flows, with the following objectives:

first, to increase the effectiveness of such actions and to minimize harmful effects on third countries; and secondly, to avoid unnecessary proliferation and escalation of controls and the additional flows which might be prompted by anticipation thereof.

Convertibility, Consolidation, and the Management of Currency Reserves

18. It is agreed that the basic objectives to be accommodated in the reformed convertibility system should be symmetry of obligations on all countries including those whose currencies are held in official reserves; the better management of global liquidity and the avoidance of uncontrolled growth of reserve currency balances; adequate elasticity; and as much freedom for countries to choose the composition of their reserves as is consistent with the overall objectives of the reform.

19. As part of the better international management of global liquidity, the aggregate volume of official currency holdings will be kept under international surveillance and management in the Fund. In this connection the Fund will take account of any necessary increase over time in official currency holdings in relation to the growth of international transactions and also of the special position of a limited number of countries with large reserves deriving from depletable resources and with a low capacity to absorb imports.

20. All countries maintaining par values will settle in reserve assets those official balances of their currencies which are presented to them for conversion. The Fund will establish appropriate arrangements to ensure sufficient control over the aggregate volume of official currency holdings. Alternative approaches to the control of official currency holdings are discussed in Annex 5.

21. Elasticity within the settlement system, particularly to finance disequilibrating capital flows, may be provided by credit facilities, including Fund credit and official bilateral or regional short-term credit. The Fund may establish as necessary new credit facilities to assist countries exposed to disequilibrating capital flows, particularly those without sufficient access to bilateral or regional credit. The establishment and use of bilateral and regional credit facilities will be reported to the Fund. The extent to which credit facilities are used would be taken into account by the Managing Director for the purpose of paragraph 6(*b*). Additional forms of elasticity that have been suggested are set out in Annex 6.

22. The Fund will, as necessary, make provision for the consolidation of reserve currency balances to protect the future convertibility system against net conversion of any overhang of such balances which may exist at the restoration of general convertibility, and to ensure that the issuers of the currencies concerned will be able to acquire reserve assets when in surplus and will not lose reserve assets beyond the amount of any future official settlements deficits. For this purpose, and also to permit countries that wish to do so to exchange official currency holdings for SDRs, the Fund will have authority to establish a substitution account. Possible operational provisions of a substitution account with an illustrative scheme are discussed in Annex 7. In addition, the Fund may also assist those countries that desire to negotiate bilateral funding of currency balances.

23. Countries will cooperate in the management of their currency reserves so as to avoid disequilibrating movements of official funds. Among the possible provisions for achieving this objective, the following have been suggested but are not agreed:

(*a*) Countries should respect any request from a country whose currency is held in official reserves to limit or convert into other reserve assets further increases in their holdings of its currency.

(*b*) Countries should periodically choose the composition of their currency reserves and should undertake not to change it without prior consultation with the Fund.

(*c*) Countries should not add to their currency reserve placements outside the territory of the country of issue except within limits to be agreed with the Fund.

Primary Reserve Assets

24. The SDR will become the principal reserve asset and the role of gold and of reserve currencies will be reduced. The SDR will also be the numeraire in terms of which par values will be expressed.

25. As part of the better international management of global liquidity, the Fund will allocate and cancel SDRs so as to ensure that the volume of global reserves is adequate and is consistent with the proper functioning of the adjustment and settlement systems. In the assessment of global reserve needs and the decision-making process for SDR allocation and cancellation the Fund will continue to follow the existing principles as set out in the Articles of Agreement. However, it is agreed that the methods of assessing global reserve needs must remain the subject of study, and it has been suggested that they may need to give additional emphasis to a number of economic factors, as discussed in Annex 8.

26. The effective yield on the SDR will be high enough to make it attractive to acquire and hold, but not so high as to make countries reluctant to use the SDR when in deficit. The value of the SDR in transactions against currencies will be determined in such a way as to protect the capital value of the SDR against depreciation. Possible techniques for determining the value of the SDR in transactions against currencies are discussed in Annex 9. The interest rate on the SDR will be set from time to time by the Executive Board in such a way as to maintain an appropriate effective yield, in the light of changing market interest rates.

27. In the light of the agreed objective that the SDR should become the principal reserve asset, consideration will be given to revising the rules governing its use with a view to relaxing existing constraints. The suggestions for relaxation that have been made include

(*a*) abolition of the limits on acceptance obligations and of the reconstitution obligation;

(*b*) some relaxation of the requirement of need for the use of SDRs;

(*c*) authority for willing partners to enter into transactions in SDRs without designation by the Fund;

(*d*) authorization for the General Account to accept or use SDRs in all transactions and operations in which it can accept or use gold or currencies;

(*e*) authorization for the Fund to designate any official international or regional institution of a financial character as a holder of SDRs;

(*f*) authorization for the Fund to permit additional types of transactions and operations in SDRs; and

(*g*) authorization for the Fund to modify the provisions on opting out of decisions to allocate SDRs.

Consideration will be given to other aspects of the SDR, including its name, with a view to promoting public understanding.

28. Appropriate arrangements will be made for gold in the reformed system, in the light of the agreed objectives that the SDR should become the principal reserve asset and that the role of gold should be reduced. At the same time it is also generally recognized that gold reserves are an important component of global liquidity which should be usable to finance balance of payments deficits. It is not yet settled what arrangements for gold would be best in the reformed system, having due regard to the interests of all member countries. Under one approach, monetary authorities, including the Fund, would be free to sell, but not to buy, gold in the market at the market price; they would not undertake transactions with each other at a price different from the official price, which would be retained and would not be subject to a uniform increase. Under another approach, the official price of gold would be abolished and monetary authorities, including the Fund, would be free to deal in gold with one another on a voluntary basis and at mutually acceptable prices, and to sell gold in the market. A third approach would modify the preceding one by authorizing monetary authorities also to buy gold in the market. Arrangements have also been proposed whereby the Fund would be authorized to purchase gold from monetary authorities in exchange for SDRs at a price between the market and the official price, and to sell gold gradually over time in the market; if arrangements of this kind were introduced, questions would arise concerning both the Fund's policy with respect to its sales in the market, and the sharing of any profits or losses accruing to the Fund from its gold transactions.

The Link and Credit Facilities in Favor of Developing Countries

29. In the light of the agreed objective to promote economic development, the reformed monetary system will contain arrangements to promote an increasing net flow of real resources to developing countries. Such arrangements are further discussed in Annex 10, which deals with the special interests of developing countries. If these arrangements were to include a link between development assistance and SDR allocation, this could take one of the following forms:

(*a*) A link would be established between development finance and SDR allocation, the total volume of which allocation will be determined exclusively on the basis of global liquidity needs. This link would take the form of the direct distribution to developing countries of a larger proportion of SDR allocations than they would receive on the basis of their share in Fund quotas. Link resources so allocated would be distributed to all developing countries in such a way as to be relatively favorable to the least developed countries.

(*b*) A link would be established between development finance and SDR allocation, the total volume of which allocation will be determined exclusively on the basis of global liquidity needs. This link would take the form of direct allocation to international and regional development finance institutions of a predetermined share of SDR allocations. Link resources distributed to development finance institutions would be disbursed to developing countries on the basis of development need and in such a way as to be relatively favorable to the least developed countries. The use of link funds by development finance institutions, including their distribution and terms, would reflect the nature and purpose of these resources.

30. It is envisaged that there will be a new facility in the Fund, under which developing countries would receive longer-term balance of payments finance.

The Institutional Structure of the Fund

31. A permanent and representative Council, with one member appointed from each Fund constituency, will be established. The Council will meet regularly, three or four times a year as required, and will have the necessary decision-making powers to supervise the management and adaptation of the monetary system, to oversee the continuing operation of the adjustment process, and to deal with sudden disturbances which might threaten the system. The Managing Director will participate in meetings of the Council.

PART II. IMMEDIATE STEPS

32. It is recognized that, as stated in the Preface to this *Outline*, it will be some time before a reformed system can be finally agreed and fully implemented. In the interim period, the Fund and member countries will pursue the general objectives set out in paragraph 1, and will observe, so far as they are applicable, the principles contained in Part I of this *Outline*. It is proposed that a number of steps should be taken immediately to begin an evolutionary process of reform and to help meet the current problems facing both developed and developing countries.

33. The Council referred to in paragraph 31 will be established as soon as practicable. In the meantime an Interim Committee of the Board of Governors will be created, with an advisory role in the areas in which the Council is to have decision-making powers, and with similar composition and procedures. This Committee will come into being when the Committee of the Board of Governors on Reform of the International Monetary System and Related Issues has completed its work.

34. During the interim period, with significant changes in prospect for the world balance of payments structure, there is an evident need for close international consultation and surveillance of the adjustment process. Countries will be guided in their adjustment action by the general principles set out in paragraph 4. During the current period of exceptional and widespread payments imbalances, they will cooperate with one another and with international institutions to find orderly means to deal with these imbalances without adopting polices that would aggravate the problems of other countries, and to promote equilibrating capital flows; in this connection a facility will be established in the Fund to assist member countries in meeting the initial impact of the increase in oil import costs. The Fund will exercise surveillance of the adjustment process through the Council (or, for the time being, the Interim Committee of the Board of Governors) and the Executive Board, on the lines of the procedures set out in paragraphs 5–10, and subject for the time being to the following provisos, namely that

(*a*) the Fund will seek to gain further experience in the use of objective indicators, including reserve indicators, on an experimental basis, as an aid in assessing the need for adjustment, but will not use such indicators to establish any presumptive or automatic application of pressures;

(*b*) determination of what is a disproportionate movement in reserves will be made in the light of the broad objectives of member countries for the development of their reserves over a period ahead, as discussed with the Fund; and

(*c*) the pressures which may be applied to countries in large and persistent imbalance will continue to be those at present available to the Fund.

35. During the interim period, exchange rates will continue to be a matter for international concern and consultation, and competitive depreciation or undervaluation will be avoided. For these purposes, during the present period of widespread floating, countries will be expected in their intervention and other policies to follow guidelines on the

lines of Section B of Annex 4 and be subject to surveillance in the Fund as there described.

36. During the interim period, countries will be guided by the principles set out in paragraphs 14–17 in relation to controls and to cooperative action to limit disequilibrating capital flows. Particular importance will be attached during the interim period to avoiding the escalation of restrictions on trade and payments for balance of payments purposes. To this end, member countries of the Fund will be invited to pledge themselves on a voluntary basis, in addition to observing their obligations with respect to payments restrictions under the Fund's Articles, for a period of two years, not to introduce or intensify trade or other current account measures for balance of payments purposes without a finding by the Fund that there is balance of payments justification for such measures.[1] In this connection arrangements will be made for continuing close coordination between the Fund and the GATT.

37. (*a*) Countries will cooperate with the Fund during the interim period in seeking to promote the principle of better management of global liquidity as set out in paragraph 2(*d*). The Fund will assess global reserves and take decisions on the allocation and cancellation of SDRs in accordance with paragraph 25. The Fund will periodically review the aggregate volume of official currency holdings in accordance with paragraph 19 and, if they are judged to show an excessive increase, will consider with the countries concerned what steps might be taken to secure an orderly reduction.

(*b*) The Fund will also give consideration to substitution arrangements and examine whether an amendment of the Articles of Agreement would be desirable in this connection.

(*c*) There will be further international study in the Fund of arrangements for gold in the light of the agreed objectives of reform.

38. It is agreed that in present circumstances, and without prejudice to the method of valuation to be adopted in a reformed system, the valuation of the SDR will be based on a basket of currencies in accordance with the "standard basket" technique described in Section A, paragraph 1, of Annex 9, and that the rate of interest will be determined periodically by the Executive Board in the light of changing market interest rates. This arrangement will be reviewed by the Fund two years after it comes into operation.

39. In view of the serious difficulties that are facing many developing countries, it is agreed that their needs for financial resources will be greatly increased and that all countries with available resources should make every effort to supply these needs on appropriate terms. To this end countries with available resources and development finance institutions should make arrangements to increase the flow of concessionary funds, and should give consideration to various measures including the redistribution of aid effort in favor of countries in greatest need, interest subsidies, and short-term debt relief on official loans in the special case of countries without access to financial markets. The Committee is not unanimous on the question of establishing a link between development assistance and SDR allocation. The Committee is agreed that the Interim Committee should reconsider, simultaneously with the preparation by the Executive Board of draft amendments of the Articles of Agreement, which it is envisaged would be presented for the approval of the Board of Governors by February 1975, the possibility and modalities of establishing such a link. The Executive Board is urged to proceed to an early formulation and adoption of an extended Fund facility as referred to in paragraph 30. It is recommended that a joint ministerial Committee of the Fund and World Bank should be established, to carry forward the study of the broad question of the transfer of real resources

[1] This pledge will take the form of a Declaration, as set out in the Appendix to this Part of the *Outline*, pp. 176–77 below.

to developing countries after the Committee of the Board of Governors on Reform of the International Monetary System and Related Issues has completed its work, and to recommend measures to be adopted in order to implement its conclusions. It is further recommended that the joint ministerial Committee should give urgent attention to the problems of the developing countries most seriously affected by exceptional balance of payments difficulties in the current situation, bearing in mind the need for coordination with other international bodies, and that preparatory work on this aspect should be started immediately, in advance of the establishment of the Committee.

40. The Executive Board will consider possible changes in the General Account and in the rules governing the use of SDRs appropriate for the interim period. The Executive Board will complete the current general review of Fund quotas as soon as possible, bearing in mind the general purposes of the reform.

41. The Executive Board is asked to prepare draft amendments of the Articles of Agreement, as needed to give effect to this Part of the *Outline* or as otherwise desired, for further examination by the Interim Committee, and for possible recommendation at an appropriate time to the Board of Governors. In particular, draft amendments should be prepared on the following proposals:

(*a*) to establish the Council referred to in paragraph 31;

(*b*) to enable the Fund to legalize the position of countries with floating rates during the interim period;

(*c*) to give permanent force to the voluntary pledge described in paragraph 36 concerning trade or other current account measures for balance of payments purposes;

(*d*) to authorize the Fund to establish, as and when agreed, a substitution account;

(*e*) to amend the present provisions concerning gold;

(*f*) to authorize the Fund to implement a link between development assistance and SDR allocation; and

(*g*) to introduce improvements in the General Account and in the characteristics of and rules governing the use of the SDR, as well as any other consequential amendments.

It is envisaged that such draft amendments, if agreed, would be presented for the approval of the Board of Governors at latest by the date fixed for completion of the current general review of Fund quotas, i.e., by February 1975.

Appendix. Declaration of Trade Measures

The Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System and Related Issues has stressed the importance of avoiding the escalation of restrictions on trade and payments for balance of payments purposes. Accordingly, certain members of the Fund have expressed their wish to subscribe to a Declaration as follows to give effect to that recommendation.

Declaration

A. A member of the Fund that subscribes to this Declaration represents thereby that, in addition to observing its obligations with respect to payments restrictions under the Articles of Agreement of the Fund, it will not on its own discretionary authority introduce or intensify trade or other current account measures for balance of payments pur-

poses that are subject to the jurisdiction of the GATT, or recommend them to its legislature, without a prior finding by the Fund that there is balance of payments justification for trade or other current account measures.

B. A member that subscribes to this Declaration will notify the Fund as far in advance as possible of its intention to impose such measures. If circumstances preclude the Fund from making the finding referred to in A above promptly after such notification, the member may nevertheless impose such measures, but will withdraw the measures, within such a period as may be fixed by the Fund in consultation with the member concerned, if the Fund finds that there is no balance of payments justification for trade or other current account measures.

C. In arriving at the findings referred to above, the Executive Directors are requested to take into account the special circumstances of developing countries.

D. In connection with this Declaration arrangements will be made for continuing close coordination between the Fund and the GATT.

E. This Declaration shall become effective among subscribing members when members having 65 per cent of the total voting power of members of the Fund have accepted it, and shall expire two years from the date on which it becomes effective unless it is renewed.

ANNEXES

As stated in the Preface to the *Outline*, a number of areas, within which agreement has not yet been reached on some important aspects, are treated more fully in the following Annexes, which have been prepared by the Chairman and Vice-Chairmen of the Deputies to record the state of the discussion in these areas, and to provide illustrative schemes and operational detail. It is envisaged that arrangements in these areas, as they may be agreed, should be implemented as and when the Fund judges it feasible to do so, and that the Fund might in some cases introduce such arrangements initially on an experimental basis with a view to subsequent agreement on full implementation.

The Annexes are as follows:

ANNEX 1. RESERVE INDICATORS: POSSIBLE OPERATIONAL PROVISIONS WITH AN ILLUSTRATIVE SCHEME

It is agreed that a better working of the adjustment process is to be assisted by the use of objective indicators. In particular, reserve indicators will be established on a basis to be agreed in the Fund, for the purpose stated in paragraph 4(*b*) of the *Outline*.

A number of questions concerning reserve indicators remain unresolved. These include whether they should relate to the level of reserves (a stock indicator) or to changes in reserves (a flow indicator). If a stock indicator were adopted, there is a question as to how reserve norms (i.e., target levels of reserves) for individual countries would be chosen. In the case of either a stock or a flow indicator, it would have to be decided whether reserves were to be measured gross or net of reserve liabilities. Precise definitions of assets and liabilities and reporting requirements would need to be settled. There is also a major unresolved question as to whether there should be any link between reserve indicators and the presumptive or automatic activation of pressures.

More generally, it is recognized that, in the absence of operational experience, it is difficult to judge how arrangements involving the use of reserve indicators would work in practice. Particular reservations have been expressed concerning the possible effects of the use of reserve indicators on market expectations regarding exchange rates. (For a fuller discussion of reserve indicators, see the Reports of the Technical Groups on Indicators and on Adjustment.)[2]

A. Definitions

1. A "reserve indicator" is a measure of reserves on either a stock or a flow basis. A "reserve indicator structure" is a set of specified points or reserve levels. When one of the points in the structure was reached by the reserve indicator it would serve as a signal that a sizable imbalance existed which might require examination or the application of pressures. Whether the results shown by a flow and a stock indicator differed greatly would depend, inter alia, on whether the flow indicator measured changes in reserves continuously or whether the measure of the flow was interrupted under specified conditions. An interrupted flow indicator would call attention to payments imbalances as they occurred, whereas a stock indicator or a continuous flow indicator would, in addition, call attention to a developing imbalance in the distribution of reserves among countries. The illustrative scheme for a reserve indicator structure given below is based on a stock indicator.

2. Reserve assets for the purposes of the indicator could consist of official holdings of SDRs, reserve positions in the Fund, gold, and foreign exchange. The latter includes claims of all types that would normally be used to finance payments deficits. Claims that would not normally be so used (e.g., trade credits and development loans) would not be included. Information required for the determination of reserves of all members would be reported to the Fund within a specified period after the end of each month. The location of deposits and the currency of denomination might also need to be reported.

3. Reserve liabilities, which would be used to compute a partial or total net reserve indicator, could consist of all liabilities of the public or private sector that are included in the reserves of other countries; net debtor positions in the Fund; and also any liabilities to a substitution account or to an excess reserves account (see Annex 2, Section A(ii)) that may be established in the Fund. Reserve liabilities would not include certain liabilities of the private sector that are denominated in foreign currency (e.g., Euro-currency deposits).

4. In the illustrative scheme of a reserve indicator structure that follows, the reserve indicator for each country would be equal to reserve assets adjusted for cumulative changes in its reserve liabilities from the time of the implementation of the scheme. Hence, a country's reserve indicator would always differ from its net reserves by the amount of its reserve liabilities at the time of implementation. Alternatively, reserves

[2] These and the other Reports of the Technical Groups were published in *International Monetary Reform: Documents of the Committee of Twenty* (Washington: International Monetary Fund, 1974).

could be measured gross, i.e., without deducting liabilities. Insofar as official currency liabilities were small or did not vary much, the difference between the two measures would also be small. Conversely, the difference between a gross and net indicator would be significant insofar as official currency liabilities showed a sizable movement.

B. Illustrative Scheme

RESERVE INDICATOR STRUCTURE

1. Provision would be made for the establishment of reserve norms in accordance with paragraphs 3-5 below and for the following reserve indicator points:

(*a*) *Consultation points.*—For the purpose of paragraph 6(*a*) of the *Outline*, the Fund could establish consultation points above and below the reserve norm which would be closer to the norm than the "first points" described below.

If it were decided to have pressures activated presumptively or automatically on the basis of a reserve indicator structure, the following indicator points with the functions described would be established.

(*b*) *First point above the norm.*—At this level for the reserve indicator, a country in surplus would become subject to examination if it was not already under examination. After a specified period during which its reserve indicator remained at or above this level, a country would be subject to pressures in accordance with Section B, paragraphs 3-4, of Annex 2, unless the Council or the Executive Board, as appropriate, decided, or had already decided, to override the indicator's signal.

(*c*) *Second point above the norm.*—At this level for the reserve indicator, further above the norm than the first point, a country would be obliged to deposit all further accruals of reserves with the Fund and to forfeit all interest earned on the deposited reserves in accordance with Section B, paragraph 5, of Annex 2.

(*d*) *First point below the norm.*—At this level for the reserve indicator, a country in deficit would become subject to examination if it was not already under examination. After a specified period during which its reserve indicator remained at or below this level, a country would be subject to pressures in accordance with Section B, paragraphs 3-4, of Annex 2, unless the Council or Executive Board, as appropriate, decided, or had already decided, to override the indicator's signal.

2. If it were decided to adopt a primary asset holding limit as described in Annex 6, another point in the indicator structure would be required, which would relate to the level of primary reserve assets rather than total reserves.

PLACEMENT OF NORMS AND INDICATOR POINTS

3. Temporary norms equal to actual reserves on a date to be agreed would be established. As soon as feasible, longer-run norms, reflecting more appropriately than existing reserves the relative reserve needs of countries and summing to the agreed total of global reserves, would be established by international agreement in the Fund. (Further examination will be given to the desirability of basing norms on objective criteria and/or historical reserve holdings). Countries that considered their resulting norm to be inappropriate to their circumstances would be able to present their cases for revision to the Fund.

4. Over time, reserve changes in the direction of longer-run norms would be encouraged. As a country's reserves moved from the temporary norm toward the longer-run norm, the temporary norm and indicator points would be adjusted accordingly.

5. Both longer-run and temporary norms for each country would be increased by the amount of its SDR allocations. Provision would also be made for changing norms in line with agreed changes in currency reserves over time. In addition, the norms of individual countries would be subject to periodic revision to reflect changes in the relative economic size of countries.

6. The reserve indicator points for each country would be established at specified distances from the temporary, and ultimately from the longer-run, norm, so as to maintain consistency between potential imbalances, the volume of reserves, and the operations of the convertibility system. Indicator points would be related to norms or to an objective key that reflects countries' relative reserve variability. Distances would then be specified as multiples of norms or of the key, plus a small constant amount to provide additional flexibility in cases which would not normally have significant international repercussions. The key would be subject to periodic recomputation and revision by the Fund.

Participation

7. All countries would have defined norms and reserve indicator points. Countries whose exports of depletable resources account for more in value (after adjusting for value added in extraction, processing, and shipping) than the value of their current net domestic capital formation would be permitted to exclude foreign exchange holdings from their reserve indicator. Such holdings would similarly be excluded from the issuing country's reserve liabilities.

Other Reporting Requirements

8. Additional data would be periodically required to supplement the reserve indicator as a check against its performance, and as further material for assessment, including judgments to override the reserve indicator. Such data might include the forward position of a country's monetary authority (to be reported in confidence to the Managing Director), and foreign assets and liabilities of deposit money banks and other financial institutions to be specified. The Fund could also request additional data, e.g., the foreign assets or liabilities of governmental institutions.

Annex 2. Pressures: Possible Forms and Methods of Activation

It is generally agreed that provision should be made for graduated pressures in the reformed system to be available to the Fund for application to both surplus and deficit countries in cases of large and persistent imbalance. It is not agreed what forms these pressures should take; in particular it is not agreed whether there should be severer forms of pressure such as trade pressures and the publication of reports. Nor is it agreed how such pressures should be activated, and in particular whether some pressures should be activated presumptively or automatically on the basis of reserve indicators as in Section B below. (For a fuller discussion of pressures, see the Report of the Technical Group on Adjustment.)†

A. Forms

Forms of pressure which have been suggested for the reformed system include the following:

† See footnote 2, p. 178 above.

Pressures that could be applied to countries in surplus

(i) A country could be subjected to a charge on reserve accumulations above a reserve norm or other specified level. The rate of charge could be graduated with respect to the size of the reserve accumulation and the duration of the imbalance.

(ii) Countries could be required to deposit reserves above a specified level with an Excess Reserves Account to be established in the Fund at zero interest. This pressure combined with the preceding one would amount to the payment of negative interest on excess reserve accumulations.

(iii) All or part of future SDR allocations of a country in surplus could be withheld for a specified or an indefinite period.

(iv) A report could be published on the external position and policies of a country in surplus.

(v) Countries could be authorized to apply discriminatory trade and other current account restrictions against countries in persistent large surplus, subject to any necessary modification in the rules or practice of the GATT. This would be the most extreme form of pressure on countries in surplus.

Pressures that could be applied to countries in deficit

(vi) A country could be subjected to a charge on reserve deficiencies below a reserve norm or other specified level. The rate of charge could be graduated with respect to the size of the deficiency and the duration of the imbalance.

(vii) The interest rate charged on borrowings from the Fund could be raised above the general schedule of charges.

(viii) A country's access to the resources of the Fund could be restricted.

(ix) All or part of future SDR allocations of a country in deficit could be withheld for a specified or an indefinite period.

(x) A report could be published on the external position and policies of a country in deficit.

B. Methods of Activation

Three possible methods of activation of pressures have been considered: discretionary activation by a positive decision of the Fund, and presumptive or automatic activation on the basis of reserve indicators. These methods of activation, and the forms of pressure to which they are relevant, are discussed in the following paragraphs.

Activation by a Positive Fund Decision

1. As regards discretionary activation, it would be possible for the Fund to decide to apply any of the pressures described in A above if, following an examination under paragraph 7 of the *Outline*, it was found that a country that had previously been called upon to adopt or reinforce policies to correct an imbalance had failed to take appropriate action. Initial pressures would be of a mild form, but if the imbalance persisted and the country still failed to take appropriate action, more severe pressures could be applied.

2. Authority to apply pressures by positive decision of the Fund would rest with the Council. This authority might, however, be delegated to the Executive Board, except in the case of the pressure mentioned in A(v) above. Where any pressure had been applied

to a country by decision of the Executive Board acting under such delegated authority, the country against which the pressure had been applied would have the right to appeal to the Council against continued application of that pressure.

PRESUMPTIVE ACTIVATION

3. If it were decided that some pressures might also be activated presumptively on the basis of a reserve indicator structure, such activation could be developed on the following lines. The pressures described in A(i) and (vi) above could begin to be applied to a country whose reserves had remained for a specified period beyond the first reserve indicator point either above or below the norm as described in Annex 1, unless the Council or the Executive Board, as appropriate, following an examination under paragraph 7 of the *Outline*, decided, or had already decided, that such pressures should not be applied.

4. The charges, when applied, could be computed on the basis of the accumulation of reserves above the norm for countries in surplus and on the basis of the shortfall of reserves below the norm for countries in deficit. A schedule of charges would be established that could be progressive with respect to the size of such deviations and their duration.

AUTOMATIC ACTIVATION

5. It has been proposed that the pressure described in A(ii) above could be automatically applied to a country in surplus whose reserves increased beyond the second reserve indicator point above the norm as described in Annex 1. The Fund would pay no interest on the balances deposited and would return those balances to the country only as the country's total reserves declined. This pressure combined with the pressure described in A(i) above would amount to the payment of negative interest on excess reserve accumulations.

C. Discontinuation of Pressures

Appropriate provisions would have to be made for pressures to be discontinued as the imbalance was corrected.

ANNEX 3. EXCHANGE MARGINS AND INTERVENTION: POSSIBLE OPERATIONAL PROVISIONS WITH ILLUSTRATIVE SCHEMES

Arrangements for a more symmetrical system of exchange margins and intervention might be developed on the lines of either of the systems illustrated below or some variant of them. (For a fuller discussion of these questions, see the Report of the Technical Group on Intervention and Settlement.)† In both the illustrations it is assumed that the maximum margins specified under paragraph 12 of the *Outline* would be 2¼ per cent on either side of par value expressed in terms of the SDR, implying that at any one time the rate of exchange between any pair of currencies should be maintained within a range of not more than 4½ per cent above or below parity.[3] The maximum margins to be adopted at the time when the chosen system of exchange margins and intervention is actually implemented would need to be decided in the light of conditions prevailing at that time.

A. A System Based on Multicurrency Intervention

1. Under a margins and intervention system based on multicurrency intervention the general obligation under paragraph 12 of the *Outline* would be for a country to maintain

† See footnote 2, p. 178 above.

[3] The parity of one currency with respect to another refers to the ratio of their par values.

the spot exchange rate for its currency within specified maximum margins of up to 4½ per cent on either side of parity against other currencies.

2. A number of countries (including those whose currencies were the most widely traded in world foreign exchange markets) would meet their obligations under paragraph 12 of the *Outline* by undertaking reciprocal responsibility to maintain the spot exchange rate for their currencies (the MCI currencies) within maximum margins of 4½ per cent above or below parity against each other by intervening in each other's currencies at the margins. For this purpose they would publish mutually consistent limit prices at which they would be prepared freely to buy, or to sell, or to both buy and sell, each other's currencies.

3. Other countries would meet their obligations under paragraph 12 of the *Outline* by undertaking a unilateral responsibility freely to buy and sell a single intervention currency, which should normally be an MCI currency, at margins of not more than 2¼ per cent on either side of parity.

4. Other countries, which in the evolution of their exchange market and intervention practices had reached an intermediate position, could meet their obligations under paragraph 12 of the *Outline* in either of the following ways:

(*a*) Countries which wished to intervene in more than one MCI currency could undertake a unilateral responsibility to maintain their exchange rates within maximum margins specified in relation to their intervention currencies. Specifically they could undertake either freely to buy the weakest and sell the strongest of their named intervention currencies at margins of 2¼ per cent on either side of the arithmetic mean between the weakest and strongest of those currencies or, if they wished to intervene in all or nearly all the MCI currencies, freely to buy and sell their named intervention currencies at margins of 4½ per cent on either side of parity.

(*b*) Countries which wished to intervene in one or more MCI currencies could undertake a unilateral responsibility to maintain their exchange rates within maximum margins specified in relation to the MCI currencies as a whole. Specifically they could undertake freely to buy the weakest and sell the strongest of their named intervention currencies at margins of either 2¼ per cent, or 3¼ per cent, on either side of the arithmetic mean between the weakest and strongest MCI currencies, or at margins of 4½ per cent on either side of parity against each MCI currency.

5. Countries would be entitled to enter into arrangements, e.g., regional arrangements, to maintain margins among themselves narrower than the maximum prescribed under paragraph 12 of the *Outline*, provided that such arrangements and their general rules were notified to the Fund to assure their consistency with Fund obligations.

6. Countries undertaking the obligations under paragraph 2 above would not intervene intramarginally in each other's currencies except in accordance with rules on the following lines:

(*a*) Intramarginal intervention should not take place without the agreement, normally to be obtained in advance, of the country whose currency was to be used for intervention.

(*b*) Intramarginal intervention should not widen the spread between the two currencies concerned.

(*c*) The further the two currencies concerned were away from their margins against each other, the stronger the presumption against intramarginal intervention.

(*d*) Where a country undertook intramarginal intervention, it should normally do so in the currency furthest from parity with its own currency.

(*e*) Information about intramarginal intervention should be available through the Fund (with proper regard for confidentiality) to third countries, so that they could make representations if they felt their own position to be damaged.

7. Countries meeting their margins obligations in accordance with paragraphs 3 and 4 above would choose their intervention currency or currencies in consultation with the issuers; these consultations would aim to arrive at understandings covering standing arrangements for intramarginal intervention but would not impose any limitation upon a country's intervention to maintain its margins obligations. Where a country had an effective choice of intervention currency for intramarginal intervention, it should preferably buy the weakest and sell the strongest of its intervention currencies.

8. The Fund would keep the operation of the arrangements with respect to margins and intervention, including intramarginal intervention, under continuous review. In particular, participation in arrangements under paragraph 2 above would be subject to a special review within an agreed period (e.g., two years) from their introduction. Countries would cooperate with the Fund to ensure that appropriate intervention facilities were available to all member countries, and the Fund would help in establishing a standard framework of rules or guidelines as a basis for the understandings referred to in paragraph 7 above.

B. A System Based on SDR Intervention

1. Under a margins and intervention system based on SDR intervention the general obligation under paragraph 12 of the *Outline* would be for a country freely to buy and sell SDRs against its own currency at 2¼ per cent on either side of par value in transactions directly with monetary authorities, or in transactions with commercial banks on condition that the SDRs were to be transferred directly to or from other monetary authorities. This would be designed to ensure that the exchange rates between any two currencies did not diverge by more than 4½ per cent from parity. Countries undertaking this obligation would not generally intervene in currencies at the margins. They might intervene intramarginally in SDRs, subject to any rules which might be agreed, and also in currencies, subject to rules such as those set out in paragraph 6 of the system described in Section A above.

2. Countries which remained closely attached to a single intervention currency, which should normally be a currency undertaking the obligations in paragraph 1 above, could meet their obligations under paragraph 12 of the *Outline* by undertaking freely to buy and sell that currency at margins of not more than 2¼ per cent on either side of parity.

3. Countries meeting their margins obligations in accordance with paragraph 2 above would choose their intervention currency in consultation with the issuer; these consultations would aim to arrive at understandings covering standing arrangements for intramarginal intervention, but would not improve any limitation upon a country's intervention to maintain its margins obligations.

4. Countries would be entitled to enter into arrangements, e.g., regional arrangements, to maintain margins among themselves narrower than the maximum prescribed in paragraph 12 of the *Outline*, provided that such arrangements and their general rules were notified to the Fund to assure their consistency with Fund obligations.

5. The Fund would keep the operation of the arrangements with respect to margins and intervention, including intramarginal intervention, under continuous review. Countries would cooperate with the Fund to ensure that appropriate intervention facilities were available to all member countries, and the Fund would help in establishing a stan-

dard framework of rules or guidelines as a basis for the understandings referred to in paragraph 3 above.

Annex 4. Floating in Particular Situations: Possible Operational Provisions

A. Authorization

The criteria and procedures in accordance with which, in the reformed system, the Fund will authorize countries to adopt floating rates in particular situations are not agreed. An illustrative example is set out below. Under another, more liberal, approach a country might propose to the Fund the adoption of a floating rate for its currency, and provided that the country undertook to conform with agreed guidelines for conduct the Fund would approve such a proposal. Suggestions have also been made for a more restrictive approach than the one illustrated below, under which the Fund might authorize a country to float only if, inter alia, it was satisfied that the fixing or maintenance of a par value would be inconsistent with the international interest.

Illustrative Example

1. The Fund would be empowered to authorize a country to adopt a floating exchange rate:

(*a*) if the Executive Board decided, after taking account of all the factors relevant to a country's particular situation, that floating would be consistent with the international interest and more likely to contribute to international payments equilibrium than an attempt to fix, or to continue to maintain, a par value; and

(*b*) provided that the country undertook to conform with agreed guidelines for conduct as discussed in Sections B and C of this Annex.

2. In arriving at its decision under paragraph 1(*a*) above, the Executive Board would give special consideration to:

(*a*) conditions of particular uncertainty regarding the future development of the country's balance of payments, in which floating might facilitate transition to a new par value;

(*b*) very large disequilibrating capital flows; and

(*c*) a rate of price inflation which was, and which was expected to continue for some time to be, substantially different from that of the country's main trading partners or competitors.

3. The Fund might establish simplified procedures for authorizing the adoption of floating rates by a country whose official reserves were at inappropriate levels or had moved inappropriately, as determined by reference to a reserve indicator. If such simplified procedures did not require a prior examination of the country's particular situation by the Executive Board, they would provide for such examination within a specified period after authorization to adopt a floating rate was given.

B. Guidelines for Countries Authorized to Adopt Floating Rates

Countries authorized to adopt floating rates would be guided by the same principles governing adjustment action as countries maintaining par values. In particular, in choosing among different forms of adjustment action, domestic or external, they would take into account repercussions on other countries as well as internal considerations. Coun-

tries authorized to adopt a floating exchange rate would be subject to surveillance in the Fund, in accordance with the procedures described in paragraphs 5-8 of the *Outline*; in this connection, a sizable movement in the exchange rate for a floating currency might be taken as prima facie evidence for the purpose of paragraph 6(*b*) of the *Outline*. Such countries would also, if appropriate, be liable to the pressures provided for in paragraph 10 of the *Outline*.

In relation to its policy for intervention in exchange markets, a country authorized to adopt a floating rate would observe guidelines designed to promote exchange market stability and the international consistency of policies affecting exchange rates and reserves. Guidelines for the reformed system will need to be developed by the Fund, taking account of experience in the interim period. The following guidelines for the interim period,[4] which provide the basis for a meaningful dialogue between the Fund and member countries with a view to promoting international consistency during a period of widespread floating, have been established as a starting point.

(1) A member with a floating exchange rate should intervene on the foreign exchange market as necessary to prevent or moderate sharp and disruptive fluctuations from day to day and from week to week in the exchange value of its currency.

(2) Subject to (3)(*b*), a member with a floating rate may act, through intervention or otherwise, to moderate movements in the exchange value of its currency from month to month and quarter to quarter, and is encouraged to do so, if necessary, where factors recognized to be temporary are at work. Subject to (1) and (3)(*a*), the member should not normally act agressively with respect to the exchange value of its currency (i.e., should not so act as to depress that value when it is falling, or to enhance that value when it is rising).

(3) (*a*) If a member with a floating rate should desire to act otherwise than in accordance with (1) and (2) above in order to bring its exchange rate within, or closer to, some target zone of rates, it should consult with the Fund about this target and its adaptation to changing circumstances. If the Fund considers the target to be within the range of reasonable estimates of the medium-term norm for the exchange rate in question, the member would be free, subject to (5), to act aggressively to move its rate toward the target zone, though within that zone (2) would continue to apply.

(*b*) If the exchange rate of a member with a floating rate has moved outside what the Fund considers to be the range of reasonable estimates of the medium-term norm for that exchange rate to an extent the Fund considers likely to be harmful to the interests of members, the Fund will consult with the member, and in the light of such consultation may encourage the member, despite (2) above (i) not to act to moderate movements toward this range, or (ii) to take action to moderate further divergence from the range. A member would not be asked to hold any particular rate against strong market pressure.

(4) A member with a floating exchange rate would be encouraged to indicate to the Fund its broad objective for the development of its reserves over a period ahead and to discuss this objective with the Fund. If the Fund, taking account of the world reserve situation, considered this objective to be reasonable and if

[4] These guidelines have been adopted by Executive Board Decision No. 4232-(74/67), adopted June 13, 1974. They are contained in a memorandum referred to in that Decision and should be understood in the light of the commentary in that memorandum. The decision and accompanying memorandum [are reproduced below, pp. 487–91].

the member's reserves were relatively low by this standard, the member would be encouraged to intervene more strongly under (2) to moderate a movement in its rate when the rate was rising than when it was falling. If the member's reserves were relatively high by this standard it would be encouraged to intervene more strongly to moderate a movement in its rate when the rate was falling than when it was rising. In considering target exchange rate zones under (3), also, the Fund would pay due regard to the desirability of avoiding an increase over the medium term of reserves that were recognized by this standard to be relatively high, and the reduction of reserves that were recognized to be relatively low.

(5) A member with a floating rate, like other members, should refrain from introducing restrictions for balance of payments purposes on current account transactions or payments and should endeavor progressively to remove such restrictions of this kind as may exist.

(6) Members with a floating rate will bear in mind, in intervention, the interests of other members including those of the issuing countries in whose currencies they intervene. Mutually satisfactory arrangements might usefully be agreed between the issuers and users of intervention currencies, with respect to the use of such currencies in intervention. Any such arrangements should be compatible with the purposes of the foregoing guidelines. The Fund will stand ready to assist members in dealing with any problems that may arise in connection with them.

The Executive Board may decide to amend these guidelines in the light of experience or to adapt them to the circumstances of individual member countries, and in particular will give special consideration to the manner in which they should be applied by developing countries, taking account of the stage of evolution of their exchange markets and intervention practices.

C. The Choice of Intervention Currency and Settlement

In the reformed system it will be necessary to establish guidelines in relation to both the choice of intervention currency by a floating country and intervention by other countries in a floating currency, as well as arrangements for the settlement of balances of a floating currency acquired through intervention. Such guidelines might be developed on the following lines:

(*a*) A floating country which has an effective choice of intervention currencies should normally buy the weakest of those currencies and sell the strongest. If the country wishes to intervene in any other currency the agreement of the issuer would be required.

(*b*) Intervention by other countries in a floating currency should not take place (except possibly for smoothing operations on a limited scale to maintain orderly market conditions and other small transactions) without the agreement of the issuer.

(*c*) Where intervention in a floating currency takes places with the agreement of the issuer, the official balances arising out of such intervention will be subject to settlement in accordance with paragraph 20 of the *Outline*. Countries which intervened to buy a currency during a specified period (e.g., one working day) immediately before approval was requested for that currency to float will be entitled to present the balances acquired during that period to the issuer for conversion.

It is recognized that, in connection with (*b*) and (*c*) above, a special situation arises in the case of countries which regularly intervene in a currency that floats. It is envisaged that this situation would be covered by arrangements similar to those set out in Section A, paragraphs 7 and 8, of Annex 3.

Annex 5. Control over the Aggregate Volume of Official Currency Holdings: Possible Operational Provisions with Illustrative Schemes

The principle that the aggregate volume of official currency holdings should be kept under international surveillance and management in the Fund is generally agreed. Important questions concerning the arrangements to give effect to this principle, however, remain to be decided. (For a fuller discussion of these questions, see the Report of the Technical Group on Intervention and Settlement.)† Appropriate arrangements might be developed on the lines of one of the three approaches illustrated below.

The main difference between the approaches in Sections A and B concerns the precision with which they aim to secure international control over aggregate official currency holdings, which in turn would determine the degree of asset settlement by countries whose currencies are held in reserves. The more mandatory system in Section A involves international agreement in advance on the aggregate level of official currency holdings, currency by currency, and provides for specific action by the Fund to be taken automatically if the agreed level is exceeded. The "on demand" system in Section B does not involve precise limits agreed internationally in advance but provides for Fund surveillance over the longer-term trend of currency reserves and ultimately envisages some form of action by the Fund on a discretionary basis if that trend is found to be excessive. The third approach in Section C seeks to bridge the gap between these approaches; it involves international agreement in advance on an appropriate level of aggregate official currency holdings, currency by currency, as in the more mandatory system, and provides for specific action by the Fund, but in the first instance on a discretionary basis and then, if the agreed level is exceeded by more than a predetermined amount, on a presumptive basis.

A. A More Mandatory System

1. To ensure close control over aggregate official currency holdings and to promote full asset settlement, the Fund would periodically agree appropriate levels for the official liabilities in domestic currency of countries whose currencies had a significant reserve role. If, on the basis of monthly calculations, a country's aggregate liabilities increased beyond this agreed level (which could initially be the level existing at the restoration of general convertibility), the issuing country would redeem the increase by transferring reserve assets in exchange for its own currency.

2. Any such transfer of reserve assets would be made in the first instance, in the case of countries for whose currencies substitution facilities had been established under paragraph 22 of the *Outline*, to the substitution account, and otherwise to countries which volunteered or in the last resort were designated by the Fund to present the currency in question to the issuer for conversion. In choosing countries for designation the Fund could take account of any increase in countries' holdings of the currency concerned, particularly increases reflecting a reduction in holdings of other reserve assets, and might also take account of the absolute level of countries' holdings of the currency.

3. Reliance on the procedures in paragraphs 1 and 2 above would be reduced to the extent that intervention took place in SDRs. If a multicurrency intervention system were

† See footnote 2, p. 178 above.

adopted, a group of countries (which would include MCI countries but which need not be restricted to them) would undertake to present immediately to the issuing country for settlement official currency balances acquired through intervention or other transactions apart from official settlements within the group or the use of credit facilities.

4. For the purpose of paragraph 1 above, the official liabilities in domestic currency of countries whose currencies had a significant reserve role would be calculated on a monthly basis by the Fund, using monthly returns from those countries and also regular reports of official assets from all member countries. Official liabilities would consist of all liabilities in domestic currency of the public or private sector that are included in the reserves of another member country and also any liabilities to a substitution account or an excess reserves account that may be established in the Fund, but would exclude liabilities arising out of the use of credit facilities.

5. In connection with official currency balances held outside the territory of the issuing country, e.g., in Euro-currency markets, which are excluded from the definition in paragraph 4 above, supplementary arrangements—such as those suggested in paragraph 23(*c*) of the *Outline*—would be needed.

B. An On Demand System

1. To ensure sufficient control over the long-term trend of aggregate official currency balances, the Fund, in the context of its general surveillance of the long-term trend of global reserves, would be prepared, if necessary, to recommend procedures for orderly reductions in currency reserves.

2. Issuing countries would have the right to request other countries to limit further accumulation of balances of their currencies, on the lines suggested in paragraph 23(*a*) of the *Outline*, and countries would respect such requests.

3. In connection with official currency balances held outside the territory of the issuing country, e.g., in Euro-currency markets, supplementary arrangements—such as those suggested in paragraph 23(*c*) of the *Outline*—might be desirable.

C. A Third Possible Approach

1. To ensure sufficient control over aggregate official currency holdings and to promote a sufficient degree of asset settlement, the Fund would periodically agree appropriate levels for the official liabilities of countries whose currencies had a significant reserve role. If, on the basis of quarterly calculations, a country's aggregate liabilities increased beyond this agreed level, the Fund would examine the situation and, if it were found to reflect longer-term rather than temporary and reversible factors, the Fund could decide that the issuing country should redeem the increase by transferring reserve assets in exchange for its own currency.

2. In any event, if the country's aggregate liabilities exceeded the agreed level by more than a predetermined amount, the issuing country would redeem the increase by transferring reserve assets in exchange for its own currency, unless the Fund decided otherwise.

3. Any such transfer of reserve assets would be made in the first instance, in the case of countries for whose currencies substitution facilities had been established under paragraph 22 of the *Outline*, to the substitution account, and otherwise to countries which volunteered or in the last resort were designated by the Fund to present the currency in question to the issuer for conversion. In choosing countries for designation the Fund could take account of any increase in countries' holdings of the currency concerned, par-

ticularly increases reflecting a reduction in holdings of other reserve assets, and might also take account of the absolute level of countries' holdings of the currency.

4. Reliance on the procedures in paragraphs 1-3 above would be reduced to the extent that intervention took place in SDRs. If a multicurrency intervention system were adopted, a group of countries (which would include MCI countries but which need not be restricted to them) would undertake to present immediately to the issuing country for settlement official currency balances acquired through intervention or other transactions apart from official settlements within the group or the use of credit facilities.

5. For the purpose of paragraphs 1-2 above, the official liabilities in domestic currency of countries whose currencies had a significant reserve role would be calculated on a monthly basis by the Fund, using monthly returns from those countries and also regular reports of official assets from all member countries. Official liabilities would consist of all liabilities in domestic currency of the public or private sector that are included in the reserves of another member country and also any liabilities to a substitution account or an excess reserves account that may be established in the Fund, but would exclude liabilities arising out of the use of credit facilities.

6. In connection with official currency balances held outside the territory of the issuing country, e.g., in Euro-currency markets, which are excluded from the definition in paragraph 5 above, supplementary arrangements—such as those suggested in paragraph 23(*c*) of the *Outline*—would be needed.

Annex 6. Elasticity: Possible Additional Forms

Besides credit facilities the following additional forms of elasticity have been suggested, but are not agreed. (For a fuller discussion, see the Report of the Technical Group on Intervention and Settlement.)†

A. Under a More Mandatory System

Normal settlement arrangements might be temporarily suspended or relaxed by international agreement in the Fund.

B. Under an On Demand System

The right of a member country to present currency balances for conversion into primary reserve assets would be suspended if its primary reserves exceeded a predetermined level (primary asset holding limit) and the settlement obligation of the issuer would be correspondingly suspended. For this purpose, primary asset holding limits would be established beyond which the right of countries to acquire primary reserves other than by SDR allocations would be suspended.

C. A Possible Third Approach

Unless the Executive Board decided otherwise, the right of a member country to present currency balances for conversion into primary reserve assets would be suspended if its primary reserves exceeded a predetermined level (primary asset holding limit) and the settlement obligation of the issuer would be correspondingly suspended. (This approach differs from B above in that the primary asset holding limit is presumptive rather than automatic.)

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† See footnote 2, p. 178 above.

Annex 7. A Substitution Account: Possible Operational Provisions with an Illustrative Scheme

In order to promote the resumption and maintenance of general convertibility, the reduction of the role of reserve currencies, the development of the SDR as the principal reserve asset, and the achievement of a more stable pattern of reserve composition, it is agreed that the Fund would have authority to establish a substitution account through which SDRs may be issued in exchange for reserve currencies. A number of important questions would need to be resolved before such an account was established. In particular, it would be necessary to agree upon the precise limits for the total amount of SDRs which could be issued through the account and upon the factors mentioned in paragraph 6 below concerning the terms and conditions to be applied to the substituted currency balances. (For a fuller discussion of the question of substitution, see the Reports of the Technical Groups on Intervention and Settlement and on Global Liquidity and Consolidation.)† One possible form of a substitution account—which provides for a continuing facility for substitution up to the amount of balances outstanding at the time that the account is established—could be developed on the lines illustrated in the following paragraphs. It has also been suggested that it might be appropriate to have a once-for-all substitution rather than a continuing facility.

Illustrative Scheme

Access by Holders of Reserve Currency Balances

1. Member countries that wished to exchange official holdings of currencies (for which substitution facilities had been established) for SDRs would be entitled to buy SDRs from the substitution account in exchange for such currency balances subject to any rules which may be agreed. If appropriate at the time when such an account was established, a substantial initial use of the account might be negotiated. Countries would not, however, be able to acquire currency balances in exchange for SDRs from the substitution account. If the substitution account's holdings for a currency at any time exceeded the agreed level mentioned in paragraph 2 below, the issuing country would redeem the excess by tranferring SDRs to the substitution account.

Access by Issuing Countries

2. Issuers of currencies for which substitution facilities were established would be entitled to buy SDRs from the substitution account in exchange for their own currency to the extent of any decrease in their official liabilities in their own currency below a maximum level to be agreed, which would be the level existing at the time that the account is established. Official liabilities would consist of all liabilities in domestic currency of the public or private sector that are included in the reserves of another member country and also any liabilities in domestic currency to a substitution account or an excess reserves account that may be established in the Fund, but would exclude liabilities arising out of the use of credit facilities.

3. Provision could be made for the issuers to amortize balances of their currency held by the substitution account; and to the extent that such amortization resulted in a reduction in the total of liabilities as defined above, the agreed level in paragraph 2 above would be correspondingly reduced.

† See footnote 2, p. 178 above.

General Provisions

4. In accordance with the above, the Fund would be authorized to create SDRs and issue them through the substitution account in exchange for currency balances either to the holders or to the issuers of such balances.

5. The substitution account would further be authorized to engage in the following operations:

(*a*) to pay interest in SDRs on the SDRs issued;

(*b*) in consultation with issuers of the currency balances received, to employ those balances in appropriate forms of investments; and

(*c*) to receive amortization payments in SDRs from the issuers of currency balances held in the account and to return equivalent amounts of their currency to the issuers against such payments.

6. Prior to establishment of the account, agreement would have to be reached between the Fund and issuing countries regarding:

(*a*) interest on Fund holdings of substituted balances;

(*b*) the denomination of Fund claims on issuing countries arising from the account's operations;

(*c*) the disposition of any profits and losses arising from the account's operations; and

(*d*) arrangements for amortization of substituted balances.

7. Procedures will be drawn up regulating the liquidation of the account and termination of an individual country's relationship with the account.

Annex 8. SDR Allocation and Cancellation: Possible Operational Provisions

1. It is envisaged that the existing Articles of Agreement relating to the principles governing SDR allocations and cancellations would remain unchanged. The determination of global reserve needs and of appropriate rates of change over time would continue to be based on the use of statistical indicators subject to a process of assessment that would give due weight to symptoms of reserve stringency or ease.

2. It is recognized that the determination of global reserve needs will need to be consistent with other provisions of the reform, in particular the arrangements for convertibility and adjustment, and that the criteria used to assess appropriate levels and rates of change in global reserves must remain the subject of study. (For a fuller discussion of the determination of global reserve needs, see the Report of the Technical Group on Global Liquidity and Consolidation.)†

3. It has been suggested, but not agreed, that there are a number of factors to which additional emphasis may need to be given in the future. Such factors mentioned in the Report of the Technical Group on Global Liquidity and Consolidation are the following:

(*a*) the distribution of reserve holdings, in particular when large reserve holdings are heavily concentrated in countries that are unlikely to face commensurate deficits in the near term;

(*b*) short-term capital flows and, in particular, shifts between private and official holdings;

† See footnote 2, p. 178 above.

(*c*) foreign indebtedness and the level of debt service payments, to the extent that these factors contribute to the vulnerability of countries to swings in their net external positions; and

(*d*) the possibility that the low degree of monetization of the economies of less developed areas might lead to an underestimation of their reserve needs.

Other factors are mentioned in the Report of the Technical Group on the Transfer of Real Resources.†

Annex 9. Valuation of the SDR: Possible Operational Provisions

Four possible techniques for determining the value of the SDR in transactions against currencies have been elaborated, as described below.

A. The "Standard Basket" Technique

1. This would involve setting the transactions value of the SDR as equal to that of a basket of currencies. The amounts of each currency in the basket would be specified for a considerable period ahead, and the value of SDR 1.00 in terms of any one currency would be the value of the amounts of each of the currencies in the basket expressed in terms of this one currency at the prevailing spot rates. Under this approach an appreciation (depreciation) of any currency in the basket in terms of other currencies would raise (lower) the value of the SDR in terms of each other currency.

2. If it were desired to give the SDR a stronger capital value than would result from this approach, it would be possible to introduce regular, small and uniform increases in the amount of each currency in the basket. The effect of the resulting appreciation in the capital value of the SDR on its total yield could be offset by a corresponding reduction in the interest rate.

B. The "Asymmetrical Basket" Technique

The asymmetrical basket would set the value of the SDR equal to that of a basket of currencies; but whenever any currency in the basket was devalued, the number of units of that currency in the basket would be increased in proportion to the deviation of the new par value from the previous par value. When a currency in the basket floated downward, the number of units of that currency in the basket would be increased in a similar way.[5] This would prevent exchange rate changes associated with devaluations or downward floating resulting in reductions of the transactions value of the SDR in terms of other currencies. However, a revaluation or upward float of any currency in the basket would still raise the value of the SDR in terms of other currencies as under the standard basket.

C. The "Adjustable Basket" Technique

1. Under the third technique, the value of the SDR would be set equal to that of a basket of currencies; but the treatment given to devaluations and downward floats under the asymmetrical basket would be extended to revaluations and upward floats as well. This would prevent the exchange rate changes associated with all par value changes and

† See footnote 2, p. 178 above.

[5] Various formulas might be constructed to approximate the desired result. For example, the number of units of a downward floating currency in the basket might be increased in proportion to a weighted average of the depreciation of the market rate from the former parity as against each of the nonfloating currencies in the basket.

all floats from influencing the value of the SDR in terms of other currencies. Under this approach the long-term evolution of the value of the SDR in terms of currencies would be determined by the balance between revaluations and devaluations, so that the role of the basket would be to define where, within the margins, the precise value of the SDR would be on any day.

2. If it were desired to give the SDR a stronger capital value than that produced by the balance between revaluations and devaluations, it would be possible to introduce regular, small and uniform increases in the amount of each currency in the basket. The effect of the resulting appreciation in the capital value of the SDR on its total yield could be offset by a corresponding reduction in the interest rate.

D. The "Par Value" Technique

1. The fourth technique would involve setting the transactions value of the SDR at par, or at some specified distance (e.g., half the established margin) away from par. This would mean that an exchange rate change that corresponds to a par value change would be fully reflected in the transactions value of the SDR against the currency whose par value had been changed, and would leave the transactions value of the SDR in terms of all other currencies unchanged. Hence the change over time in the value of the SDR in terms of currencies would be determined under this approach, as under the previous one, by the balance between devaluations and revaluations. To give statistical content to this "balance" it would be necessary to make a selection of currencies and to assign weights to them, but this approach differs from the three other approaches discussed in that it would not require for its introduction agreement on a basket.

2. If it were desired to give the SDR a stronger capital value than that produced by the balance between revaluations and devaluations, it would be possible to do so by provision for uniform par value changes. The effect of the resulting appreciation in the capital value of the SDR on its total yield could be offset by a corresponding reduction in the interest rate.

Annex 10. The Special Interests of Developing Countries

It is generally agreed that one of the important objectives of reform of the world monetary and economic order should be the promotion of economic development, and that to this end the net flow of real resources to developing countries should be given positive encouragement. This objective is given specific recognition in the arrangements proposed at various points throughout the *Outline*, as noted further in Section A below. However, the *Outline* is concerned essentially with the monetary aspects of the world economic system, and it has been recognized that, in relation to this objective particularly, the attainment of the purposes of the reform depends also upon consistent arrangements being made in other areas, as discussed in Section B below. (For a fuller discussion of questions concerning the transfer of real resources to developing countries, see the Report of the Technical Group on the Transfer of Real Resources.)†

A. Special Provisions in International Monetary Arrangements

1. In discussion of the better working of the adjustment process, it has been agreed that all countries should be guided by the same principles concerning adjustment action. At the same time it has been recognized that there are special characteristics of developing countries which make it difficult for them to achieve prompt adjustment without seriously damaging their long-term development programs. Such characteristics include the

† See footnote 2, p. 178 above.

dependence of many developing countries upon a limited range of exports, often of primary commodities for which the elasticities of both supply and demand are low, which can give rise to particularly sharp fluctuations in their external payments positions. It has also been recognized that in many instances an imbalance in the external position of an individual developing country will not have significant international repercussions. While it would be inconsistent with a one-world approach to international monetary reform and with international payments equilibrium to exclude developing countries from the adjustment procedures on these grounds, it has been agreed that these special characteristics should be taken into account in assessing both the need for adjustment action and the possible application of graduated pressures and in considering the forms of policy action which developing countries feel it necessary to take.

2. It has been agreed that other countries should apply adjustment measures in a manner designed to protect the net flow of real resources to developing countries, by maintaining or where possible increasing aid flows to them, and by ensuring as far as possible the free access of developing countries to both the goods and financial markets of developed countries. Provision is also made for the regular review of the aggregate flow of real resources to developing countries and its financing in the context of Fund surveillance of the adjustment process.

3. Account has been taken of the special concerns of developing countries in relation to global liquidity. In particular, it has been envisaged that better international management of international liquidity should ensure the equitable distribution of official reserves and of access to official credit facilities among all Fund members. Note has been taken of the arguments pointing toward special needs for balance of payments financing, and it has been suggested that these arguments should be further considered in the context of future assessments of global reserve needs. Further consideration is being given to the Fund's compensatory finance and buffer stock facilities. The Executive Board has been urged to proceed to an early formulation and adoption of a new facility under which developing countries might receive longer-term balance of payments finance.

4. It has been argued that developing countries may have a particular need for some degree of freedom to choose the composition of their reserves, for example to enable them to hold currency balances against their official borrowings in certain private markets, and it is agreed that such freedom should be accommodated in the future settlement arrangements insofar as it is consistent with the overall objectives of the reform. For their part, the developing countries have recognized the need for international cooperation in the management of currency reserves and the importance of avoiding disequilibrating movements of official funds.

5. Finally, the possibility of establishing a link between development assistance and SDR allocation in the context of the reform has been closely examined and the technical feasibility of different possible forms of such a link has been thoroughly explored. (For a fuller discussion of these questions, see the Report of the Technical Group on the SDR/Aid Link and Related Proposals.)† The establishment of a link has not been agreed. It is, however, generally agreed that if a link were to be established the amount of SDR allocations and the principal characteristics of SDRs should continue to be determined solely on the basis of global monetary requirements and that these characteristics should be the same for all SDRs whether distributed through normal allocations or through a link.

B. The Consistency of Arrangements in Other Areas

1. As noted above, it has been recognized that, to attain the objective of promoting economic development, consistent arrangements are needed in other areas of the world

† See footnote 2, p. 178 above.

economic system.[6] Specifically, this would involve arrangements for international trade under which commercial policies would be designed to encourage developing countries' exports of manufactures as well as of primary commodities. It would also involve an increasing flow of capital to developing countries, both through steps to ensure that the access of developing countries and development finance institutions to world financial markets was as free as possible from legal or administrative constraints and through an increase in official development assistance on concessionary terms to those countries which are unable to borrow in private financial markets.

2. These aspects of the world economic order go beyond the work on reform of the international monetary system which the Committee has undertaken and concern other international institutions. It is recommended that further work should be undertaken on the following:

(*a*) the amounts and quality of official development assistance;

(*b*) a review of the policies and procedures of multilateral development finance institutions;

(*c*) the improvement of access to financial markets in general; and

(*d*) international financing schemes for commodity regulation and price stabilization.

It is also recommended that a joint ministerial Committee of the Fund and the World Bank should be established to carry forward the study of these questions after the Committee of the Board of Governors on Reform of the International Monetary System and Related Issues has completed its work, and to recommend measures to be adopted in order to implement its conclusions. It is further recommended that the proposed Committee should give urgent attention to the problems of the developing countries most seriously affected by exceptional balance of payments difficulties in the current situations, bearing in mind the need for coordination with other international bodies. It has been suggested that the proposed Committee should be set up by parallel resolutions of the respective Boards of Governors, and that these resolutions should provide for the participation of other international agencies, so as to ensure a coordinated approach. Among the questions that will need to be settled are the composition and procedures of the Committee, as well as arrangements for carrying out work at the technical level.

[6] This question was also the subject of discussion during the Sixth Special Session of the General Assembly of the United Nations.

Communiqués of the Committee of Twenty

The communiqués that were issued by the ad hoc Committee on Reform of the International Monetary System and Related Issues (Committee of Twenty) are reproduced below.

September 28, 1972

1. The Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System and Related Issues (the Committee of Twenty) held its inaugural meeting in Washington, D.C., on September 28, 1972. The Committee consists of one member appointed by each country or group of countries appointing or electing an executive director of the Fund, with the participation of Mr. Pierre-Paul Schweitzer, the Managing Director of the Fund. Each member of the Committee may appoint two associates. A list of the members of the Committee and their associates is attached to this communiqué.[1]

2. The inaugural meeting was convened by the Chairman of the Board of Governors, Mr. Ali Wardhana, to organize the work of the Committee. At the meeting, the Committee selected Mr. Ali Wardhana to serve as its Chairman.

3. In its task of advising the Board of Governors with respect to all aspects of reform of the international monetary system, the Committee will be assisted by the Deputies, who are composed of two deputies appointed by each member of the Committee. Mr. C. J. Morse was selected by the Committee to be Chairman of the Deputies.

4. The Committee took note of the Report of the Executive Directors on Reform of the International Monetary System.[2] They exchanged views on the future work of the Committee, and expressed their determination to make rapid progress toward agreement on reform of the international monetary system. They requested the Deputies to develop promptly a program of work in preparation for a meeting which the Committee expects to hold about the end of this year. The Chairman of the Deputies will inform the Chairman of the Committee after each meeting of the Deputies of the progress they have made. The first meeting of the Deputies is to take place on September 29, 1972.

March 27, 1973

1. The Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System and Related Issues (the Committee of Twenty) held their second meeting in Washington on March 26 and 27, 1973, under the chairmanship of Mr. Ali Wardhana, Minister of Finance for Indonesia. By the courtesy of

[1] The list has been omitted here. The list, as well as a list of those attending the meetings of the Committee, may be found in *International Monetary Reform: Documents of the Committee of Twenty* (Washington: International Monetary Fund, 1974).

[2] Above, pp.19-56.

the Organization of American States the meeting was held in the Pan American Union Building. Mr. Pierre-Paul Schweitzer, Managing Director of the International Monetary Fund, took part in the meeting, which was also attended by Mr. Wilhelm Haferkamp, Vice-President of the EEC, Mr. René Larre, General Manager of the BIS, Mr. Emile van Lennep, Secretary-General of the OECD, Mr. Olivier Long, Director-General of the GATT, Mr. Manuel Pérez-Guerrero, Secretary-General of the UNCTAD, and Sir Denis Rickett, Vice President of the IBRD.

2. The Committee received a report in which the Chairman of their Deputies, Mr. Jeremy Morse, summarized the Deputies' discussions to date on the adjustment process and exchange rate mechanism, reserve assets and convertibility, and capital flows.

3. The members of the Committee reaffirmed the need for a world monetary order, based on cooperation and consultation within the framework of a strengthened International Monetary Fund, that will encourage growth of world trade and employment as well as economic development and will support the domestic efforts of monetary authorities throughout the world to counteract inflation.

4. The members of the Committee exchanged views on the substance of international monetary reform in the light of recent developments in exchange markets and of countries' policy reactions to these developments, and instructed their Deputies to take account of these events and their implications in their continuing work. The members of the Committee recognized that the various elements of reform are interlinked. Their discussion of a reformed system centered on the following points:

(*a*) There should be a better working of the adjustment process, in which adequate methods to assure timely and effective balance of payments adjustment by both surplus and deficit countries would be assisted by improved international consultation in the Fund including the use of objective indicators. It was noted that the Deputies are establishing a technical group on indicators. The importance of effective domestic policies for balance of payments adjustment was underlined. Members of the Committee recognized that exchange rates must be a matter for international concern and consultation and that in the reformed system the exchange rate regime should remain based on stable but adjustable par values. It was also recognized that floating rates could provide a useful technique in particular situations. There was also general agreement on the need for exchange market stability and on the importance of Fund surveillance of exchange rate policies.

(*b*) There should be better international management of global liquidity. The role of reserve currencies should be reduced and the SDR should become the principal reserve asset of the reformed system. The Deputies were asked to study further the conditions for a resumption of general convertibility, including questions relating to consolidation of excess reserve currency balances and to methods of settlement.

(*c*) An intensive study should be made of effective means to deal with the problem of disequilibrating capital flows by a variety of measures, including controls, to influence them and by arrangements to finance and offset them. It was noted that the Deputies are establishing a technical group on disequilibrating capital flows, including those associated with Euro-currency markets.

(*d*) There should be a strong presumption against the use of trade controls for balance of payments purposes. Developing countries would, however, be exempt wherever possible from trade and capital controls imposed by other countries and their particular circumstances would be taken into account in assessing controls that they themselves felt it necessary to apply.

5. The members of the Committee recognized the concerns of developing countries under current conditions and their interests in a reformed system. They affirmed the de-

sirability on the occasion of the reform of promoting economic development and the flow of real resources from developed to developing countries.

6. The Committee approved their Deputies' program of future work. In directing the attention of the Deputies to those aspects of reform which have an important bearing on the current situation, they recognized that procedures are already established for coordinating the work of the Executive Directors of the Fund with that of the Deputies. They noted that the Deputies plan to expand their meeting schedule and to intensify their work between meetings, and they instructed the Deputies to proceed urgently with the preparation of a draft outline of the reform, in which the major issues would be presented to the Committee for decision.

7. The Committee will meet again at a time to be proposed by the Chairman in the light of the progress of the Deputies' work.

January 18, 1974

1. The Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System and Related Issues (the Committee of Twenty) held their fifth meeting, in Rome, on January 17 and 18, 1974, under the chairmanship of Mr. Ali Wardhana, Minister of Finance for Indonesia. Mr. Johannes Witteveen, Managing Director of the International Monetary Fund, took part in the meeting, which was also attended by Mr. Wilhelm Haferkamp, Vice-President of the EEC, Mr. René Larre, General Manager of BIS, Mr. Emile van Lennep, Secretary-General of the OECD, Mr. Olivier Long, Director-General of the GATT, Mr. Manuel Pérez-Guerrero, Secretary-General of the UNCTAD, and Sir Denis Rickett, Vice President of the IBRD.

2. Members of the Committee began by reviewing important recent developments, including the large rise in oil prices and the implications for the world economy. They expressed serious concern at the abrupt and significant changes in prospect for the world balance of payments structure. They recognized that the current account surpluses of oil producing countries would be very greatly increased, and that many other countries—both developed and developing—would have to face large current account deficits. In these difficult circumstances the Committee agreed that in managing their international payments, countries must not adopt policies which would merely aggravate the problems of other countries. Accordingly, they stressed the importance of avoiding competitive depreciation and the escalation of restrictions on trade and payments. They further resolved to pursue policies that would sustain appropriate levels of economic activity and employment, while minimizing inflation. They recognized that serious difficulties would be created for many developing countries and that their needs for financial resources will be greatly increased; and they urged all countries with available resources to make every effort to supply these needs on appropriate terms. The Committee agreed that there should be the closest international cooperation and consultation in pursuit of these objectives. They noted that the International Monetary Fund, the World Bank, and other international organizations are concerned to find orderly means by which the changes in current account positions may be financed, and they urged that these organizations should cooperate in finding an early solution to these questions, particularly in relation to the difficult problems facing non-oil producing developing countries. In particular, while recognizing the uncertainties with regard to future developments in the field of energy, the Committee agreed that the proposal of the Managing Director of the International Monetary Fund for a temporary supplementary facility should be urgently explored. It is recognized that such a facility poses operational problems which must be resolved and

would, particularly for non-oil producing developing countries, be only a partial measure, in view of the nature and magnitude of the balance of payments problems created.

3. The Committee expressed its determination to complete its work on the main features of a reformed international monetary system in the coming months. They recognized that, in the light of the recent developments in the world economy noted above, priority should be given to certain important aspects of reform affecting the interests both of developed and developing countries, with a view to their early implementation. Other aspects of reform could be agreed with the understanding that their operational provisions would be developed and implemented at a later date. The Committee agreed that the Deputies should arrange to study the broad question of the transfer of real resources, including all aspects of capitial transfers, and that there should be a report to the next meeting of the Committee.

4. The Committee discussed the valuation and yield of the SDR. They agreed that futher attention should be given to the question of protecting the SDR's capital value against depreciation. In the present circumstances the Committee agreed that, for an interim period and without prejudice to the method of valuation to be adopted in the reformed system, it would be appropriate to base the valuation of the SDR on a "basket" of currencies. They invited the Executive Board to work urgently on the composition of a basket of currencies, the effective interest rate, and other outstanding questions, with a view to early adoption by the Fund of this method of valuation.

5. The Committee discussed certain aspects of the future structure of the International Monetary Fund. They agreed that in the reformed system it would be desirable to establish, between the full Board of Governors and the Executive Directors, a permanent and representative Council of Governors with twenty members. They agreed that the Council should meet regularly, three or four times a year as required, and should have the necessary decision-making powers to manage and adapt the monetary system, to oversee the continuing operation of the adjustment process, and to deal with sudden disturbances which might threaten the system, while maintaining the role of the Executive Board. As an interim step, pending the establishment of the Council, it was agreed that a Committee of the Board of Governors should be created, with an advisory role in the same areas as the Council and with the same composition and procedures. This Committee would come into being when the Committee of Twenty has completed its work. The Executive Board was invited to prepare for the Board of Governors a draft resolution to create such a Committee, giving due consideration to the need for adequate consultative machinery and the protection of the interests of all Fund members.

6. The Committee received reports form the Chairman of the Deputies on the progress of the Technical Groups set up after the Nairobi meeting and urged them to complete their work if possible before the next meeting of the Deputies. They also received a report on the Deputies' preliminary discussion of conditions and rules for floating in the reformed system. They instructed the Deputies, in cooperation with the Executive Board, to continue to work on these questions and to report to the next meeting of the Committee.

7. The Committee discussed their future program. They agreed that, following meetings of the Deputies in March and May, the Committee would aim to complete its work on the reform at a meeting to be held in Washington on June 12–13, 1974.

June 13, 1974

1. The Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System and Related Issues (the Committee of

Twenty) held its sixth and final meeting in Washington on June 12–13, 1974, under the chairmanship of Mr. Ali Wardhana, Minister of Finance for Indonesia. Mr. Johannes Witteveen, Managing Director of the International Monetary Fund, took part in the meeting, which was also attended by Mr. Gamani Corea, Secretary-General of the UNCTAD, Mr. Frederic Boyer de la Giroday, Director of Monetary Affairs of the EEC, Mr. René Larre, General Manager of the BIS, Mr. Emile van Lennep, Secretary-General of the OECD, Mr. Olivier Long, Director-General of the GATT, and Sir Denis Rickett, Vice President of the IBRD.

2. The Committee concluded its work on international monetary reform; agreed on a program of immediate action; and reviewed the major problems arising from the current international monetary situation.

3. The program of immediate action is as follows:

(*a*) Establishment of an Interim Committee of the Board of Governors of the Fund with an advisory role, pending establishment by an amendment of the Articles of Agreement of a Council with such decision-making powers as are conferred on it.

(*b*) Strengthening of Fund procedures for close international consultation and surveillance of the adjustment process.

(*c*) Establishment of guidelines for the mangement of floating exchange rates.

(*d*) Establishment of a facility in the Fund to assist members in meeting the initial impact of the increase in oil import costs.

(*e*) Provision for countries to pledge themselves on a voluntary basis not to introduce or intensify trade or other current account measures for balance of payments purposes without a finding by the Fund that there is balance of payments justification for such measures.

(*f*) Improvement of procedures in the Fund for management of global liquidity.

(*g*) Further international study in the Fund of arrangements for gold in the light of the agreed objectives of reform.

(*h*) Adoption for an interim period of a method of valuation of the SDR based on a basket of currencies and of an initial interest rate on the SDR of 5 per cent.

(*i*) Early formulation and adoption of an extended Fund facility under which developing countries would receive longer-term balance of payments finance.

(*j*) Reconsideration by the Interim Committee, simultaneously with the preparation by the Executive Board of draft amendments of the Articles of Agreement, of the possibility and modalities of establishing a link between development assistance and SDR allocation.

(*k*) Establishment of a joint ministerial Committee of the Fund and the World Bank to carry forward the study of the broad question of the transfer of real resources to developing countries and to recommend measures.

(*l*) Preparation by the Executive Board of draft amendments of the Articles of Agreement for further examination by the Interim Committee and for possible recommendation at an appropriate time to the Board of Governors.

These measures are described in more detail in the statement attached to this communiqué.

4. Members of the Committee expressed their serious concern at the acceleration of inflation in many countries. They agreed on the urgent need for stronger action to combat inflation, so as to avoid the grave social, economic, and financial problems that would otherwise arise. They recognized that, while international monetary arrangements

can help to contain this problem, the main reponsibility for avoiding inflation rests with national governments. They affirmed their determination to adopt appropriate fiscal, monetary, and other policies to this end. In the discussion members of the Committee urged that the multilateral trade negotiations in the framework of the GATT should continue to be regarded as a matter of priority.

5. The Committee noted that, as a result of inflation, the energy situation, and other unsettled conditions, many countries are experiencing large current account deficits that need to be financed. The Committee recognized that sustained cooperation would be needed to ensure appropriate financing without endangering the smooth functioning of private financial markets and to avert the danger of adjustment action that merely shifts the problem to other countries. Particular attention was drawn to the pressing difficulties of the most severely affected developing countries. Members of the Committee therefore strongly emphasized their request to all countries with available resources and to development finance institutions to make every effort to increase the flow of financial assistance on concessionary terms to these countries.

6. In concluding its work on international monetary reform, the Committee agreed to transmit a final Report on its work, together with an *Outline of Reform*, to the Board of Governors. These documents will be published shortly.[3]

Detailed Statement of Immediate Steps to Assist the Functioning of the International Monetary System

Introduction

1. The Committee recognizes that it will be some time before a reformed system can be finally agreed and fully implemented. It therefore proposes that, in the interim period, the Fund and member countries should pursue the general objectives set out in paragraph 1 of the *Outline* and should observe, so far as they are applicable, the principles contained in Part I of the *Outline*. It further proposes that a number of steps should be taken immediately to begin an evolutionary process of reform and to help meet the current problems facing both developed and developing countries, and calls upon members to collaborate with the Fund and with each other to give effect to those proposals as set out below.

Interim Committee of the Board of Governors on the International Monetary System

2. The Committee recommends the establishment of an Interim Committee of the Board of Governors on the International Monetary System, with an advisory role in those areas in which the Council referred to in paragraph 31 of the *Outline* will have decision-making powers, namely, in supervising the management and adaptation of the monetary system, overseeing the continuing operation of the adjustment process, and dealing with sudden disturbances which might threaten the system. It notes that the Executive Directors are accordingly preparing for adoption by the Board of Governors a resolution to establish the Interim Committee. It is envisaged that the new Committee will hold its first meeting at the time of the Annual Meeting in September.

The adjustment process

3. The Committee recognizes that in the interim period, with significant changes in prospect for the world balance of payments structure, there is a need for close interna-

[3] The Report and the *Outline of Reform* were made public the following day, i.e., on June 14, 1974. See above, pp. 165–96.

tional consultation and surveillance of the adjustment process. It recommends that countries should be guided in their adjustment action by the general principles set out in paragraph 4 of the *Outline*. It calls upon members to cooperate with one another and with international institutions, during the current period of exceptional and widespread payments imbalances, to find orderly means to deal with these imbalances without adopting policies that would aggravate the problems of other countries, and to promote equilibrating capital flows; in this connection the Committee has endorsed the immediate establishment of a facility in the Fund to assist members in meeting the initial impact of the increase in oil import costs. The Committee calls upon the Fund to exercise surveillance of the adjustmnt process through the Council (or, for the time being, the Interim Committee of the Board of Governors) and the Executive Directors, on the lines of the procedures set out in paragraphs 5–10 of the *Outline*, and subject for the time being to the following provisos, namely that:

(*a*) the Fund will seek to gain further experience in the use of objective indicators, including reserve indicators, on an experimental basis, as an aid in assessing the need for adjustment, but will not use such indicators to establish any presumptive or automatic application of pressures;

(*b*) determination of what is a disproportionate movement in reserves will be made in the light of the broad objectives of member countries for the development of their reserves over a period ahead, as discussed with the Fund; and

(*c*) the pressures which may be applied to countries in large and persistent imbalance will continue to be those at present available to the Fund.

Exchange rates

4. The Committee stresses that, during the interim period, exchange rates will continue to be a matter for international concern and consultation and attaches particular importance to the avoidance of competitive depreciation or undervaluation. The Committee notes with satisfaction that in accordance with its recommendation the Executive Directors are adopting a decision on guidelines for the management of floating exchange rates during the present period of widespread floating.

Controls

5. The Committee recommends that, during the interim period, countries should be guided by the principles set out in paragraphs 14–17 of the *Outline* in relation to controls and to cooperative action to limit disequilibrating capital flows. The Committee attaches particular importance to the avoidance of the escalation of restrictions on trade and payments for balance of payments purposes during the interim period. The Committee invites members to subscribe on a voluntary basis to the Declaration concerning trade and other current account measures for balance of payments purposes.[4] The Committee invites the Executive Directors to establish the necessary procedures in connection with the Declaration, and to make arrangements for continuing close coordination with the GATT.

Global liquidity

6. (*a*) The Committee calls upon members to cooperate with the Fund during the interim period in seeking to promote the principle of better management of global liquidity as set out in paragraph 2(*d*) of the *Outline*. It recommends that the Fund should assess global reserves and take decisions on the allocation and cancellation of SDRs in accordance with paragraph 25 of the *Outline*, and should periodically review the aggregate

[4] See Appendix to Part II of the *Outline*, above, p. 176–77.

volume of official currency holdings in accordance with paragraph 19 of the *Outline* and, if they are judged to show an excessive increase, should consider with the countries concerned what steps might be taken to secure an orderly reduction.

(*b*) The Committee further recommends that the Fund should give consideration to substitution arrangements.

(*c*) Finally, the Committee recommends that there should be further international study in the Fund of arrangements for gold in the light of the agreed objectives of reform.

Valuation of the SDR

7. The Committee notes with satisfaction that, following its recommendation concerning the interim valuation and interest rate of the SDR, the Executive Directors are adopting decisions on these questions.

The special interests of developing countries

8. The Committee recognizes the serious difficulties that are facing many developing countries, and agrees that their needs for financial resources will be greatly increased. It urges all members with available resources to make every effort to supply these needs on appropriate terms. To this end it calls upon countries with available resources and upon development finance institutions to make arrangements to increase the flow of concessionary funds, and to give consideration to various measures, including the redistribution of aid effort in favor of countries in greatest need, interest subsidies,and short-term debt relief on official loans in the special case of countries without access to financial markets. The Committee urges the Executive Board to proceed to an early formulation and adoption of a new facility in the Fund under which developing countries would receive longer-term balance of payments finance. The Committee is not unanimous on the question of establishing a link between development assistance and SDR allocation. The Committee is agreed that the Interim Committee should reconsider, simultaneously with the preparation by the Executive Board of draft amendments of the Articles of Agreement, which it is envisaged would be presented for the approval of the Board of Governors by February 1975, the possibility and modalities of establishing such a link.

Ministerial committee on the transfer of real resources

9. The Committee recommends the establishment of a joint ministerial committee of the Fund and the World Bank to carry forward the study of the broad question of the transfer of real resources to developing countries, and to recommend measures to be adopted in order to implement its conclusions. It invites the Managing Director to discuss with the President of the World Bank the preparation of appropriate parallel draft resolutions on the establishment of such a joint ministerial committee for adoption by the respective Boards of Governors. It recommends that the joint ministerial committee should also give urgent attention to the problems of the developing countries most seriously affected by exceptional balance of payment difficulties in the current situation, bearing in mind the need for coordination with other international bodies, and that preparatory work on this aspect should be started immediately, in advance of the establishment of the committee.

General review of quotas

10. The Committee notes that work has started on the current general review of Fund quotas and urges the Executive Directors to complete their work as soon as possible, bearing in mind the general purposes of the reform.

Amendments of the Articles of Agreement

11. The Committee has asked the Executive Board to prepare draft amendments of the Articles of Agreement, as needed to give effect to Part II of the *Outline* or as otherwise desired, for further examination by the Interim Committee, and for possible recommendation at an appropriate time to the Board of Governors. In particular, draft amendments should be prepared on the following proposals:

(*a*) to establish the Council referred to in paragraph 31 of the *Outline*;

(*b*) to enable the Fund to legalize the position of countries with floating rates during the interim period;

(*c*) to give permanent force to the voluntary pledge described in paragraph 5 above concerning trade or other current account measures for balance of payments purposes,

(*d*) to authorize the Fund to establish, as and when agreed, a substitution account;

(*e*) to amend the present provisions concerning gold;

(*f*) to authorize the Fund to implement a link between development assistance and SDR allocation; and

(*g*) to introduce improvements in the General Account and in the characteristics of and rules governing the use of the SDR, as well as any other consequential amendments.

It is envisaged that such draft amendments, if agreed, would be presented for the approval of the Board of Governors at latest by the date fixed for completion of the current general review of Fund quotas,i.e.,by February 1975.

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Completion of Work of the Committee of Twenty

After the ad hoc Committee on Reform of the International Monetary System and Related Issues (Committee of Twenty) had completed its work in June 1974 and had recognized that it would be some time before a reformed international monetary system could be finally agreed and fully implemented, the Boards of Governors of the Fund and the World Bank adopted a parallel composite resolution on October 2, 1974 at the Twenty-Ninth Annual Meetings, in Washington.

The following resolutions, which were part of the composite resolution, formally ended the Committee of Twenty as a special committee of the Board of Governors of the Fund (Resolution No. 29-7) and set out several other steps to be taken immediately so that an "evolutionary process of reform" could begin (Resolution No. 29-10).†

Composite Resolution on the Work of the Ad Hoc Committee on Reform of the International Monetary System and Related Issues and on a Program of Immediate Action

(October 2, 1974)

The Board of Governors having noted:

That the ad hoc Committee on Reform of the International Monetary System and Related Issues, which was established at the Board's 1972 Annual Meeting to advise and report with respect to all aspects of reform of the international monetary system, has now concluded its work; and

That the Chairman of the ad hoc Committee has transmitted its final report ("Report to the Board of Governors of the International Monetary Fund by the Committee on Reform of the International Monetary System and Related Issues") accompanied by an "Outline of Reform" (hereinafter referred to as the Outline), consisting of Part I ("The Reformed System"), which records the outcome of the Committee's discussions and indicates the general direction in which the Commitee believes the system could evolve, and Part II ("Immediate Steps"), which sets out the steps that the Committee agrees should be taken immediately; and

That the Executive Directors have been studying various aspects of the international monetary system and in accordance with the Committee's recommendations on immediate steps in the Report and Outline have adopted certain decisions;

Now, THEREFORE, the Board of Governors hereby takes the following actions:

† The resolutions establishing the Interim Committee (No. 29-8) and the Development Committee (No. 29-9) are reproduced below, pp. 213–15 and 575–78, respectively.

First Resolution (No. 29-7): Final Report of the Ad Hoc Committee on Reform of the International Monetary System and Related Issues

The Board of Governors hereby RESOLVES as follows:

1. The Board of Governors notes the report of the ad hoc Committee on Reform of the International Monetary System and Related Issues.

2. The Board expresses its deep appreciation to the Committee and its Chairman, to the Deputies and their Chairman, and to the Bureau upon the conclusion of their work on international monetary reform for the valuable contribution that they have made both in indicating the general direction in which the international monetary system could evolve in the future and in proposing immediate steps and other measures on which members could collaborate in an evolutionary process of reform.

3. The Committee shall cease to exist on October 2, 1974.

Fourth Resolution (No. 29-10): Other Immediate Steps

The Board of Governors hereby RESOLVES as follows:

1. *Need for Immediate Steps*

The Board of Governors notes the view of the Committee on Reform of the International Monetary System and Related Issues (hereinafter referred to as the Committee) that it will be some time before a reformed system can be finally agreed and fully implemented, and it endorses the Committee's proposal that, in the interim period, the Fund and its members should pursue the general objectives set out in paragraph 1 of the Outline adopted by the Committee and should observe, so far as they are applicable, the principles contained in Part I of the Outline. The Board notes that in Part II of the Outline the Committee proposes that a number of steps should be taken immediately to begin an evolutionary process of reform and to help meet the current problems facing both developed and developing members. The Board of Governors endorses the proposals of the Committee and the Committee's calls upon members to collabrate with the Fund and with each other to give effect to those proposals.

2. *The Adjustment Process*

The Board of Governors notes that the Committee has recognized that in the interim period, with the prospect of significant changes in the structure of balances of payments in the world, there is need for close international consultation and for surveillance of the adjustment process. The Board endorses the Committee's recommendation that members should be guided in their adjustment action by the general principles set out in paragraph 4 of the Outline. The Board endorses the Committee's call to members to cooperate with one another and with international institutions, during the current period of exceptional and widespread payments imbalances, to find orderly means to deal with these imbalances without adopting policies that would aggravate the problems of other members, and to promote equilibrating capital flows. In this connection, the Board of Governors welcomes Decision No. 4241-(74/67), adopted by the Executive Directors on June 13, 1974, to establish a facility in the Fund to assist members in meeting the initial impact of the increase in the cost of oil imports.

The Fund shall exercise surveillance of the adjustment process through the Council when established (and, for the time being, the Interim Committee on the International Monetary System) and the Executive Directors, on the lines of the procedures set out in

paragraphs 5–10 of the Outline, and subject for the time being to the following provisos, namely that:

(*a*) the Fund will seek to gain further experience in the use of the objective indicators, including reserve indicators, on an experimental basis, as an aid in assessing the need for adjustment, but shall not use such indicators to establish any presumptive or automatic application of pressures;

(*b*) determination of what is a disproportionate movement in reserves shall be made in the light of the broad objectives of members for the development of their reserves over a period ahead, as discussed with the Fund; and

(*c*) the pressures that may be applied to members in large and persistent imbalance shall continue to be those at present available to the Fund.

3. *Exchange Rates*

The Board of Governors notes that the Committee has stressed that, during the interim period, exchange rates will continue to be a matter for international concern and consultation, and has attached particular importance to the avoidance of competitive depreciation or undervaluation. The Board endorses these views and notes with satisfaction that in accordance with the Committee's recommendation the Executive Directors have taken Decision No.4232-(74/67), adopted June 13, 1974, on guidelines for the management of floating exchange rates during the present period of widespread floating.

4. *Controls*

The Board of Governors endorses the Committee's recommendation that, during the interim period, countries should be guided by the principles set out in paragraphs 14–17 of the Outline in relation to controls and to cooperative action to limit disequilibrating capital flows. The Board endorses the Committee's view that particular importance must be attached to avoiding the escalation of restrictions on trade and payments for balance of payments purposes during the interim period. The Board endorses the invitation to members to subscribe on a voluntary basis to the Declaration concerning trade and other current account measures for balance of payments purposes attached to the Committee's final communiqué, and requests members to consider subscribing to the Declaration if they have not already done so. The Board notes with satisfaction that the Executive Directors are developing the necessary procedures in connection with the Declaration, and are making arrangements for continuing close cooperation with the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade.

5. *Global Liquidity*

The Board of Governors endorses the Committee's call to members to cooperate with the Fund during the interim period in seeking to promote the principle of better management in global liquidity as set out in paragraph 2(*d*) of the Outline. In accordance with the Committee's recommendation, the Fund shall assess global reserves and take decisions on the allocation and cancellation of special drawing rights consistently with paragraph 25 of the Outline. The Fund shall periodically review the aggregate volume of official currency holdings in accordance with paragraph 19 of the Outline and, if they are judged to show an excessive increase, the Fund shall consider with the members concerned what steps might be taken to secure an orderly reduction.

In accordance with the Committee's recommendation, the Fund shall give consideration to substitution arrangements.

In accordance with the Committee's recommendation, the Fund shall give further study to arrangements for gold in the light of the agreed objectives of reform.

6. Valuation of the Special Drawing Right

The Board of Governors notes with satisfaction that, following the Committee's recommendation concerning the interim valuation and interest rate of the special drawing right, the Executive Directors have taken the following decisions on these questions: No. 4233-(74/67) S, adopted June 13, 1974; No. 4234-(74/67) S, adopted June 13, 1974; No. 4236-(74/67) S, adopted June 13,1974; No. 4257-(74/76), adopted June 28, 1974; and No. 4261-(74/78) S, adopted July 1, 1974. These decisions provide for an interim valuation of the special drawing right without prejudice to the method of valuation to be adopted in a reformed system.

7. The Special Interests of Developing Countries

The Committee has recognized the serious difficulties that are facing many developing members, and has agreed that their needs for financial resources will be greatly increased. It has urged all members with available resources to make every effort to supply these needs on appropriate terms. To this end, the Committee has called upon members with available resources and upon development finance institutions to make arrangements to increase the flow of concessionary funds, and to give consideration to various measures including the redistribution of aid effort in favor of members in greatest need, interest subsidies, and short-term debt relief on official loans in the special circumstances of members without access to financial markets. The Board of Governors notes with satisfaction that, following the Committee's recommendation, the Executive Directors have taken Decision No. 4377-(74/114), adopted September 13, 1974, to establish a new facility in the Fund under which developing members in particular are likely to receive balance of payments finance for longer periods and in amounts larger in relation to quota than has been the practice under existing tranche policies. The Board notes that the Committee is not unanimous on the question of establishing a link between development assistance and the allocation of special drawing rights and invites the Interim Committee established by the Second Resolution to consider the possibility and modalities of establishing such a link simultaneously with the preparation by the Executive Directors of draft amendments of the Articles of Agreement, which it is envisaged would be presented for the approval of the Board by February 1975.

8. General Review of Quotas

The Board of Governors endorses the Committee's request to the Executive Directors to complete, as soon as possible, their work on the current general review of quotas, and in doing so to bear in mind the general purposes of the reform.

9. Amendments to the Articles of Agreement

The Board of Governors notes that certain of the immediate steps recommended in Part II of the Outline require amendment of the Articles of Agreement, and that, following the Committee's recommendation in paragraph 41 of the Outline, the Executive Directors have begun their consideration of draft amendments of the Articles of Agreement to give effect to this Part of the Outline or as otherwise desired.

The Board requests the Executive Directors to transmit any draft amendments that they prepare pursuant to paragraph 41 of the Outline to the Interim Committee for consideration in accordance with paragraph 3(ii) of the Second Resolution and, if agreed, for presentation to the Board of Governors for its approval.

PART THREE

The Interim Committee

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Establishment of the Interim Committee

The Interim Committee of the Board of Governors on the International Monetary System (Interim Committee) was established on October 2, 1974 under a parallel composite resolution† adopted by the Boards of Governors of the Fund and the World Bank at the Twenty-Ninth Annual Meetings, in Washington. The Committee was expected to serve as a high-level advisory body after the Committee of Twenty ceased to exist and until such time as amendments to the Articles of Agreement, which were to include provision for a permanent Council of Governors, were approved and a Council was established. The amended Articles, which included a provision for a Council of Governors, came into force on April 1, 1978. However, at the time this History was being completed, at the end of 1984, the Council had not yet been established, and the Interim Committee was continuing to meet.

Composite Resolution on the Work of the Ad Hoc Committee on Reform of the International Monetary System and Related Issues and on a Program of Immediate Action

(October 2, 1974)

Second Resolution (No. 29-8): Establishment of an Interim Committee of the Board of Governors on the International Monetary System

WHEREAS the Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System and Related Issues has referred to the desirability of establishing by amendment of the Articles of Agreement a permanent and representative Council with appropriate powers; and

WHEREAS it is desirable, pending the establishment of the Council, to establish an Interim Committee of the Board of Governors on the International Monetary System with an advisory role, and with a composition similar to that of the Council; and

WHEREAS it is desirable that the Interim Committee shall come into existence when the Committee on Reform of the International Monetary System and Related Issues ceases to exist;

NOW, THEREFORE, the Board of Governors hereby RESOLVES as follows:

1. *Composition of the Interim Committee*

(a) There shall be established an Interim Committee of the Board of Governors on the International Monetary System. The members of the Committee shall be governors of the Fund, ministers, or others of comparable rank. Each member of the Fund that appoints an executive director and each group of members of the Fund that elected an exec-

† The resolutions formally ending the Committee of Twenty (No. 29-7) and setting out other immediate steps (No. 29-10) are reproduced above, pp. 207–10. The resolution establishing the Development Committee (No. 29-9) is reproduced below, pp. 575–78.

utive director on or after the date on which the last regular election took place shall appoint

(i) one member of the Committee, and not more than

(ii) seven associates.

Each member of the Committee and each associate shall serve until a new appointment is made.

(*b*) Members of the Committee, associates, and executive directors or in their absence their alternates, shall be entitled to attend meetings of the Committee, unless the Committee decides to hold a more restricted session. Each member of the Fund that appoints an executive director and each group of members of the Fund referred to in (a) above may designate an alternate to participate in the place of the member of the Committee at any meeting when he is not present. Participation in respect of each item on the agenda of a meeting shall be limited to one person, who shall be a member of the Committee, an associate, or an executive director.

(*c*) The Committee shall select a Chairman, who shall serve for such period as the Committee determines. The Chairman of the Board of Governors, or a governor designated by him, shall convene the first meeting of the Committee and shall preside over it until a Chairman has been selected.

(*d*) The Managing Director shall be entitled to participate in all meetings of the Committee, and may designate a representative to participate in his place at any meeting when he is not present. The Managing Director or his representative may be accompanied normally by not more than two members of the staff, unless the Committee decides to hold a restricted session.

2. *Representation of Members Not Entitled to Appoint a Member of the Committee*

A member of the Fund not entitled to appoint a member of the Committee may send a representative to participate in any meeting of the Committee when a request made by, or a matter particularly affecting, that member is under consideration. The Committee shall determine, upon request by the member, whether a matter under consideration particularly affects the member.

3. *Terms of Reference*

The Committee shall advise and report to the Board of Governors with respect to the functions of the Board of Governors in:

(i) supervising the management and adaptation of the international monetary system, including the continuing operation of the adjustment process, and in this connection reviewing developments in global liquidity and the transfer of real resources to developing countries;

(ii) considering proposals by the Executive Directors to amend the Articles of Agreement; and

(iii) dealing with sudden disturbances that might threaten the system.

In addition, the Committee shall advise and report to the Board of Governors on any other matters on which the Board of Governors may seek the advice of the Committee.

In performing its duties, the Committee shall take account of the work of other bodies having specialized responsibilities in related fields.

4. *Procedures*

(*a*) The Committee shall meet ordinarily three or four times a year. The Chairman may call meetings after consulting the members of the Committee, and shall consult the

members of the Committee on calling a meeting if so requested by any member of the Committee.

(*b*) A quorum for any meeting of the Committee shall be two thirds of the members of the Committee.

(*c*) Meetings of the Committee shall be held within the metropolitan area in which the Fund has its principal office, or at such other places as the Committee may provide or, in the absence of such provision, as the Chairman shall determine after consulting the members of the Committee.

(*d*) Appropriate arrangements shall be made for the effective coordination of the work of the Committee and of the Executive Directors. The Secretary of the Fund shall serve as the Secretary of the Committee.

(*e*) In reporting any recommendations or views of the Committee, the Chairman shall seek to establish a sense of the meeting. In the event of a failure to reach a unanimous view, all views shall be reported, and the members holding such views shall be identified. Reports of the Committee shall be made available to the Executive Directors.

(*f*) The Committee may invite observers to attend during the discussion of an item on the agenda of a meeting, and may determine any aspect of its procedure that is not established by this Resolution.

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Communiqués of the Interim Committee

The communiqués of the Interim Committee of the Board of Governors on the International Monetary System (Interim Committee) that were issued from October 3, 1974 through September 24, 1978 are reproduced below.

October 3,1974

The Interim Committee of the Board of Governors on the International Monetary System held its inaugural meeting in Washington on October 3, 1974. The meeting was convened by Mr. Henri Konan Bédié, Chairman of the Board of Governors. Mr. John N. Turner, Minister of Finance of Canada, was selected as Chairman of the Committee for a period of two years. Mr. H. Johannes Witteveen, the Managing Director of the International Monetary Fund, participated in the meeting.

The members of the Committee had an exchange of views on the current situation and the prospects for the year ahead as it related to the business of the Committee.

The Committee reviewed the problem of recycling, and agreed to ask the Executive Directors to consider in this context, as a matter of urgency, the adequacy of existing private and official financing arrangements, and to report on the possible need for additional arrangements, including enlarged financing arrangements through the Fund, and to make proposals for dealing with the problem. The Committee also intends to discuss as a matter of priority the adjustment process, quotas in the Fund, and amendments of its Articles, including amendments on gold and the link, among other subjects.

The members of the Committee decided that their next meeting should take place on January 15-16, 1975, in Washington.

The terms of reference of the Committee are as follows:

"The Committee shall advise and report to the Board of Governors with respect to the functions of the Board of Governors in:

(i) supervising the management and adaptation of the international monetary system, including the continuing operation of the adjustment process, and in this connection reviewing developments in global liquidity and the transfer of real resources to developing countries;

(ii) considering proposals by the Executive Directors to amend the Articles of Agreement; and

(iii) dealing with sudden disturbances that might threaten the system.

In addition, the Committee shall advise and report to the Board of Governors on any other matters on which the Board of Governors may seek the advice of the Committee.

In performing its duties, the Committee shall take account of the work of other bodies having specialized responsibilities in related fields."

January 15–16, 1975

1. The Interim Committee of the International Monetary Fund held its second meeting in Washington, D.C., on January 15 and 16, 1975. Mr. John N. Turner, Minister of Finance of Canada, was in the chair. Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund, participated in the meeting. The following observers attended during the Committee's discussions of the matters referred to in paragraphs 2, 3, and 4 below: Mr. Henri Konan Bédié, Chairman, Bank-Fund Development Committee; Mr. Gamani Corea, Secretary-General, UNCTAD; Mr. Wilhelm Haferkamp, Vice President, EC Commission; Mr. Mahjoob A. Hassanain, Chief, Economics Department, OPEC; Mr. René Larrre, General Manager, BIS; Mr. Emile van Lennep, Secretary-General, OECD; Mr. Olivier Long, Director-General, GATT; Mr. Robert S. McNamara, President, IBRD.

2. The Committee discussed the world economic outlook and against this background the international adjustment process. Great concern was expresed about the depth and duration of the present recessionary conditions. It was urged that antirecessionary policies should be pursued while continuing to combat inflation, particularly by countries in a relatively strong balance of payments position. It was observed that very large disequilibria persist not only between major oil exporting countries as a group and all other countries but also among countries in the latter group, particularly between industrial and primary producing countries. Anxiety was also voiced that adequate financing might not become available to cover the very large aggregate current account deficits, of the order of US$30 billion, in prospect for the developing countries other than major oil exporters in 1975.

3. The Committee agreed that the oil facility should be continued for 1975 on an enlarged basis. They urged the Managing Director to undertake as soon as possible discussions with major oil exporting members of the Fund, and with other members in strong reserve and payments positions, on loans by them for the purpose of financing the facility. The Committee agreed on a figure of SDR 5 billion as the total of loans to be sought for this purpose. It was also agreed that any unused portion of the loans negotiated in 1974 should be available in 1975. The Committee agreed that, in view of the uncertainties inherent in present world economic conditions, it was necessary to keep the operation of the oil facility under constant review so as to be able to take whatever further action might be necessary in the best interests of the international community. It was also understood that during the coming months it would be useful to review the policies, practices, and resources of the Fund, since it would be appropriate to make increased use of the Fund's ordinary holdings of currency to meet the needs of members that were encountering difficulties.

4. The Committee emphasized the need for decisive action to help the most seriously affected developing countries. In connection with the oil facility, the Committee fully endorsed the recommendation of the Managing Director that a special account should be established with appropriate contributions by oil exporting and industrial countries, and possibly by other members capable of contributing, and that the Fund should administer this account in order to reduce for the most seriously affected members the burden of interest payable by them under the oil facility.

5. The Committee considered questions relating to the sixth general review of the quotas of members, which is now under way, and agreed, subject to satisfactory amendment of the Articles, that the total of present quotas should be increased by 32.5 per cent and rounded up to SDR 39 billion. It was understood that the period for the next general review of quotas would be reduced from five years to three years. The Committee also agreed that the quotas of the major oil exporters should be substantially increased by

doubling their share as a group in the enlarged Fund, and that the collective share of all other developing countries should not be allowed to fall below its present level. There was a consensus that because an important purpose of increases in quotas was strengthening the Fund's liquidity, arrangements should be made under which all the Fund's holdings of currency would be usable in accordance with its policies. The Committee invited the Executive Directors to examine quotas on the basis of the foregoing understandings, and to make specific recommendations as promptly as possible on increases in the quotas of individual member countries.

6. I. The Committee considered the question of amendment of the Articles of Agreement of the Fund. It was agreed that the Executive Directors should be asked to continue their work on this subject and, as soon as possible, submit for consideration by the Committee draft amendments on the following subjects:

(*a*) The transformation of the Interim Committee into a permanent Council at an appropriate time, in which each member would be able to cast the votes of the countries in his constituency separately. The Council would have decision-making authority under powers delegated to it by the Board of Governors.

(*b*) Improvements in the General Account, which would include (i) elimination of the obligation of member countries to use gold to make such payments to the Fund as quota subscriptions and repurchases and the determination of the media of payment, which the Executive Directors would study, and (ii) arrangements to ensure that the Fund's holdings of all currencies would be usable in its operations under satisfactory safeguards for all members.

(*c*) Improvements in the characteristics of the SDR designed to promote the objective of making it the principal reserve asset of the international monetary system.

(*d*) Provision for stable but adjustable par values and the floating of currencies in particular situations, subject to appropriate rules and surveillance of the Fund, in accordance with the *Outline of Reform*.

II. The Committee also discussed a possible amendment that would establish a link between allocations of SDRs and development finance, but there countinues to be a diversity of views on this matter. It was agreed to keep the matter under active study, but at the same time to consider other ways for increasing the transfer of real resources to developing countries.

7. The Committee also agreed that the Executive Directors should be asked to consider possible improvements in the Fund's facilities on the compensatory financing of export fluctuations and the stabilization of prices of primary products and to study the possibility of an amendment of the Articles of Agreement that would permit the Fund to provide assistance directly to international buffer stocks of primary products.

8. There was an intensive discussion of future arrangements for gold. The Committee reaffirmed that steps should be taken as soon as possible to give the special drawing right the central place in the international monetary system. It was generally agreed that the official price for gold should be abolished and obligatory payments of gold by member countries to the Fund should be eliminated. Much progress was made in moving toward a complete set of agreed amendments on gold, including the abolition of the official price and freedom for national monetary authorities to enter into gold transactions under certain specific arrangements, outside the Articles of the Fund, entered into between national monetary authorities in order to ensure that the role of gold in the international monetary system would be gradually reduced. It is expected that after further study by the Executive Directors, in which the interests of all member countries would be taken

into account, full agreement can be reached in the near future so that it would be possible to combine these amendments with the package of amendments as described in paragraphs 6 and 7 above.

9. The Committee agreed to meet again in the early part of June 1975 in Paris, France.

June 10–11, 1975

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its third meeting in Paris on June 10 and 11, 1975 under the chairmanship of Mr. John N. Turner, Minister of Finance of Canada. Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund, participated in the meeting. The following observers attended during the Committee's discussions: Mr. Henri Konan Bédié, Chairman, Bank-Fund Development Committee; Mr. Gamani Corea, Secretary General, UNCTAD; Mr. Wilhelm Haferkamp,Vice President, EC Commission; Mr. Bahman Karbassioun, Advisor to the Secretary-General of OPEC; Mr. René Larre, General Manager, BIS; Mr. Emile van Lennep, Secretary-General, OECD; Mr. F. Leutwiler, President, National Bank of Switzerland; Mr. Olivier Long, Director-General, GATT; Mr. Robert S. McNamara, President, IBRD.

2. The Committee received opinions, including that of the Managing Director, on the world economic outlook and its implications for the management of domestic policies and international financial relationships. The Committee agreed that external financing would remain for some time a critical problem for a number of countries and that its solution would require both maximum efforts on the part of such countries to enhance their creditworthiness and cooperative efforts in capital exporting countries to encourage the needed flows of financial resources.

3. The Committee noted that, in accordance with the consensus reached in the Committee at its January meeting, the Executive Directors of the Fund have decided to continue in 1975 the Fund's oil facility and that in order to finance purchases under that facility, loans for substantial amounts have already been arranged with several oil exporting members and a number of other members in strong external positions. The Committee noted that negotiations would be continued in order to complete arrangements for the financing of the oil facility. The Committee welcomed the progress that has been make toward the establishment of a subsidy account to assist the members of the Fund most seriously affected by current conditions to meet the cost of using resources made available to them through the oil facility. The Committee welcomes the support pledged so far and urges other members to take similar action so that the account can be established as soon as possible. The Committee endorsed the decision of the Executive Directors to review all aspects of the facility in July 1975.

4. The Committee held a detailed discussion of the role of gold and there was widespread agreement that a solution would have to be based on the following broad principles:

(i) The objective should be an enhancement in the role of the SDR as the central asset in the international monetary system and, consequently, a reduction of the role of gold.

(ii) The official price of gold should be abolished.

(iii) Obligations to use gold in payments between the Fund and members should be abrogated.

(iv) There should be the sale of a portion of the Fund's gold at the approximate market price for the benefit of developing members in general, and particularly those with low income, and the sale of another portion to members at the present official price.

(v) With respect to the rest of the Fund's gold, there should be a range of broad enabling powers, exercisable with a high majority.

(vi) A reasonable formula should be found for understandings on transactions by monetary authorities with each other and in the market, which would include understandings that would be designed to avoid the re-establishment of an official price and would deal with the volume of gold held by monetary authorities.

(vii) An appropriate formula should be found for collaboration with the Fund in connection with the understandings among monetary authorities. Some countries felt that this collaboration should relate also to the reduction of the role of reserve currencies in the international monetary system.

The Committee was of the view that the Executive Directors should be asked to study the question of gold further in order that a final agreement can be reached on the basis of these principles.

The Executive Directors should study the establishment of a gold substitution account through which members would be able to exchange a part or all of their gold holdings for SDRs issued by the Fund for this purpose.

5. The Committee also discussed the exchange arrangements that members of the Fund should observe. There was widespread agreement that members should have a basic obligation to collaborate with the Fund and with other members in order to promote exchange stability, to maintain orderly exchange arrangements, and to pursue exchange policies that contribrute to adjustment, and that the Fund should adopt policies that contribute to adjustment, and that the Fund should adopt policies in order to enable members to act consistently with their basic obligations whatever their exchange arrangements might be. The Committee reiterated its agreement that provision should be made for stable but adjustable par values and the floating of currencies in particular situations, subject to appropirate rules and surveillance of the Fund, in accordance with the *Outline of Reform*.

6. The Committee endorsed the principle of the improvement of the Special Drawing Account and the General Account and agreed that the Executive Directors should be asked to find agreed solutions on the few remaining issues. The Committee attached particular importance to the inclusion of effective provisions in the amended Articles under which the Fund's holdings of the currencies of all members would be usable, in accordance with appropriate economic criteria, in its standard operations and transactions. It was agreed that the Executive Directors should study a power to invest a part of the Fund's assets equal to its reserves for the purpose of raising income that would enable it to meet any administrative or operational deficits, and to report on this subject as soon as possible.

7. (*a*) It was agreed that a Council should come into being when a decision is taken by the Fund for that purpose under an appropriate amendment. The Council would strengthen the Fund by providing it with an organ composed in the same manner as the Committee of Twenty and the Interim Committee but with authority not only to exercise advisory functions but also to take decisions under specific powers. The Committee shares the view of the Executive Directors that, except for a few powers of a political or structural character that should be reserved to the Board of Governors, all powers of the Board of Governors should be delegable in principle to the Council, to the Executive Directors, or to both concurrently, by decisions of the Board of Governors.

(*b*) On the question of the majorities for the adoption of decisions of the Fund on important matters, it was agreed that an 85 per cent majority should be required under the amended Articles for those decisions that can be taken now by an 80 per cent majority.

(*c*) The Committee noted with approval the draft of an amendment by which amendments to the Articles would become effective when accepted by three fifths of the members having 85 per cent, instead of 80 per cent as at present, of the total voting power.

8. The Committee considered various proposals to assist members in dealing with problems arising from sharp fluctuations in the prices of primary products. In this connection, the Committee requested the Executive Directors to consider appropriate modifications of the Fund's facilities on the compensatory financing of export fluctuations and on assistance to members in connection with their contributions to international buffer stocks. It was agreed that, after amendment, a member using the Fund's buffer stock facility would be able to retain any portion of its reserves held in the form of a reserve position in the Fund; this provision now applies to drawings under the Fund's compensatory financing facility.

9. The Committee considered the report of the Executive Directors on the progress made toward implementation of the understandings reached in the Committee last January with regard to increases in the quotas of members as a result of the Sixth General Review of Quotas. The Committee noted with satisfaction that progress had been made in reaching agreement on quota increases to be proposed for individual countries. The Committee agreed that for the quota increases proposed as a result of this review, and subject to the amendment of the Articles, members should be given an option to pay 25 per cent of the increase in quota (which in the past members have had to pay in gold) in special drawing rights (SDRs), the currencies of certain other members, subject to their concurrence, or in the paying member's own currency. The question of payment in gold by agreement with the Fund would be settled as part of the provisions on gold. The balance of the increase in subscription would be paid, as in the past, in the paying member's own currency. The Committee also recommended that there should be no obligation for a member to repurchase the amount of its own currency paid in excess of 75 per cent of the increase in its quota. The Executive Directors have been asked to prepare and submit as promptly as possible to the Board of Governors, for consideration at its annual meeting in September 1975, a resolution that will include proposed increases in the quotas of individual members and provisions on the payment of corresponding subscriptions on the basis of the undertandings reached by the Committee.

10. The Committee agreed to meet again in Washington, D.C., immediately before the Annual Meeting of the Board of Governors. The Committee agreed to meet in Jamaica in January and expressed its gratitude to the Jamaican authorities for the invitation.

August 31, 1975

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its fourth meeting in Washington, D.C., on August 31, 1975 under the chairmanship of Mr. John N. Turner, Minister of Finance of Canada. Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund, participated in the meeting. The following observers attended during the Committee's discussions: Mr. Henri Konan Bédié, Chairman, Bank-Fund Development Committee; Mr. Gamani Corea, Sec-

retary-General, UNCTAD; Mr. Wilhelm Haferkamp, Vice-President, EC Commission; Mr. René Larre, General Manager, BIS; Mr. Emile van Lennep, Secretary-General, OECD; Mr. F. Leutwiler, President, National Bank of Switzerland; Mr. Robert S. McNamara, President, IBRD; and Mr. Gardner Patterson, Deputy Director-General, GATT.

2. The Committee had a discussion of the world economic situation and outlook, and expressed its concern about the current severe problems of recesssion and unemployment, balance of payments disequilibria, and inflation. The Committee felt that industrial countries which have slack domestic demand conditions and relatively strong balance of payments positions, and which have made progress in reducing inflation, should lead in the promotion of a satisfactory rate of expansion in world trade and activity. The Committee believed that, on the basis of such a coordinated policy approach, a resumption of economic growth might be expected for the industrial world during the latter part of 1975 or the first half of 1976. Although rates of price increase in industrial countries have generally been subsiding, the Committee noted the disturbing fact that economic recovery in the industrial world will get under way with rates of inflation still unacceptably high.

Throughout the Committee's discussion, particular concern was expressed for the many primary producing countries, and especially the developing countries, whose current account deficits have been greatly enlarged by the increase in import costs and the downturn in global demand. Resumption of growth in world trade is urgently needed to alleviate the plight of such countries. Moreover, the Committee feared that, unless they were able to obtain adequate financing, many primary producing countries might have difficulty in fending off pressures to restrain imports, either through deflationary demand measures that would undermine their development efforts or through resort to trade restrictions. In view of these dangers, the Committee expressed the hope that the Executive Board would consider various steps that might be taken by the Fund to meet the present urgent need for a greater volume of financing.

3. The Committee noted the improvements in the 1975 oil facility introduced as a result of the July review by the Executive Directors and endorsed the efforts now in progress to raise the amount of resources that the Fund would be able to borrow for the financing of purchases under that facility to the total of SDR 5 billion that was agreed at the meeting of the Committee in January 1975. The Committee also endorsed the intention of the Executive Directors to have another review of the 1975 oil facility at an early date, one purpose of which would be to determine what action needs to be taken in the best interests of the international community, and also to undertake at about the same time a broader examination of the Fund's policies on the use of its resources.

4. The Committee welcomed the establishment of a Subsidy Account to assist those members that have been most seriously affected by the current situation to meet the cost of using the oil facility and commended those members that have already stated their willingness to make contributions to that account. At the same time, the Committee expressed concern at the fact that the total amount of the contributions by members that have already stated their willingness to contribute is substantially short of the total support that was contemplated and urged those members that have not yet pledged their support to make every effort to do so as soon as possible.

5. The Committee noted the progress made by the Executive Directors on the Sixth General Review of Quotas within the framework of the understandings reached at previous meetings of the Committee. The Committee noted the agreement on increases in the quotas of almost all members. In particular, the increases for the industrial countries and for the major oil exporting members have been agreed. The differences that remain among the other members are few and are expected to be resolved soon. The Committee asked the Executive Direc-

tors to prepare and submit to the Board of Governors a resolution on increases in the quotas of individual members. The Committee also asked the Executive Directors to complete their work on the mode of payment of the increases in quotas on the basis of the understandings already reached in the Committee so that appropriate recommendations can be submitted to the Board of Governors at the same time as the resolution on increases in quotas. The Committee reiterated its view that all of the Fund's holdings of currency should be usable in its transactions. The Committee agreed that on the question of majorities for the adoption of decisions of the Fund on important matters, a majority of 85 per cent should be required under the amended Articles for those decisions that can now be taken by an 80 per cent majority. It also agreed that amendments of the Articles should become effective when accepted by three fifths of the members having 85 per cent of the total voting power.

6. The Committee discussed the problem of gold, including the disposition of the gold holdings of the Fund. The elements of the consensus reached are described in this paragraph.

At the meeting of the Interim Committee on January 16, 1975, it was decided to move "toward a complete set of agreed amendments on gold, including the abolition of the official price and freedom for national monetary authorities to enter into gold transactions under certain specific arrangements, outside the Articles of the Fund, entered into between national monetary authorities in order to ensure that the role of gold in the international monetary system would be gradually reduced."

To implement this general undertaking, provision should be made for:

(*a*) Abolition of an official price for gold.

(*b*) Elimination of the obligation to use gold in transactions with the Fund, and elimination of the Fund's authority to accept gold in transactions unless the Fund so decides by an 85 per cent majority. This understanding would be without prejudice to the study of a gold substitution account.

(*c*) Sale of one sixth of the Fund's gold (25 million ounces) for the benefit of developing countries without resulting in a reduction of other resources for their benefit, and restitution of one sixth of the Fund's gold to members. The proportion of any profits or surplus value of the gold sold for the benefit of developing countries that would correspond to the share of quotas of these countries would be transferred directly to each developing country in proportion to its quota. The rest of the Fund's gold would be subject to provisions in an amendment of the Articles that would create enabling powers exercisable by an 85 per cent majority of the total voting power.

The Committee noted that, in order to give effect to the understandings arrived at in this Committee, the countries in the Group of Ten have agreed to observe during the period referred to below the following arrangements, which could be subscribed to by any other member country of the Fund that wishes to do so. Other members might adhere to these arrangements, and on such occasions the necessary modifications in them would be made:

(*a*) That there be no action to peg the price of gold.

(*b*) That the total stock of gold now in the hands of the Fund and the monetary authorities of the Group of Ten will not be increased.

(*c*) That the parties to these arrangements agree that they will respect any further condition governing gold trading that may be agreed to by their central bank representatives at regular meetings.

(*d*) That each party to these arrangements will report semiannually to the Fund and to the Bank for International Settlements the total amount of gold that has been bought or sold.

(*c*) That each party agree that these arrangements will be reviewed by the participants at the end of two years and then continued, modified, or terminated. Any party to these arrangements may terminate adherence to them after the initial two-year period.

Many members from developing countries expressed concern that the proposed arrangements for gold would give rise to a highly arbitrary distribution of new liquidity, with the bulk of gains accruing to developed countries. This would greatly reduce the chances of further allocations of SDRs, thereby detracting from the agreed objective of making the SDR the principal reserve asset and phasing out the monetary role of gold. This aspect should be studied, and measures explored to avoid these distortions.

7. The Committee noted the work done so far by the Executive Directors on the subject of the establishment of a trust fund and the possible sources of its financing in response to the request of the Development Committee. It was agreed to ask the Executive Directors to pursue their work with a view to completing it at an early date, taking into account the understandings reached in the Committee with regard to the use of profits from the sale of part of the Fund's gold for the benefit of developing countries, without neglecting the consideration of other possible sources of financing.

8. It was agreed that acceptable solutions must be found on the subject of the exchange rate system under the amended Articles, so that these agreed solutions can be combined with those on quotas and gold. The Executive Directors were requested to continue their work in order to arrive at acceptable solutions and to prepare for submission to the Board of Governors, after examination by the Committee at its next meeting, appropriate proposals for amendment of the Fund's Articles on all aspects that have been under consideration.

9. The Committee noted that the Executive Directors are in the process of conducting a review of the Fund's facility on compensatory financing with a view to improving a number of its aspects. It was agreed to urge the Executive Directors to complete their work on this subject as soon as possible, taking into account the various proposals that have been made by members of the Committee.

January 7-8, 1976

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its fifth meeting in Kingston, Jamaica, on January 7-8, 1976 under the chairmanship of Mr. Willy De Clercq, Minister of Finance of Belgium, who was selected by the Committee to succeed Mr. John Turner of Canada as Chairman. Mr. H. Johannes Witteveen, Managing Director of the Fund, participated in the meeting. The following observers attended during the Committee's discussions: Mr. Henri Konan Bédié, Chairman, Bank-Fund Development Committee; Mr. G. D. Arsenis, representing the Secretary-General, UNCTAD; Mr. Wilhelm Haferkamp, Vice-President, EC Commission; Mr. Mahjoob A. Hassanain, Chief, Economics Department, OPEC; Mr. René Larre, General Manager, BIS; Mr. Emile van Lennep, Secretary-General, OECD; Mr. F. Leutwiler, President, National Bank of Switzerland; Mr. Olivier Long, Director-General, GATT; and Mr. Robert S. McNamara, President, IBRD.

2. The Committee endorsed the recommendations contained in the report of the Executive Directors on the Sixth General Review of Quotas and the proposed resolution on increases in the quotas of individual members to be submitted to the Board of Governors for its approval. In this connection, the Committee reaffirmed its view that the Fund's holdings of each currency should be usable in the Fund's operations and transactions in accordance with its policies. Appropriate provisions for this purpose will be included in the draft amendments of

the Fund's Articles. To give effect to the Committee's view in the period before the amendments become effective, it was agreed that, within six months after the date of the adoption of this resolution, each member shall make arrangements satisfactory to the Fund for the use of the member's currency in the operations and transactions of the Fund in accordance with its policies, provided that the Executive Directors may extend the period within which such arrangements shall be made.

3. The Committee considered the question of the implementation of the agreement reached at its fourth meeting regarding the disposition of a part of the Fund's holdings of gold. It was agreed that action should be taken to start without delay the simultaneous implementation of the arrangements referred to in paragraph 6 of the press communiqué issued by the Committee on August 31, 1975. The sales of gold by the Fund should be made in public auctions according to an appropriate timetable over a four-year period. It is understood that the Bank for International Settlements would be able to bid in these auctions.

4. In its discussion of the world economic situation and outlook, the Committee noted that recovery from the severe international recession of 1974-75 was now under way in much of the industrial world. Nevertheless, current rates of both unemployment and inflation were still unacceptably high. The Committee called on the industrial countries, especially those in relatively strong balance of payments positions, to conduct their policies so as to ensure a satisfactory and sustained rate of economic expansion in the period ahead while continuing to combat inflation.

A special source of concern to the Committee was the deterioration in the external position of the primary producing countries, especially the developing ones. The general picture for the developing countries in 1975 was again one of large balance of payments deficits on current account, financed through heavy external borrowing and through the use of reserves already eroded by the inflation in recent years. With large current account deficits still in prospect this year, the Committee felt that the ability of many developing countries to maintain an adequate flow of imports in 1976, and to follow appropriate adjustment policies, would also depend on the availablity of adequate credit from the Fund.

5. The Committee welcomed the recent decision of the Executive Directors liberalizing the compensatory financing facility. Under the new decision the Fund will be prepared to authorize drawings up to 75 per cent of a member's quota, as against 50 per cent under the 1966 decision. Maximum drawings in any one year are raised from 25 per cent to 50 per cent of quota. Moreover, the decision enables the Fund to render assistance under the facility at an earlier stage of the development of a shortfall.

6. The Committee noted the report of the Executive Directors on their review of the Fund's policies on the use of its resources, and also on the trust fund for the benefit of the low-income members. After consideration of the issues involved, the Committee reached the following conclusions:

(*a*) It was agreed that the necessary steps should be taken to establish the trust fund without delay. Its resources would be derived from the profits of the sales of the Fund's gold, which should be augmented by voluntary national contributions. It was agreed that the amount of gold available for sale in accordance with the agreement reached by the Committee at its fourth meeting should be disposed of over a four-year period. The resources of the Trust Fund should be used to provide balance of payments assistance on concessionary terms to members with low per capita incomes. Initially, eligible members would be those with per capita incomes in 1973 not in excess of SDR 300.

(*b*) It was further agreed, that, until the effective date of the amendment of the Articles, the size of each credit tranche should be increased by 45 per cent, which would mean that total access under the credit tranches would be increased from 100 per cent to 145 per cent of

quota, with the possibility of further assistance in exceptional circumstances. The present kinds of conditionality for the tranches would remain unchanged. The Fund will in due course consider again the question of access to the Fund's resources if it becomes evident that the needs of members make it advisable to re-examine this question.

7. The Committee noted the report of the Executive Directors on amendment, welcomed the progress made toward the solution of the outstanding issues, and commended them for the voluminous and successful work that they had done in order to achieve a major revision of the Articles. In particular, it welcomed the agreement that has been reached on provisions concerning the important problem of exchange rates. In this respect, it has endorsed a new Article IV of the Articles of Agreement which establishes a system of exchange arrangements. The new system recognizes an objective of stability and relates it to achievement of greater underlying stability in economic and financial factors. The Committee considered the remaining issues on which its guidance has been requested by the Executive Directors and agreed as follows:

(*a*) The amended Articles of Agreement should include a provision by which the members of the Fund would undertake to collaborate with the Fund and with other members in order to ensure that their policies with respect to reserve assets would be consistent with the objectives of promoting better international surveillance of international liquidity and making the special drawing right the principal reserve asset in the international monetary system.

(*b*) The amended Articles would contain an enabling provision under which the Fund would be able to sell any part of the gold left after the distribution of 50 million ounces in accordance with the arrangements referred to in paragraph 3 above, and use the profits (1) to augment the general resources of the Fund for immediate use in its ordinary operations and transactions, or (2) to make balance of payments assistance available on special terms to developing members in difficult circumstances. On the occasion of such sales the Fund would have the power to distribute to developing members a portion of the profits on the basis of their quotas or to make a similar distribution by the direct sale of gold to them at the present official price. Any decision on such a distribution should be taken by an 85 per cent majority of the total voting power. These powers of the Fund would be in addition to the power that the Fund would have under another enabling provision to restitute to all members, on the basis of present quotas and at the present official price, any part of the gold left after the disposition of the 50 million ounces referred to above.

(*c*) Decisions of the Fund on the use of the profits from the sale of its gold in the regular operations and transactions of the Fund should be taken by a 70 per cent majority of the total voting power and on decisions on use of the profits in other operations and transactions by an 85 per cent majority of the total voting power.

(*d*) The Executive Directors are urged to review, during the final stage of their work on the draft amendments, the majorities for operational decisions that do not reflect compromises of a political character with a view to considering the reduction, if possible, of the number and size of the special majorities that would be required under the amended Articles for such operational decisions. Such a review should be completed within the coming weeks and should not delay the completion of the comprehensive draft amendment.

(*e*) The majority required for the adoption of decisions on the method of valuation of the SDR under the amended Articles should be 70 per cent of the total voting power, with the exception of decisions involving a change in the principle of valuation or a fundamental change in the application of the principle in effect, which should be taken by an 85 per cent majority of the total voting power.

(*f*) The Executive Directors should continue their consideration of the subject of a substitution account without delaying completion of the comprehensive draft amendment.

(*g*) With respect to the obligation of participants in the Special Drawing Account to reconsititute their holdings of special drawing rights, it was agreed that the amended Articles should authorize the Fund to review the rules for reconstitution at any time and to adopt, modify, or abrogate these rules by a 70 per cent majority of the total voting power.

8. The Committee requested the Executive Directors to complete their work on amendment in the light of the guidance given by the Committee, and expects that the Executive Directors will be able to submit a comprehensive draft amendment for the approval of the Board of Governors, together with a report, within the coming weeks.

October 2, 1976

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its sixth meeting in Manila, the Philippines, on October 2, 1976 under the chairmanship of Mr. Willy De Clercq, Minister of Finance of Belgium. Mr. H. Johannes Witteveen, Managing Director of the Fund, participated in the meeting. The following observers attended during the Committee's discussions: G. D. Arsenis, Director, New York Office, UNCTAD; Henri Konan Bédié, Chairman, Development Committee; Wilhem Haferkamp, Vice-President in Charge of Economic and Financial Affairs, EEC; René Larre, General Manager, BIS; E. van Lennep, Secretary-General, OECD; F. Leutwiler, President, National Bank of Switzerland; Olivier Long, Director-General, GATT; and Robert S. McNamara, President, IBRD.

2. The Committee discussed the world economic outlook and the functioning of the international adjustment process.

The Committee welcomed the economic recovery that has been under way for the last year; it expressed continued concern, however, about persistently high levels of unemployment and high rates of inflation in many countries. The Committee believes that in present circumstances the restoration of a reasonable degree of price stability will be necessary to establish the basis for sustained economic growth and the reduction of unemployment. Accordingly, the Committee is of the view that policies in the industrial countries at the present time should give priority to the reduction of price and cost inflation. This would require fiscal and monetary policies in these countries that would provide effective control over the expansion of aggregate demand in a manner compatible with this objective, even where price and incomes policies are in effect.

The Committee further agreed that, given the constraint under which demand management policies in the industrial countries must operate, special efforts, including the reduction in the barriers to trade in the negotiations now under way, to improve market access to the exports of developing countries and to increase the flow of development assistance would be indicated.

With respect to the international adjustment process, the Committee reached the following conclusions:

(*a*) As a result of the recovery in the world economy, exports are rising in many countries and the international environment has become much more favorable for the adjustment of external payments positions. The Committee believes that such adjustment, which should be symmetrical as between deficit and surplus countries, is now both urgent and opportune.

(*b*) To this end, deficit countries should arrange their domestic policies so as to restrain domestic demand and to permit the shift of resources to the external sector, to the extent necessary to bring the deficit on current account in line with a sustainable flow of capital imports and aid.

(*c*) Industrial countries in strong payments positions should ensure continued adequate expansion in domestic demand, within the limits set by effective anti-inflationary policies.

(*d*) Exchange rates should be allowed to play their proper role in the adjustment process.

(*e*) In the context of the use of the Fund's resources, adjustment by deficit countries can be promoted by a larger use of the credit tranches and the extended Fund facility.

3. The Committee noted that, in accordance with the agreement incorporated in the provisions of the Proposed Second Amendment, the Fund will have the obligation to exercise firm surveillance over the exchange rate policies of members. The Executive Directors should consider how this function is to be exercised and should report to the Committee on this subject.

4. The Committee noted the section of the Annual Report of the Executive Directors dealing with developments in international liquidity. In accordance with its terms of reference the Committee requested the Executive Directors to keep all aspects of international liquidity under review and to report to it at a later meeting.

5. The Committee reviewed, on the basis of a report by the Executive Directors, the financial activities of the Fund, including developments in the Fund's policies on the use of its resources and in the liquidity of the Fund. The Committee noted the unprecedented expansion in the use of the Fund's resources by members in order to finance their balance of payments deficits and agreed that, even if all reasonable efforts toward adjustment were made, there might still be a need for a large use of the Fund's resources in the near future. The Committee shared the view of the Executive Directors that greater emphasis should be placed on the adjustment by members of imbalances in their payments positions and that the use of the Fund's resources should present the Fund with the opportunity to promote the use by members of the kind of adjustment measures that are most conducive to the interest of all. The Committee noted the actions taken by the Executive Directors with regard to the trust fund and welcomed their intention to keep the compensatory financing and buffer stock facilities under review.

6. The Committee endorsed the conclusions of the Executive Directors on the state of the Fund's liquidity. The Committee urged that, pursuant to the Resolution on Quota Increases adopted by the Board of Governors last March, all members that have not yet done so should make the necessary arrangements for the use of their currencies in the operations and transactions of the Fund in accordance with its policies. It was agreed that the Fund's liquidity should be kept under close review. The Committee stressed the fact that prompt adoption of the Proposed Second Amendment of the Articles and the subsequent completion of the steps necessary for quota increases under the Sixth General Review would provide the most effective way of improving the liquidity of the Fund.

7. The Committee noted that the Executive Directors will initiate in the near future the Seventh General Review of Quotas so that it can be concluded, as planned, in February 1978.

8. The Committee noted the report of the Executive Directors regarding the progress made by members in connection with their acceptance of the Proposed Second Amendment of the Fund's Articles. In view of the importance that the entry into force of the amended Articles will have for the functioning of the international monetary system, the Committee urged all members that had not yet notified the Fund of their acceptance of the Second Amendment to complete as soon as possible the arrangements that would permit them to take this action.

9. The Committee agreed to hold its eighth meeting in Washington, D.C., on April 18 and 19, 1977.

October 6, 1976 (Announcement)

The Interim Committee at its seventh meeting today in Manila selected Mr. Willy De Clercq, Minister of Finance of Belguim, to continue as its Chairman for a new term, following upon the election of Executive Directors of the International Monetary Fund which took place on October 5, 1976.

The Committee also decided that its eighth meeting previously announced for April 18 and 19, 1977 is now to be held on April 28 and 29, 1977 in Washington, D.C.

April 29, 1977

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its eighth meeting in Washington, D.C., on April 28–29, 1977 under the chairmanship of Mr. Willy De Clercq, Minister of Finance of Belgium. Mr. H. Johannes Witteveen, Managing Director of the Fund, participated in the meeting. The following observers attended during the Committee's discussions: Mr. G. D. Arsenis, Director, New York Office, UNCTAD; Mr. Mahjoob A. Hassanain, Chief, Economics Department, OPEC; Mr. Pierre Languetin, General Manager, National Bank of Switzerland; Mr. René Larre, General Manager, BIS; Mr. Emile van Lennep, Secretary-General, OECD; Mr. Olivier Long, Director-General, GATT; Mr. Robert S. McNamara, President, IBRD; Mr. François-Xavier Ortoli, Vice-President, CEC; and Mr. Cesar E. A. Virata, Chairman, Development Committee.

2. The Committee discussed the world economic outlook and the functioning of the international adjustment process.

The Committee noted the expansion of activity that has taken place in the world economy over the past year and welcomed the improvement in economic outlook during recent months following cessation of the "pause" in the industrial countries. The Committee expressed concern, however, about the persistence of high levels of unemployment, especially among young people, and high levels of inflation in many countries.

I. On the broad question of the economic policy options and priorities of member countries, the Committee agreed on the following conclusions:

(*a*) Policies of demand management in most countries must emphasize the need to deal with problems of inflation and the balance of payments. These policies are being guided by the conviction that measures to combat inflation and, where necessary, to strengthen the external position are not only necessary in present circumstances but also will make for a better record over time in terms of economic growth and employment.

(*b*) At the same time, special efforts should be made to improve market access for the exports of the developing countries and to increase the flow of official development assistance. Any tendencies toward protectionist trade policies cannot be considered acceptable from an international point of view and should be strongly resisted; indeed, increased attention should be paid to the need to reduce the existing restrictions on trade. Success in the current negotiations in Geneva would make an important contribution to this end.

II. The Committee drew the following conclusions from its review of the international adjustment process:

(*a*) The needs for adjustment remain large and, as experience shows, delays in dealing with them can be very costly. It will take international cooperation, and determined action by surplus as well as deficit countries, to make continuing progress with respect to adjustment. An encouraging development is that a number of countries, both large and small, developed

and developing, have adopted programs to strengthen their external positions, often in the context of stand-by arrangements approved by the Fund.

(*b*) Strategies of adjustment must include emphasis on conservation of energy, on elimination of domestic sources of inflation, particularly in the deficit countries, and on improvement in cost-price relationships among countries. It is important that industrial countries in relatively strong payments positions should ensure continued adequate expansion of domestic demand, within prudent limits. Moreover, these countries, as well as other countries in strong payments positions, should promote increased flows of long-term capital exports.

(*c*) Given the persistence of large payments imbalances, important demands for the Fund's resources can be expected to materialize. The Committee found good grounds for believing that expansion of the Fund's role as a financial intermediary could contribute significantly to promotion of international adjustment and to maintenance of confidence in the continued expansion of the world economy and in the effective functioning of the international financial system.

3. The Committee reviewed the developments in international liquidity and in the financial activities and resources of the Fund. In this connection, it had the benefit of a report of the Managing Director summarizing the discussions that the Executive Directors have had to date on these subjects. As a result of this review, the Committee reached the following conclusions:

The Committee recognized that there was an urgent need for a supplementary arrangement of a temporary nature that would enable the Fund to expand its financial assistance to those of its members that in the next several years will face payments imbalances that are large in relation to their economies.

The Committee agreed that some of the main features of this supplementary arrangement would be as follows:

(i) The Fund would establish substantial lines of credit in order to be able to assist members to meet their needs for supplementary assistance.

(ii) Access to assistance under the supplementary arrangement should be available to all members and should be subject to adequate conditionality, and such assistance should normally be provided on the basis of a stand-by arrangement covering a period longer than one year.

(iii) The Fund should pay interest on amounts borrowed under the lines of credit at market-related interest rates, and charges by the Fund for the use by members of resources borrowed by it under these lines of credit should be based on these rates. The possibility of a subsidy related to the rates of charge that would be payable by low-income countries should be explored.

(iv) The claims of lenders under the supplementary arrangement should be appropriately liquid.

The Committee welcomed the willingness of a number of countries in a position to lend to the Fund to collaborate with it on arrangements for supplementary credit and urged the Managing Director to complete, as soon as possible, his discussions with potential lenders on terms and conditions and amounts. It further requested the Executive Directors to take the necessary steps for making such an arrangement operative as soon as possible.

4. The Committee considered the main isssues relating to the Seventh General Review of Quotas. It was agreed that, in view of the expansion of members' international transactions and the need for the Fund to be able to give balance of payments assistance to members on a larger scale than would be available on the basis of quotas under the Sixth General Review, there should be an adequate increase in the total of quotas pursuant to the Seventh General

Review. On the question of distribution of quotas, one view was that in order to conclude the Seventh Review at an early date, increases should be equiproportional to the quotas that will result from the Sixth General Review. Another view, however, was that a few special adjustments should be made for those members whose quotas are seriously out of line with their relative positions in the world economy, and in this connection some emphasis should be placed on increases that would strengthen the Fund's liquidity. The Committee urged the Executive Directors to pursue their work and to prepare a report, together with draft recommendations to the Board of Governors, on increases in the quotas of members under the Seventh General Review for consideration by the Committee at its next meeting.

5. The Committee also considered the question whether a further allocation of SDRs would be advisable at the present time. The Committee noted that the Executive Directors have been discussing this question and agreed to request them to give further consideration to all aspects of this matter and to report to the Committee at its first meeting in 1978.

The Committee also agreed to request the Executive Directors to review the characteristics and uses of the SDR so as to promote the purposes of the Fund, including the objective of making the SDR the principal reserve asset in the international monetary system.

6. Although the Committee discussed the proposals for supplementary credit, the Seventh Quota Review and any allocation of SDRs separately as indicated above, members of the Committee attached importance to the interrelationships among them and particularly to the overall effect of the decisions as a whole.

7. The Committee noted with satisfaction the work of the Executive Directors on the implementation of Article IV of the Proposed Amendment of the Articles of Agreement, and welcomed the consensus reached by them on the principles and procedures for the guidance of members and for the exercise of surveillance by the Fund over the exchange rate policies of members in the period after the Second Amendment has become effective. The Committee endorsed these principles and procedures, and agreed that they will make an important contribution to the effective functioning of the international monetary system in the future.

8. The Committee noted that so far no more than twenty-four members of the Fund having about 32 per cent of the total voting power have notified the Fund of their acceptances of the Proposed Second Amendment of the Fund's Articles and that very few members have given their formal consents to increases in their quotas under the Sixth General Review of Quotas. The Committee expressed its concern at this delay and urged all members that have not yet accepted the Proposed Second Amendment to complete as soon as possible the arrangements that would enable them to take this action and to increase their quotas under the Sixth General Review.

9. The Committee agreed to hold its ninth meeting in Washington on September 24, 1977.

September 24, 1977

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its ninth meeting in Washington, D.C., on September 24, 1977, under the chairmanship of Mr. Denis Healey, Chancellor of the Exchequer of the United Kingdom, who was selected by the Committee to succeed Mr. Willy De Clercq of Belgium as Chairman. Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund, participated in the meeting. The following observers attended during the Committee's discussions: Mr. G. D. Arsenis, Director, Division for Money, Finance and Development, UNCTAD; Mr. René Larre, General Manager, BIS; Mr. Emile van Lennep, Secretary-General, OECD; Mr. F. Leutwiler,

President, National Bank of Switzerland; Mr. Olivier Long, Director-General, GATT; Mr. Robert S. McNamara, President, IBRD; Mr. François-Xavier Ortoli, Vice-President, CEC; Mr. Cyrus Sassanpour, Market Research Analyst, OPEC; and Mr. Cesar E. A. Virata, Chairman, Development Committee.

2. The Committee discussed the world economic outlook and the policies appropriate in the current situation.

While welcoming progress made in many countries in achieving stabilization and growth objectives, the Committee expressed concern about the faltering of economic activity during recent months in a number of industrial countries. Sluggishness in private investment demand, the Committee stated, continued to be a major feature of the current economic situation.

The Committee noted that the slower expansion of the economic activity had been accompanied by a deceleration in the growth of world trade. The impact of this on the export earnings of developing countries was a matter of concern to the Committee, which noted that these earnings had also been adversely affected by the marked declines in primary commodity prices during recent months.

The Committee paid considerable attention to the special problems that affect the economies of the developing countries. It was particularly concerned to ensure that adjustment measures by developed countries should not reduce the transfer of real resources to the developing world.

The Committee expressed concern about the persistence of high unemployment, noting that the overall rate of unemployment for the industrial countries as a group remained close to the recession peak reached in the latter part of 1975.

Although progress has been made in many countries in countering inflation, the Committee remained concerned about current rates of inflation noting that in almost all countries these were still much too high to be considered acceptable.

The Committee reaffirmed its view that tendencies toward protectionist trade policies are unacceptable from an international point of view and should be strongly resisted. In this connection, it stressed the importance it attached to the successful outcome of the current Multilateral Trade Negotiations in Geneva, and to the early conclusion of agreements that would benefit all countries, in particular developing countries.

With respect to national economic policies, the Committee agreed on the following conclusions:

(*a*) All countries in relatively strong external positions should make every effort to ensure adequate growth of domestic demand compatible with containing inflation; this would not only be in the interest of those countries themselves, but also would help to ensure achievement of a satisfactory rate of growth in world trade, supporting and facilitating external adjustment efforts by deficit countries. The Committee expressed regret that growth of domestic demand in some of the larger industrial countries had lagged behind the targets and expectations of their authorities, and it welcomed the expansionary measures recently announced by several governments. Also, the Committee expressed the belief that, as the results of adjustment action become progressively more evident, an increasing number of countries will be able to bring their inflation and balance of payments problems under control and thus will be strong enough to make their contribution to growth of the world economy.

(*b*) Demand policies in countries with relatively high inflation or seriously weak external positions should place primary emphasis on combating inflation and improving the balance of payments. The Committee reaffirmed its belief that for these countries this was not only necessary in present circumstances but over time would yield the best results for growth and employment.

(*c*) The Committee noted the importance of structural problems in the economic situation of many countries and the need to develop appropriate energy policies.

(*d*) Policies in all countries should be directed as a minimum to avoiding a resurgence of inflation and in many countries to reducing inflation rates which are clearly excessive.

3. An important requirement of the international adjustment process relates to the provision of official financing to deficit countries. Such finance should be provided in sufficiently large amounts, and under appropriate conditions which take account of the specific problems of the borrowing countries, and permits adequate time for necessary adjustment.

The Committee welcomed the completion by the Executive Directors of their work on the establishment of a supplementary financing facility that will enable the Fund to expand substantially the resources it can make available to members facing payments difficulties that are large in relation to their quotas, and the adoption of the decisions of August 29, 1977 on the facility and related arrangements. The Committee noted that a number of members and official institutions have expressed their willingness to make available to the Fund resources for the financing of the facility of about SDR 8.6 billion, equivalent to approximately $10 billion, but that the facility will not become operative until agreements have been entered into for a total amount of financing of not less than SDR 7.75 billion, including at least six agreements each of which provides for an amount not less that SDR 500 million. The Committee welcomed the prospect that some of the initial amounts made available might be increased and noted that it would be possible for other members in strong positions to make resources available to the facility. In view of the need of some members for prompt financial assistance on the scale envisaged under the new facility, the Committee urged all potential participants in the financing of the facility to complete as soon as possible the necessary action that will bring the facility into operation at the earliest date possible. At the same time, the Committee agreed to request the Executive Directors to pursue their consideration of the possibility of a subsidy, perhaps through voluntary contributions, that would be related to the charges payable by members determined by the Fund to be in difficult circumstances.

4. The Committee noted the report of the Executive Directors on the Seventh General Review of Quotas and their intention to give priority to this matter in their work after the Annual Meeting. It asked the Executive Directors to submit appropriate proposals to the Committee for its consideration, at its next meeting, together with draft recommendations to the Board of Governors.

5. The Committee reaffirmed its request to the Executive Directors to report on the question whether a further allocation of SDRs would be advisable at the present time and to report to the Committee at its first meeting in 1978.

The Committee also reaffirmed its request to the Executive Directors to review the characteristics and uses of the SDR so as to promote the purposes of the Fund including the objective of making the SDR the principal reserve asset in the international monetary system.

6. The Committee expressed concern at the delay in the entry into force of the Proposed Second Amendment of the Fund's Articles of Agreement and in the increases in quotas under the Sixth General Review of Quotas. In this connection the Committee noted that it has been eighteen months since the Board of Governors completed its action on both these matters and that, although progress had been made in recent months, acceptances and consents from many more members will be needed to attain the required majorities. In view of the importance for members and the international monetary system of the entry into force of the Amendment and the increases in quotas, the Committee once again urged all members that have not yet accepted the Amendment or consented to the increases in their quotas, to do so at the earliest possible date.

7. The Committee agreed to hold its next meeting in Mexico on March 21, 1978. [This date was subsequently changed.]

April 30, 1978

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its tenth meeting in Mexico City on April 29–30, 1978, under the chairmanship of Mr. Denis Healey, Chancellor of the Exchequer of the United Kingdom. Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund, participated in the meeting. The following observers attended during the Committee's discussions: Mr. G.D. Arsenis, Director of Money, Finance and Development, UNCTAD; Mr. René Larre, General Manager, BIS; Mr. Emile van Lennep, Secretary-General, OECD; Mr. F. Leutwiler, President, National Bank of Switzerland; Mr. François-Xavier Ortoli, Vice President of the Commission, CEC; Mr. Gardner Patterson, Deputy Director-General, Trade Policy, GATT; Mr. Cyrus Sassanpour, Market Research Analyst, OPEC; Mr. Ernest Stern, Vice President, Operational Staff, IBRD; Mr. Cesar E. A. Virata, Chairman, Development Committee.

2. The Committee noted with satisfaction the recent entry into force of the Second Amendment of the Fund's Articles, which has brought about a modernization of the Articles and will improve the operation of the Fund in current conditions and permit its adjustment to future conditions as they develop. The Committee also welcomed the consents by the overwhelming majority of the Fund's members to the increases in their quotas as proposed under the Sixth General Review of Quotas and expressed the hope that the rest of the members will consent in the near future.

3. The Committee discussed the world economic outlook and the working of the international adjustment process.

The Committee recognized certain favorable developments. Notable among these were the progress made by a number of countries in achieving stabilization and growth objectives, a marked reduction in the surplus of the oil exporting countries, and improved access, over the last few years, by the non-oil developing countries as a group to sources of finance for their current account deficits, even though the combined current account deficit of these countries is expected to show an increase from 1977 to 1978.

Nevertheless, the Committee noted, world economic developments over the past year or so were unsatisfactory in some important respects. In particular, the Committee expressed concern with the slow and uneven pace of recovery from the severe 1974–75 recession, the prevalence of historically high levels of unemployment, the slow growth of world trade, the continuation of high rates of inflation in many countries, the maldistribution of current account balances, and instability of exchange rates among the industrial countries. The Committee emphasized the need to assure better ecomomic performances, especially in the industrial countries, and an improved environment for the adjustment of external trade and payments positions.

The Committee noted with concern the risk of increasing resort to protectionist action of all kinds in the wake of slow growth, low capacity utilization, and high unemployment. It was agreed that determined and broadly conceived national and international efforts, directed at the underlying causes as well as at specific protectionist measures, were urgently needed to arrest this drift toward protectionism and to reduce trade barriers. The successful completion of the Multilateral Trade Negotiations that are now well under way would do much to stop this development.

Considerable attention was given by the Committee to the special problems of the developing countries, including the need to accelerate their rates of growth as a continuing objective and a common responsibility of the international community. The vulnerability of their economies to slow growth of markets in the industrial world or to reduced access to such markets was a source of widespread concern, and the Committee stressed the desirability of measures on the part of the developed countries to assure continued expansion on an adequate scale of the flow of real resources to developing countries, which would help to promote the adjustment process.

In the course of the Committee's discussion, a consensus was reached on the general outlines of a coordinated strategy, containing mutually supportive and reinforcing elements, designed to promote noninflationary growth of the world economy, leading to higher employment, a reduction of imbalances in international payments, and the conservation of energy. The Committee emphasized that the implementation of this strategy—geared to the meduim-term, through 1980—should take due account of the wide differences in current positions of individual countries. It suggested that, among countries in the industrial world, growth policies should be related to the success achieved in reducing inflation, the strength of the external position, and the degree of current and prospective economic slack.

In view of the risk if reviving inflationary pressures, the Committee noted the utility of policies appropriate to counter the predominance of cost-push factors in the current inflation. The Committee also suggested that for those countries with strong cost-push factors fiscal stimulus provided through tax reductions might often be more appropriate than equivalent stimulus applied through increases in domestic government spending unless such spending is investment-oriented.

The Committee was convinced that the general strategy envisioned would yield a more satisfactory rate of economic expansion for the industrial and developing countries and the world economy generally, within a pattern of differentiated growth rates among countries, which would reduce external payments imbalances. The improvement in basic underlying condtions would in this way contribute to greater stability of exchange markets, which is extremely important for the health of the world economy. Greater stability in these circumstances would help to achieve the higher growth rates desired and to improve the prospects of the developing countries.

4. The Second Amendment has brought into effect the provisions of a new Article IV which stresses the objective of a "continuing development of the orderly underlying conditions that are necessary for financial and economic stability" and makes it an obligation of each member "to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates." In accordance with Article IV, the principles for surveillance shall respect the domestic social and political policies of members, and in applying these principles the Fund shall pay due regard to the circumstances of members. The principles and procedures for surveillance over exchange rate policies endorsed by the Interim Committee and approved by the Executive Board in April 1977 have gone into operation under the Second Amendment. The Committee noted with approval that the Fund has recently adapted its consultation procedures and practices to take account of surveillance, and that particular attention will be focused on those cases in which there are questions as to whether the exchange rate policies of members are consistent with the agreed exchange rate principles. The Fund has always concerned itself with situations in which the value of a currency is not compatible with the smooth working of the adjustment process, or where disorderly conditions exist in exchange markets. The Committee noted that the Fund now has both the obligation and the means through surveillance to make a greater contribution than before to the effective working of the exchange rate system. In this context, some members asked that the Executive Board should consider whether the Council should be brought into being under the Second Amendment as a decision-making organ. Some members of the Committee do not

favor bringing the Council into existence because it would not contribute to the working of the international monetary system under the Second Amendment. The Committee received suggestions for the strengthening of surveillance, including the provision of more information by both surplus and deficit countries to assure the efficient working of the surveillance process.

5. The Committee noted the report of the Executive Board on improving the characteristics and broadening the uses of the SDR under the powers of the Second Amendment and on the question of an allocation of SDRs.

The Committee agreed that in present circumstances the interest rate on the SDR should be increased from 60 per cent to no more than 80 per cent of the weighted average of short-term interest rates in the five member countries with the largest quotas, and asked the Executive Board to agree on a satisfactory formula for the rate of remuneration on this basis. Some members could support an increase in the interest rate only on the condition that an allocation of SDRs would be made.

The Committee requested the Executive Board to pursue its work with regard to additional types of uses of SDRs that might be permitted by the Fund in accordance with the provisions of the amended Articles, and to report to the Interim Committee on these matters at its next meeting. Some members favored the abolition of reconstitution and requested the Executive Board to review the rules for designation and reconstitution under the amended Articles.

A large number of members supported an allocation of SDRs; some of these believed that the present state of world liquidity was not such as to justify more than a modest allocation. Some members suggested that a proportion of quota increases should be paid by members in SDRs.

The Committee agreed to request the Executive Board to pursue its work on all these aspects of an allocation of SDRs and to submit appropriate proposals, together with draft recommendations, for consideration by the Committee at its next meeting.

The Committee also considered the suggestion of the Managing Director that an allocation of SDRs could be combined with a reduction in the amount of reserve currency outstanding through a substitution account administered by the Fund. Some members believe that agreement on a substitution account would facilitate an allocation of SDRs. The Committee agreed that this suggestion of the Managing Director should be considered further and that a report should be submitted by the Executive Board for consideration by the Committee at its next meeting.

6. The Committee noted the report of the Executive Board on the Seventh General Review of Quotas and considered the issues involved. Recalling that the Board of Governors in its Resolution No. 31-2 decided that the Seventh Review of Quotas should be completed by February 9, 1978, the Committee expressed concern at the delay in completing the Review. The Committee reaffirmed its view that there was a need for an increase in total quotas under the Seventh Review that would be adequate to meet the expected need for conditional liquidity over the next five years and that would strengthen the available sources of balance of payments financing by enhancing the ability of the Fund to provide such financing without heavy recourse to borrowing and by furthering the process of international adjustment. Most members of the Committee were of the view that an increase of the order of at least 50 per cent of the quotas approved under the Sixth General Review would be appropriate in view of the present and prospective circumstances of the international economy. Most members of the Committee agreed that the Seventh Review should be mainly equiproportional, with at most a very small number of selective quota increases, in which case most members felt that the quota share of no developing country should be decreased except for one or two members whose quotas would remain unchanged.

Some members suggested a limited increase in the first credit tranche if quota increases were more than a modest amount, but other members considered that the first credit tranche should be enlarged if the increases were not more than a modest amount.

The Committee asked the Executive Board to give priority to these matters in its work in the coming months and to submit to the Board of Governors appropriate proposals, together with draft recommendations, for consideration by the Interim Committee at the time of the next Annual Meeting of the Board of Governors.

Several members asked that the criteria for quota increases should be reconsidered after the Seventh General Review.

7. The Committee expressed its concern at the long delay in bringing into operation the supplementary financing facility, the establishment of which was decided upon more than six months ago. In view of the need of a number of members for prompt financial assistance on the scale envisaged by the supplementary financing facility, the Committee urged that all necessary steps be taken for bringing the facility into operation at the earliest possible date. In this connection, Committee members from developing countries asked the Executive Board to review the conditionality attaching to the facility and also to drawings under regular credit tranches, and called again for an examination, as early as possible, of the establishment of a subsidy related to the rates of charges that would be payable by low-income countries. The Committee welcomed the intention of Nigeria and Guatemala to contribute to the financing of the facility SDR 220 million and SDR 30 million, respectively, and the intention of Venezuela to increase its contribution from SDR 450 million to SDR 500 million. As a result, the total financing of the facility will be approximately SDR 8.75 billion (about US$11 billion), as follows (expressed in millions of SDRs):

Abu Dhabi	150
Belgium	150
Canada	200
Federal Republic of Germany	1,050
Guatemala	30
Iran	685
Japan	900
Kuwait	400
Netherlands	100
Nigeria	220
Qatar	100
Saudi Arabia	2,150
Swiss National Bank	650
United States	1,450
Venezuela	500

8. The members of the Committee, noting that Mr. Witteveen is about to relinquish his position as Managing Director of the Fund, expressed on their own behalf and on behalf of their constituencies their deep appreciation and gratitude for the superb manner in which he has discharged the responsibilites of his office in difficult circumstances. The members of the Committee also took the opportunity to congratulate Mr. Jacques de Larosière on his designation as Mr. Witteveen's successor and wished him success in his important and difficult task in the years ahead.

9. The members and associates of the Interim Committee expressed deep appreciation for the welcome and hospitality extended to them in Mexico and thanked the Government of Mexico for the outstanding facilities provided for the tenth meeting of the Committee.

10. The Committee agreed to hold its next meeting in Washington, D.C., on September 24, 1978.

September 24, 1978

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its eleventh meeting in Washinton, D.C., on September 24, 1978, under the chairmanship of Mr. Denis Healey, Chancellor of the Exchequer of the United Kingdom. Mr. J. de Larosière, Managing Director of the International Monetary Fund , participated in the meeting. The following observers attended during the Committee's discussions: Mr. Gamani Corea, Secretary-General, UNCTAD; Mr. Ali M. Jaidah, Secretary-General, OPEC; Mr. René Larre, General Manager, BIS; Mr. Emile van Lennep, Secretary-General, OECD; Mr. F. Leutwiler, President, Swiss National Bank; Mr. Olivier Long, Director-General, GATT; Mr. Robert S. McNamara, President, IBRD, Mr. François-Xavier Ortoli, Vice-President, CEC; Mr. Jean Ripert, Under Secretary-General for International Economic and Social Affairs, UN; and Mr. Cesar E. A. Virata, Chairman, Development Committee.

2. The Committee discussed the world economic outlook and the working of the international adjustment process.

The Committee recognized that progress had been made on various fronts in overcoming the serious difficulties that had beset the world economy during the years 1973-75. In countries that had taken policy measures to adjust to the disturbances of those years, the favorable effects were clearly evident. Nevertheless, the Committee noted, the current situation remained unsatisfactory in several important respects.

The Committee expressed concern that in most member countries rates of price increase continued to be much too high and substantial underutilization of economic resources, including high levels of unemployment, continued to prevail. On the international adjustment process, the Committee noted that wide differences in rates of inflation and growth in domestic demand had contributed to the continuation of large deficits and surpluses on current account among the industrial countries. These imbalances had resulted in unstable foreign exchange markets during the past year, and that this instability, in turn—through its effects on prices, confidence, and investment—had made the formulation and implementation of policies more difficult. The Committee emphasized that a return to exhange market stability would require that adoption of national policies to reduce inflation and to achieve more convergent rates of growth in domestic demand. In a further observation on the adjustment process, the Committee noted that a number of nonindustrial countries were encountering difficult problems of adjustment and external financing, in part because of the slow pace of world trade.

The Committee noted that inflation has continued to subside in a number of industrial countries but that it has tended to accelerate in some others, including the United States, where inflation has become the top priority of economic policy.

With respect to growth and resource utilization in the industrial world, the Committee's concern focused mainly on the abnormally high unemployment rates and substantial slack in industrial capacity prevailing outside the United States. Attention was drawn to the marked differences in growth rates in recent years between the United States, where a relatively full cyclical recovery has taken place, and most of the other industrial countries, where real economic activity has not generally expanded fast enough since 1975 to reduce unemployment.

The Committee noted that in the group of non-oil developing countries the average rate of growth in total output had been relatively well sustained, but at a level appreciably below that of the 1967-72 period, so that only little room was left for gains in real income.

The Committee reiterated its concern about the risk of increasing resort to protectionism, and stressed the importance of an early and successful completion of the Multilateral Trade Negotiation.

In its discussion of the current situation and outlook, the Committee concluded that a welcome change in international trade flows was emerging. This reflected the effects of changes in exchange rates for major currencies that had taken place over the past year and a half. The effects on exports and imports in volume terms, which take considerable time to come through, were beginning to produce favorable shifts in the current account balances of the United States, Japan, and certain other countries. These shifts, the Committee observed, may be expected to increase and, over time, could lead to substantial improvement in the current account balances of industrial countries, provided that the pattern of price increases and growth rates in domestic demand among countries was an appropriate one. Achievement of such a pattern, the Committee stressed, would require that countries adopt internal measures to offset the expansionary effects of exchange rate depreciation and the deflationary effects of exchange rate appreciation.

The Committee reaffirmed the conviction it expressed at the April 1978 meeting in Mexico City that a coordinated strategy of policy, including measures with respect to energy, was needed in present circumstances in order to encourage noninflationary growth of the world economy and to ensure a reduction in imbalances in international payments, thereby promoting underlying conditions conducive to economic and financial stability as well as to greater stability in exchange markets. The Committee emphasized that implementation of such a strategy for the medium term would require each country to contribute to growth of the world ecomomy in relation to the strength of its external position and the success of its anti-inflation policy.

Successful pursuit of a medium-term strategy in the industrial countries would lead, in the Committee's view, to marked improvement of the global environment for trade and development, with substantial benefits for the developing countries and other primary producing countries. The Committee believed that an improved world trading environment would help to arrest the recent ominous tendency toward use of protectionist trade measures. In addition, the Committee emphasized the desirability of measures on the part of the developed countries to open their markets more widely to products of the developing countries, to provide those countries more generous access to their capital markets, and—more generally—to assure the developing countries an adequate inflow of real resources, including a more satisfactory level of official development assistance.

3. The Committee considered a number of questions concerning the SDR on the basis of a report of the Executive Board on the subject. The Committee reached the conclusions set forth in paragraphs 4 and 5 below with the understanding that these conclusions are interrelated and must be adopted in their entirety together with the understandings reached by the Committee on the Seventh General Review of Quotas. In the view of the Committee, therefore, decisions on all these issues relating to SDRs and on the Seventh General Review should be taken at the same time.

4. The Committee discussed the question of the resumption of allocations of SDRs and, in that connection, took into account the various views and considerations presented in the report of the Executive Board. The Committee agreed to recommend that a decision to allocate SDRs, on the basis of a proposal to be made by the Managing Director concurred in by the Executive Board by November 1, 1978, should be acted on by the Board of Governors before the end of the year in order to help meet the long-term global need to supplement existing reserve assets in a desirable manner. Such an allocation would also help to promote the objective of the amended Articles of making the SDR the principal reserve asset in the international

monetary system. In the Committee's view the Fund should make allocations of 4 billion SDRs in each of the next three years 1979 to 1981.

5. The Committee reached the following conclusions with regard to other aspects of the SDR.

(*a*) It was agreed that the interest rate on the SDR should be increased from 60 per cent of the weighted average of the short-term interest rates in the five member countries with the largest quotas to 80 per cent of that average and that the rate of remuneration should be set at 90 per cent of the interest rate on the SDR, that is, at 72 per cent of the combined market rate. This change would be subject to the following understandings: (i) Shortly before the end of each financial year, the Fund would consider whether the estimated net income of the Fund for that year was sufficiently large to permit the average annual rate of remuneration applicable for that year to be raised to a level above 90 but not above 100 per cent of the average annual rate of interest on the SDR and, in this connection, would also consider the possibility of lowering periodic charges on the Fund's currency holdings in the future. (ii) At the time that the Executive Board decides to adopt the new formula for the rate of remuneration, it would take a decision to prevent an automatic increase in the initial rate of periodic charges on the Fund's holdings that would otherwise occur under the Fund's Rules and Regulations. The Executive Board would review the Fund's financial position, and would take such action as might be necessary to protect that position, if the Fund's total expenses exceeded its income in any period of six successive months.

(*b*) The Committee noted that the Executive Board had been pursuing its work with regard to additional types of uses of SDRs, namely, for loans, collateral security, and the direct settlement of obligations, that could be permitted by the Fund in accordance with the provisions of the amended Articles and expressed the hope that the Executive Board would complete this work, take the necessary decisions in the near future, and report on them to the Committee at its next meeting.

(*c*) The Committee endorsed the view of the Executive Board that the requirement of reconstitution of special drawing rights, namely, the obligation to maintain a minimum average balance of SDRs over specified periods, should be reduced from 30 to 15 per cent of net cumulative allocations and that this requirement should be considered further in the light of experience.

(*d*) The Committee noted that the Executive Board intends to keep under review the question of a substitution account.

6. The Committee resumed its discussion of the Seventh General Review of Quotas and considered three major issues relating to it: the size of the overall increase in quotas, selective quota adjustments, and the method of payment of the increases in quotas. These issues were considered by the Committee in conjunction with various issues relating to the SDR with which they are regarded as interrelated. The Committee recalled its view that there was a need for an increase in total quotas under the Seventh Review that would be adequate to meet the expected need for conditional liquidity over the next five years. The Committee also recalled its view that an adequate increase would strengthen the available sources of balance of payments financing by enhancing the ability of the Fund to provide such financing without heavy recourse to borrowing and by furthering the process of international adjustment.

The Committee's view was that an increase in the overall size of quotas of 50 per cent would be appropriate to bring about a better balance between the size of the Fund's resources and the need of members for balance of payments financing over the medium term. The Committee noted that the Executive Board does not intend to propose a general adjustment in quotas for five years after the Board of Governors approves the increase in quotas under the Seventh Review, unless there is a major change in the world economy and its financing needs.

The Committee noted with satisfaction that agreement had been reached on selective quota increases for 11 developing member countries: Iraq, Iran, Korea, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Singapore, and the United Arab Emirates.

Taking into account the conclusions reached on the issues relating to SDRs, including allocations of SDRs, the Committee was of the view that, for the quota increases proposed as a result of this review, participants in the Special Drawing Rights Department should pay 25 per cent of the quota increase in SDRs and that nonparticipants should pay the equivalent of 25 per cent of the increase in foreign exchange.

The Committee agreed to request the Executive Board to prepare and complete by November 1, 1978, for final decision and vote by the Board of Governors before the end of the year, a proposed resolution on increases in the quotas of members, which would include necessary provisions dealing with participation, the effective date of quota increases, and the method of payment of the increases in accordance with the understandings reached in the Committee.

7. In view of the need of a number of members for prompt financial assistance on the scale envisaged by the supplementary financing facility, the Committee stressed again the importance it attached to the entry into operation of the facility at the earliest possible date and urged all members that are expected to contribute to the financing of the facility to take the necessary action so that it could be brought into operation at the earliest possible date.

8. The Committee noted that, in accordance with the Committee's request, the Executive Board has begun a review of the conditionality attaching to the use of the Fund's resources and that it intends to resume its consideration of the subject as soon as possible after the Annual Meeting of the Board of Governors.

9. The Committee agreed to hold its next meeting in Washington, D.C. in the spring of 1979.

PART FOUR

General Reviews of Quotas

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Increases in Quotas of Members—Sixth General Review

Under the Articles of Agreement, the Sixth General Review of Quotas had to be completed by February 9, 1975, the date that was not more than five years after the Fifth General Review. However, a number of problems, including the Fund's practice under its existing Articles for members to pay in gold part of the subscription due when quotas were increased, had to be resolved before the Sixth General Review could be completed. The resolution of these problems would require amending the Articles. As of January 1975, the Executive Directors were not in a position to make a recommendation on the Sixth General Review of Quotas, and they asked the Board of Governors to adopt a resolution merely noting that the quota review was in progress. On March 4, 1975 the Board of Governors adopted such a resolution.

On February 19, 1976, the Executive Directors sent to the Board of Governors their report on the Sixth General Review of Quotas. The Board of Governors adopted a resolution approving the report on March 22, 1976. The quota increases approved under this resolution could not, however, take effect until the Second Amendment of the Articles went into force on April 1, 1978. On that date, the new quota increases went into effect for all consenting members.

Report of the Executive Directors to the Board of Governors (February 19, 1976)

1. Article III, Section 2 of the present Articles of Agreement provides 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." This report and the attached Resolution on increases in quotas under the current, i.e., the sixth, general review are submitted to the Board of Governors, the organ competent under the Articles to deal with adjustments of quotas, in accordance with Article III, Section 2.

2. The subject of the adjustment of quotas, including the need for and the size of an increase in the total of quotas, the distribution of the total increase among members, and the mode of payment of the subscriptions on such increases has been under consideration both by the Executive Directors and by the Interim Committee of the Board of Governors on the International Monetary System. The Interim Committee considered the subject at its meeting in January 1975 and reached understandings on a number of the main issues. These understandings, which were set forth in paragraph 5 of the communiqué issued by the Committee at the conclusion of that meeting, were as follows:

> The Committee considered questions relating to the sixth general review of the quotas of members, which is now under way, and agreed, subject to satisfactory amendment of the Articles, that the total of present quotas should be increased by 32.5 per cent and rounded up to SDR 39 billion. It was understood that the period for the next general review of quotas would be reduced from five years to three years. The Committee also agreed that the quotas of the major oil exporters should be substantially increased by doubling their share as a group in the en-

larged Fund, and that the collective share of all other developing countries should not be allowed to fall below its present level. There was a consensus that because an important purpose of increases in quotas was strengthening the Fund's liquidity, arrangements should be made under which all the Fund's holdings of currency would be usable in accordance with its policies. The Committee invited the Executive Directors to examine quotas on the basis of the foregoing understandings, and to make specific recommendations as promptly as possible on increases in the quotas of individual member countries.

3. On the basis of a report of the Executive Directors on the progress made toward implementation of the understandings reached by the Interim Committee at its January 1975 meeting, the Board of Governors adopted in March 1975 the following Resolution [No. 30-1]:

RESOLVED:

That the Board of Governors, having noted the report of the Executive Directors entitled "Increases in Quotas of Members—Sixth General Review," continues its review under Article III, Section 2, and requests the Executive Directors to continue as promptly as possible their work on this matter on the basis of the understandings reached by the Interim Committee at its second meeting and to submit to the Board, after consideration by the Interim Committee, proposals on increases in the quotas of members and on the mode of payment of the subscriptions payable in respect of these increases.

4. At its meeting in Paris in June 1975 the Interim Committee considered again the subject of increases in quotas. The understandings reached at that meeting were stated in paragraph 9 of the communiqué issued at the end of the meeting:

The Committee considered the report of the Executive Directors on the progress made toward implementation of the understandings reached in the Committee last January with regard to increases in the quotas of members as a result of the Sixth General Review of Quotas. The Committee noted with satisfaction that progress had been made in reaching agreement on quota increases to be proposed for individual countries. The Committee agreed that for the quota increases proposed as a result of this review, and subject to the amendment of the Articles, members should be given an option to pay 25 per cent of the increase in quota (which in the past members have had to pay in gold) in special drawing rights (SDRs), the currencies of certain other members, subject to their concurrence, or in the paying member's own currency. The question of payment in gold by agreement with the Fund would be settled as part of the provisions on gold. The balance of the increase in subscription would be paid, as in the past, in the paying member's own currency. The Committee also recommended that there should be no obligation for a member to repurchase the amount of its own currency paid in excess of 75 per cent of the increase in its quota. The Executive Directors have been asked to prepare and submit as promptly as possible to the Board of Governors, for consideration at is annual meeting in September 1975, a resolution that will include proposed increases in the quotas of individual members and provisions on the payment of corresponding subscriptions on the basis of the understandings reached by the Committee.

5. The discussion of the subject of quotas by the Interim Committee at its meeting in Washington on August 31, 1975 is reflected in the following passage from the Committee's communiqué of August 31:

The Committee noted the progress made by the Executive Directors on the Sixth General Review of Quotas within the framework of the understandings reached at previous meetings of the Committee. The Committee noted the agreement on increases in the quotas of almost all members. In particular, the increases for the industrial countries and for the major oil exporting members have been agreed. The differences that remain among the other members are few and are expected to be resolved soon. The Committee asked the Executive Directors to prepare and submit to the Board of Governors a resolution on increases in the quotas of individual members. The Committee also asked the Executive Directors to complete their work on the mode of

payment of the increases in quotas on the basis of the understandings already reached in the Committee so that appropriate recommendations can be submitted to the Board of Governors at the same time as the resolution on increases in quotas.

6. At the 1975 Annual Meeting of the Board of Governors of the Fund, the Board of Governors adopted the following Resolution [No. 30-3]:

RESOLVED:

That the Board of Governors, having noted the report of the Executive Directors entitled "Increases in Quotas of Members—Sixth General Review," dated August 22, 1975, and having endorsed the understandings reached so far by the Interim Committee on this subject, continues its review under Article III, Section 2 and requests the Executive Directors to complete as promptly as possible their work on this matter, on increases in individual quotas, and on the mode of payment of subscriptions in respect of them, and to submit appropriate proposals to the Board of Governors, after consideration of them by the Interim Committee.

7. The Interim Committee's discussion of the subject of quotas at its meeting in Jamaica in January 1976 is reflected in the following passage from the Committee's communiqué dated January 8, 1976:

> The Committee endorsed the recommendations contained in the report of the Executive Directors on the Sixth General Review of Quotas and the proposed resolution on increases in the quotas of individual members to be submitted to the Board of Governors for its approval. In this connection, the Committee reaffirmed its view that the Fund's holdings of each currency should be usable in the Fund's operations and transactions in accordance with its policies. Appropriate provisions for this purpose will be included in the draft amendments of the Fund's Articles. To give effect to the Committee's view in the period before the amendments become effective, it was agreed that, within six months after the date of the adoption of this resolution, each member shall make arrangements satisfactory to the Fund for the use of the member's currency in the operations and transactions of the Fund in accordance with its policies, provided that the Executive Directors may extend the period within which such arrangements shall be made.

8. The proposed increases in quotas cannot take effect until the second amendment of the Articles has become effective. The Executive Directors have agreed that they will propose to the Board of Governors, as part of a comprehensive amendment, provisions under which a member which consents to an increase in its quota would have to pay to the Fund twenty-five per cent of the increase in special drawing rights. The Board of Governors would be able, however, to prescribe that this payment could 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. A nonparticipant would have to pay in the currencies of other members specified by the Fund, with their concurrence, a proportion of the increase corresponding to the proportion to be paid in special drawing rights by participants. The balance of the increase would be paid by the member in its own currency. An eighty-five per cent majority of the total voting power would be required for any decision relating to the payment of increases in quotas, except for the determination of a period and the specification of currencies to be paid.

9. The Executive Directors are agreed, reflecting the understandings reached at the third meeting of the Interim Committee and endorsed by the Board of Governors, that for increases in quotas proposed as a result of the current review, members will have an option to pay the former "gold" portion of the increases in SDRs, the currencies of other members specified by the Fund, subject to their concurrence, or in the members' own currencies without an obligation to repurchase. If it were considered desirable to permit members to pay part or all of this portion of the increases in gold by agreement with the

Fund, it would be necessary for the Fund to decide, under the amended Articles, to accept payments from members in gold in connection with the current general review of quotas. A general decision or individual decisions for each proposed payment in gold could be taken by the Executive Directors. An eighty-five per cent majority of the total voting power would be required. The payments would be at a price agreed for each operation on the basis of prices in the market. (Draft Article V, Section 12(*b*) and (*d*)) [Second Amendment]

10. Once the amended Articles have become effective, all members' currencies will be usable in accordance with the policies of the Fund. (Draft Article V, Section 3(*d*)) [Second Amendment] To give effect to the agreement reached in the Interim Committee on the desirability of arrangements under which all the Fund's holdings of currency would be usable in accordance with its policies in the period before amendment, the Resolution provides in paragraph 4 that, within six months after the date of the adoption of the Resolution, members shall make arrangements satisfactory to the Fund for the use of their currencies in the operations and transactions of the Fund in accordance with the Fund's policies. The Executive Directors would be able to extend the period within which such arrangements shall be made.

11. The draft Resolution does not provide for increases by fixed installments as was possible under Resolutions regarding earlier quinquennial reviews. A member will be able, however, to consent to an increase smaller than the maximum provided for, but the increase consented to should be a whole number in millions of SDRs. Within the period for consent under paragraph 5 of the Resolution, the member will be able to consent to further increases, up to the maximum provided for, at a later date, as was possible under earlier Resolutions. Payments would have to correspond to the increases consented to.

12. The increase in a member's quota under the Resolution will take effect on the latest of four relevant dates: the member's consent to the increase in quota, the payment of the increase in its subscription, the date on which the second amendment becomes effective, and the date on which the Fund determines that the participation requirement in paragraph 2 of the Resolution has been satisfied. Under that paragraph, the required degree of participation is reached when the Fund determines that members having not less than three fourths of the total of quotas on February 19, 1976 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, whether they be increases to the maximum amount provided for or to a smaller amount. In order to give members time to take any necessary legislative action as well as to make arrangements to pay the increased subscriptions, it is provided that a member may consent to the increase in its quota at any time up to the end of one month following the effective date of the second amendment. If circumstances warrant, the Executive Directors may extend the period for consent.

13. The Executive Directors have determined that a member must pay the increase in its subscription within sixty days after the date on which the member notifies the Fund of its consent, or the effective date of the second amendment, or the date on which the participation requirement is met, whichever is latest. This requirement appears in paragraph 6 of the proposed Resolution.

14. In accordance with the understanding reached by the Interim Committee at its meeting in January 1975, the Resolution provides that the next general review of quotas will be completed by February 9, 1978.

15. 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.

Resolution Submitted to 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 1975 Annual Meeting:

> That the Board of Governors, having noted the report of the Executive Directors entitled "Increases in Quotas of Members—Sixth General Review," dated August 22, 1975, and having endorsed the understandings reached so far by the Interim Committee on this subject, continues its review under Article III, Section 2 and requests the Executive Directors to complete as promptly as possible their work on this matter on increases in individual quotas and on the mode of payment of subscriptions in respect of them and to submit appropriate proposals to the Board of Governors, after consideration of them by the Interim Committee;

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

WHEREAS the Interim Committee of the Board of Governors on the International Monetary System has endorsed the recommendations contained in the report of the Executive Directors; and

WHEREAS the Executive Directors have been requested to prepare and submit to the Board of Governors as soon as possible proposals to amend the Articles of Agreement of the Fund, including a proposal for the modification of the provisions relating to the payment of increases in quotas; and

WHEREAS the Executive Directors have recommended the adoption of the following Resolution of the Board of Governors, which Resolution purposes increases in the quotas of members of the Fund as a result of the sixth 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 increase in its quota that is smaller than the one shown in the Annex, and may consent thereafter to further increases up to the amount shown against its name in the Annex not later than the date prescribed by or under paragraph 5 below. Each increase shall be a whole number in millions of special drawing rights.

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 5 below and has paid the increase in quota in full, provided that no increase in quota shall become effective before (i) the effective date of the second amendment of the Articles or (ii) the date of the Fund's determination that members having not less than three fourths of the total of quotas on February 19, 1976 have consented to increases in their quotas, whichever is the later of these dates.

3. A member shall pay twenty-five per cent of the increase in special drawing rights, the currencies of other members specified, with their concurrence, by the Fund, or in the member's own currency, and shall pay the balance of the increase in its own currency.

† Resolution No. 31-2, adopted by the Board of Governors effective March 22, 1976.

4. A member shall, within six months after the date of the adoption of this Resolution, make arrangements satisfactory to the Fund for the use of the member's currency in the operations and transactions of the Fund in accordance with its policies, provided that the Executive Directors may extend the period within which such arrangements shall be made.

5. 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 not later than one month after the effective date of the second amendment of the Articles, provided that the Executive Directors may extend this period as they may determine.

6. Each member shall pay to the Fund the increase in its quota within sixty days after (a) the date on which it notifies the Fund of its consent or (b) the effective date of the second amendment of the Articles or (c) the date of the Fund's determination under paragraph 2 (ii) above, whichever is latest.

7. The seventh general review of quotas shall be completed by February 9, 1978.

ANNEX TO RESOLUTION

	Proposed Maximum Quota (*In millions of SDRs*)		Proposed Maximum Quota (*In millions of SDRs*)
1. Afghanistan	45	26. Costa Rica	41
2. Algeria	285	27. Cyprus	34
3. Argentina	535	28. Denmark	310
4. Australia	790	29. Dominican Republic	55
5. Austria	330	30. Ecuador	70
6. Bahamas	33	31. Egypt	228
7. Bahrain	20	32. El Salvador	43
8. Bangladesh	152	33. Equatorial Guinea	10
9. Barbados	17	34. Ethiopia	36
10. Belguim	890	35. Fiji	18
11. Benin	16	36. Finland	262
12. Bolivia	45	37. France	1,919
13. Botswana	9	38. Gabon	30
14. Brazil	665	39. Gambia, The	9
15. Burma	73	40. Germany, Federal Republic of	2,156
16. Burundi	23	41. Ghana	106
17. Cambodia	31	42. Greece	185
18. Cameroon	45	43. Grenada	3
19. Canada	1,357	44. Guatemala	51
20. Central African Republic	16	45. Guinea	30
21. Chad	16	46. Guyana	25
22. Chile	217	47. Haiti	23
23. China	550	48. Honduras	34
24. Colombia	193	49. Iceland	29
25. Congo, People's Republic of the	17	50. India	1,145

	Proposed Maximum Quota (*In millions of SDRs*)
51. Indonesia	480
52. Iran	660
53. Iraq	141
54. Ireland	155
55. Israel	205
56. Italy	1,240
57. Ivory Coast	76
58. Jamaica	74
59. Japan	1,659
60. Jordan	30
61. Kenya	69
62. Korea	160
63. Kuwait	235
64. Laos	16
65. Lebanon	12
66. Lesotho	7
67. Liberia	37
68. Libyan Arab Republic	185
69. Luxembourg	31
70. Malagasy Republic	34
71. Malawi	19
72. Malaysia	253
73. Mali	27
74. Malta	20
75. Mauritania	17
76. Mauritius	27
77. Mexico	535
78. Morocco	150
79. Nepal	19
80. Netherlands	948
81. New Zealand	232
82. Nicaragua	34
83. Niger	16
84. Nigeria	360
85. Norway	295
86. Oman	20
87. Pakistan	285
88. Panama	45
89. Papua New Guinea	30
90. Paraguay	23

	Proposed Maximum Quota (*In millions of SDRs*)
91. Peru	164
92. Philippines	210
93. Portugal	172
94. Qatar	40
95. Romania	245
96. Rwanda	23
97. Saudi Arabia	600
98. Senegal	42
99. Sierra Leone	31
100. Singapore	110
101. Somalia	23
102. South Africa	424
103. South Viet-Nam	90
104. Spain	557
105. Sri Lanka	119
106. Sudan	88
107. Swaziland	12
108. Sweden	450
109. Syrian Arab Republic	63
110. Tanzania	55
111. Thailand	181
112. Togo	19
113. Trinidad and Tobago	82
114. Tunisia	63
115. Turkey	200
116. Uganda	50
117. United Arab Emirates	120
118. United Kingdom	2,925
119. United States	8,405
120. Upper Volta	16
121. Uruguay	84
122. Venezuela	660
123. Western Samoa	3
124. Yemen Arab Republic	13
125. Yemen, People's Democratic Republic of	41
126. Yugoslavia	277
127. Zaïre	152
128. Zambia	141

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Increases in Quotas of Members—Seventh General Review

To facilitate agreement on the Seventh General Review of Quotas, the Managing Director, in August 1978, sent to the Executive Board an aide-mémoire proposing a solution to the issues that were still unsettled. This aide-mémoire is published as (A) below.

In November 1978, the Executive Board sent to the Board of Governors its report on the Seventh General Review of Quotas. In December 1978, the Board of Governors adopted a resolution approving the report. The report and the resolution are reproduced as (B) below.

(A) Aide-Mémoire from the Managing Director on the Seventh General Review of Quotas
(August 4, 1978)

1. Introduction

During my recent discussions with Executive Directors about the SDR package, many Directors emphasized the importance that their authorities, for various reasons, attach to a close interrelationship between reaching a consensus on the SDR package under consideration and the quota increases envisaged under the Seventh Review. I agree with this view as many of the factors that influence the allocation of SDRs also bear on the need for conditional liquidity in the form of an increase in Fund quotas. It would indeed be important to reach simultaneous agreement in the Board of Governors on the SDR package and on the Seventh Review of Quotas. It will also be recalled that the Board of Governors at the last Annual Meeting requested that the Seventh Review of Quotas should be completed by February 9, 1978, and that the Interim Committee expressed concern last April at the delay in completing the review.

In view of these aspects, I recommend that the Executive Directors aim at settling the issues relating to the Seventh Review of Quotas, together with the SDR package, so that a positive report on the Seventh Review can be submitted to the Interim Committee, together with the report on the SDR package.

In order to facilitate progress toward early agreement, and after informal discussions with Executive Directors, I am putting forward the following interrelated proposals on the Seventh Review of Quotas. The main elements are based on the wide consensus reached on each of them at the last meeting of the Interim Committee. I am aware that at that meeting some members had proposals about the size of the first credit tranche depending on the size of the overall quota increase. I am not making proposals in this Aide-Mémoire on the size of the first credit tranche because they have so far not commanded a wide consensus.

2. Size of the Overall Increase

On the need for a quota increase, the communiqué of the last Interim Committee meeting states:

> The Committee reaffirmed its view that there was a need for an increase in total quotas under the Seventh Review that would be adequate to meet the expected need for conditional liquidity over the next five years and that would strengthen the available sources of balance of payments financing by enhancing the ability of the Fund to provide such financing without heavy recourse to borrowing and by furthering the process of international adjustment. Most members of the Committee were of the view that an increase in the order of at least 50 per cent of the quotas approved under the Sixth General Review would be appropriate in view of the present and prospective circumstances of the international economy.

In the context of the role of the Fund, the Annual Report for 1978 discusses the international capital market as a source of balance of payments financing in the following terms:

> In the first place, a number of countries are not able to borrow readily in these markets, and their authorities understandably consider a system that places too heavy a reliance on private markets as being inequitable. Second, commercial banks do not find it practicable to apply conditions with respect to macroeconomic performance that will promote effective international adjustment. Indeed, competitive pressures may sometimes lead banks to continue to lend until a point is reached where the borrower's credit is in question, and there can then be an abrupt decline in the availability of funds.

The Report went on to consider the strength and weaknesses of the Fund as a conditional lender.

> As a supplier of conditional liquidity, the Fund's position as an official organization, and its long experience in lending under internationally agreed conditions, give it certain advantages in dealing with international adjustment problems. Conditionality may, of course, pose problems for countries, even when the proposed steps to adjustment are ones that cannot be avoided. Some of the difficulties could be lessened if resort to the Fund came earlier, before the situation had worsened to the point where drastic action is required. To be encouraged to do this, however, members must find the resources of the General Department of the Fund available to them in sufficient volume to warrant the administrative and political effort that is often involved in the use of conditional liquidity.

The extent of this financing need is difficult to gauge, but the following points may be noted. First, in recent years, the ratio of quotas to imports has declined to less than one half of what it was in the 1960s, and in 1978, following the Sixth Review of Quotas, this ratio is about 4 per cent. Even after allowance is made for the fact that the Fund has, partly on a temporary basis, expanded access to Fund credit beyond the earlier norm of 100 per cent of quota, the reduction in the ratio of credit available in the Fund to world imports is still substantial. Second, the nominal value of international transactions is conservatively estimated to rise fairly rapidly in the next few years—of the order of 60 per cent from 1978 to 1983. Third, given the large indebtedness that countries have contracted with commercial banks in recent years, the Fund should be in a position to finance a larger share of the balance of payments deficits that members may incur. Over the coming years, the non-oil developing countries and the more developed primary producing countries could be in a particularly difficult position in this respect.

The size of the quota increase also has important implications for the liquidity of the Fund, although these are also difficult to quantify. First, while there has been an increase in the Fund's holdings of usable currencies in recent months, the Fund continues to rely heavily on borrowing. Borrowing by the Fund has averaged over the last two financial years close to 58 per cent of outstanding credit, while the average for seven of the preceding ten years, during which the Fund actually borrowed, was 44 per cent. In addition, the activation of the supplementary financing facility will mean continued heavy recourse to borrowing. It will be recalled that this facility was essentially designed to meet potentially large financing needs in the

interim period between the completion of the Sixth and the completion of the Seventh Reviews of Quotas. Reliance on borrowing to such a great degree is to be viewed as a temporary feature to help cope with extraordinarily large financing needs and not as a full substitute for resources in the form of quotas. The Fund needs to have adequate resources of its own to be able, on a lasting basis, to assist those of its members that are faced with balance of payments deficits. Second, the improvement in the Fund's liquidity from a quota increase is difficult to quantify because of uncertainties in forecasting the amount of financing members might require from the Fund for up to five years ahead, and in forecasting the distribution of balance of payments surpluses and deficits and hence the amounts of usable currencies. Furthermore, the improvement in the Fund's liquidity would be less if the Fund were not able to use its holdings of the liquidity currencies of one or more major members because they were encountering balance of payments difficulties. Fund quotas should therefore be sufficient to provide assurance that unforeseen payment imbalances can be financed without undue reliance on borrowing.

Taking all these factors into account, I have come to the conclusion that a quota increase in the order of 50 per cent (SDR 19.5 billion) would be a minimum required to restore a reasonable relationship between the size of the Fund and the balance of payments financing needs of all members over the next five years.

As regards the period to which this quota increase would apply, I propose that Executive Directors reach an understanding that, unless there is a major change in the world economy and its financing needs, there would be no further general adjustment in quotas for five years after the Board of Governors approved the increase in quotas under the Seventh Review.

3. Selective Increases of Quotas

On the issue of selective quota adjustments, the views that emerge from the Interim Committee also provide some guidelines to a possible agreement. Taking account of the discussions of this matter by the Executive Directors prior to the last Interim Committee meeting, and my recent informal exchange of views with them, I would propose that the increase be mainly equiproportional, with a very limited number of selective increases for those members whose present quotas can be regarded as being seriously out of line with their relative economic size.

The customary measures to determine the extent by which quotas are out of line is the relationship between the so-called calculated quota and a member's actual quota. In order to limit the number of selective increases, I propose that only those countries with a calculated quota four times greater than the actual quota are included in the list of members to whom selective increases would be offered. This approach would seem to have the merit of simplicity which may be most conducive to reaching an early agreement. On this basis, I would envisage some selective quota adjustments for 11 developing countries. While two industrial countries also meet this criterion, it would not seem possible to include them in the list because of the limited amount available for selective increases. Following the discussion of this matter in the Interim Committee and by the Executive Directors, and on the basis of a 50 per cent increase in quotas, the amount available for selective increases for developing members would not exceed SDR 388 million. This amount would be composed by maintaining unchanged the quotas of China and Democratic Kampuchea and by adding the amounts of the quota increases to which Singapore and Democratic Kampuchea were entitled under the Sixth Review, but which were not taken up by them.

The attached two tables show the allocation of this amount to the 11 developing members. In Table 1, the allocation is base solely on the extent to which quotas are out of line, i.e., in proportion to the excess of the calculated quota over the present quota of the members on the list. In Table 2, a second criterion has been added, in the proportion to the first criterion of

Table 1. Seventh Review of Quotas Special Quota Increases—Developing Countries[1]

(In millions of SDRs)

	Sixth Review Quotas				Seventh Review Potential Quotas		
	Quota (1)	Per cent share in Fund (2)	50 Per cent General Increase (3)	Special Increases[2] (4)	Quota (5)	Increase over Sixth Review agreed quota (Per cent) (6)	Per cent share in Fund (7)
Iran	660	1.69	330	83.2	1,073.2	62.6	1.83
Saudi Arabia	600	1.54	300	121.5	1,021.5	70.3	1.74
Kuwait	235	0.60	117.5	33.5	386.0	64.3	0.66
Libya	185	0.47	92.5	26.2	303.7	64.2	0.52
Korea	160	0.41	80	19.9	259.9	62.4	0.44
Iraq	141	0.36	70.5	28.3	239.8	70.1	0.41
United Arab Emirates	120	0.31	60	25.8	205.8	71.5	0.35
Singapore	49	0.13	24.5	23.6	97.1	98.2[3]	0.17
Qatar	40	0.10	20	7.7	67.7	69.3	0.12
Oman	20	0.05	10	5.9	35.9	79.5	0.06
Lebanon	12	0.03	6	12.4	30.4	153.3	0.05
Total	2,222	5.70	1,111.0	388.0	3,721.0	. . .	6.35
Total Fund	39,001.4	100.00	19,534.2	388.0	58,602.6	50.0	100.00

[1] The list of 11 countries eligible to receive special increases is determined by including all developing member countries with a calculated Seventh Review quota that is at least four times greater than the accepted Sixth Review quota.

[2] The amount available for distribution (SDR 388 million) is derived by increasing the quotas of China, Democratic Kampuchea, and Singapore agreed under the Sixth Review by 50 per cent, less present quotas of China and Democratic Kampuchea, and the present quota for Singapore increased by 50 per cent. Special increases have been allocated 100 per cent on the basis of the excess of the calculated quotas over actual quotas.

[3] Increase over the quota accepted under the Sixth Review.

one fifth to four fifths, to take account of recent contributions to the Fund's liquidity as measured by the credit extended to the Fund.

It will be noted that the results of these calculations do not differ materially from each other. Thus, in the interest of simplicity, it may be preferable to use only the first criterion for the allocation of special increases. The possibility has been suggested of modest special increases for two developing countries (Nigeria and Venezuela), solely on the basis of their relatively large contributions to the Fund's liquidity, by allocating in a suitable manner a modest share of the SDR 388 million to them. Such an approach might be considered if it helped to achieve an early consensus on the Seventh Quota Review.

Table 2. Seventh Review of Quotas Special Quota Increases—Developing Countries[1]

(In millions of SDRs)

	Sixth Review Quotas				Seventh Review Potential Quotas		
	Quota (1)	Per cent share in Fund (2)	50 Per Cent General Increase (3)	Special Increases[2] (4)	Quota (5)	Increase over Sixth Review agreed quota (Per cent) (6)	Per cent share in Fund (7)
Iran	660	1.69	330	85.0	1,075.0	62.9	1.83
Saudi Arabia	600	1.54	300	140.1	1,040.1	73.3	1.77
Kuwait	235	0.60	117.5	40.8	393.3	67.4	0.67
Libya	185	0.47	92.5	20.9	298.4	61.3	0.51
Korea	160	0.41	80	15.9	255.9	59.9	0.44
Iraq	141	0.36	70.5	22.6	234.1	66.0	0.40
United Arab Emirates	120	0.31	60	22.6	202.6	68.8	0.35
Singapore	49	0.13	24.5	18.9	92.4	88.6[3]	0.16
Qatar	40	0.10	20	6.2	66.2	65.5	0.11
Oman	20	0.05	10	5.1	35.1	75.5	0.06
Lebanon	12	0.03	6	9.9	27.9	132.5	0.05
Total	2,222	5.70	1,111.0	388.0	3,721.0	. . .	6.35
Total Fund	39,001.4	100.00	19,534.2	388.0	58,602.6	50.0	100.00

[1] The list of 11 countries eligible to receive special increases is determined by including all developing member countries with a calculated Seventh Review quota that is at least four times greater than the accepted Sixth Review quota.

[2] The amount available for distribution (SDR 388 million) is derived by increasing the quotas of China, Democratic Kampuchea, and Singapore agreed under the Sixth Review by 50 per cent, less present quotas of China and Democratic Kampuchea, and the present quota for Singapore increased by 50 per cent. Special increases have been allocated 4/5 on the basis of the excess of the calculated quota over the actual quota and 1/5 on the basis of average credit extended to the Fund in the period August 1, 1976 to June 30, 1978.

[3] Increase over the quota accepted under the Sixth Review.

(B) Report of the Executive Board to the Board of Governors (October 25, 1978)

1. Article III, Section 2(*a*) of the Articles of Agreement [Second Amendment] 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., the seventh, general review are submitted to the Board of Governors in accordance with Article III, Section 2. [Second Amendment]

In their Resolution of March 22, 1976, the Board of Governors decided that "The seventh general review of quotas shall be completed by February 9, 1978." The review was not completed by that date. At its meeting in Mexico City in April 1978, considerable progress was made by the Interim Committee toward achieving a consensus on the Seventh Review as reflected in the communiqué issued at the end of its meeting on April 30, 1978.

2. At the last meeting of the Interim Committee in Washington in September 1978, understandings were reached on all major issues of the Seventh Review, as reflected in the relevant passages from the Committee's communiqué of September 24, 1978, as follows:

> The Committee resumed its discussion of the Seventh General Review of Quotas and considered three major issues relating to it: the size of the overall increase in quotas, selective quota adjustments, and the method of payment of the increases in quotas. These issues were considered by the Committee in conjunction with the various issues relating to the SDR with which they are regarded as interrelated. The Committee recalled its view that there was a need for an increase in total quotas under the Seventh Review that would be adequate to meet the expected need for conditional liquidity over the next five years. The Committee also recalled its view that an adequate increase would strengthen the available sources of balance of payments financing by enhancing the ability of the Fund to provide such financing without heavy recourse to borrowing and by furthering the process of international adjustment.
>
> The Committee's view was that an increase in the overall size of quotas of 50 per cent would be appropriate to bring about a better balance between the size of the Fund's resources and the need of members for balance of payments financing over the medium term. The Committee noted that the Executive Board does not intend to propose a general adjustment in quotas for five years after the Board of Governors approves the increase in quotas under the Seventh Review, unless there is a major change in the world economy and its financing needs.
>
> The Committee noted with satisfaction that agreement had been reached on selective quota increases for 11 developing member countries: Iraq, Iran, Korea, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Singapore, and the United Arab Emirates.
>
> Taking into account the conclusions reached on the issues relating to SDRs, including allocations of SDRs, the Committee was of the view that, for the quota increases proposed as a result of this review, participants in the Special Drawing Rights Department should pay 25 per cent of the quota increase in SDRs and that nonparticipants should pay the equivalent of 25 per cent of the increase in foreign exchange.
>
> The Committee agreed to request the Executive Board to prepare and complete by November 1, 1978, for final decision and vote by the Board of Governors before the end of the year, a proposed resolution on increases in the quotas of members, which would include necessary provisions dealing with participation, the effective date of quota increases, and the method of payment of the increases in accordance with the understandings reached in the Committee.

The communiqué also included the following passage:

> The Committee reached the conclusions ... [on the issues related to SDRs] ... with the understanding that these conclusions are interrelated and must be adopted in their entirety together with

the understandings reached by the Committee on the Seventh General Review of Quotas. In the view of the Committee, therefore, decisions on all these issues relating to SDRs and on the Seventh General Review should be taken at the same time.

3. The Executive Board has considered a number of factors, both of a qualitative and quantitative nature, that affect the expected need for conditional liquidity and the Fund's ability to finance that need over the medium term without heavy reliance on borrowing. One factor is the extent of the growth of, and possible fluctuations in, the value of international transactions; another factor is the likely continuation of relatively large payments imbalances for many countries in the next few years. In these circumstances, the demand for balance of payments financing may well rise, and the Fund's resources should be sufficient to permit the Fund to finance a reasonable share of that demand.

Furthermore, the Executive Board, while acknowledging the contribution made by the international capital markets to the effective functioning of the international monetary system over the last few years, believes that an increase in Fund quotas can promote the process of international adjustment in ways that could not be achieved through the private markets. The Fund provides its members with balance of payments financing on the understanding that these members will follow appropriate policies of economic adjustment. In these circumstances, members' access to the Fund's resources must be sufficiently large to induce members with substantial balance of payments needs to use those resources and to pursue economic policies and programs which the Fund is able to support. While access to the Fund's resources in terms of quota is now considerably in excess of the traditional policy norm of 100 per cent of quota under the credit tranche policy, the ratio between access to Fund credit and payments imbalances is considered to be lower than a decade ago.

In recent years, the Fund has established or expanded a number of special facilities to help deal with certain balance of payments problems of its members. Some of them, notably the extended Fund facility and the expanded Compensatory Financing Facility, which are of a continuing character, have increased access to Fund resources in relation to quota without additional financing being available to the Fund. On the other hand, borrowing by the Fund for the oil facilities of 1974 and 1975 and the supplementary financing facility, which is expected to come into operation shortly, entailed, or will entail, the creation of claims on the Fund's general resources which are encashable on demand if a lender has a balance of payments need. Moreover, as was the case with the oil facilities, the resources provided under the supplementary financing facility will augment member's access for a limited period of time only. At the end of that period, the Fund will be faced with both a reduction in the resources available to meet the needs of members and possibly large liquid liabilities to its quotas.

In view of the possibility of large payments imbalances over the next few years and the distribution of such imbalances, the Fund's liquidity position is likely to be vulnerable, even though the volume of usable currencies available to the Fund has recently increased. Resources made available through increases in quotas give the Fund a more assured access to resources than borrowing.

In light of the above considerations, the Executive Board is of the view that, in general, increased access to the Fund's resources should, over the longer run, normally result from an increase in Fund quotas.

4. For these reasons, and in accordance with the understandings reached by the Interim Committee at its meeting on September 24, 1978, the Executive Board now proposes to the Board of Governors increases in Fund quotas of 50 per cent for most members and special increases for 11 members. The Executive Board does not intend to propose a general adjustment of quotas for five years after the Board of Governors adopts this Resolution, unless there is a major change in the world economy and its financing needs.

5. The Executive Board will review the customary method of calculating quotas after the Seventh General Review of Quotas has been completed. In the context of the next general review of the 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.

6. Under the proposed Resolution, a member will be able to consent to the increase in its quota at anytime on or before November 1, 1980. Therefore, unless this period is extended by the Executive Board, members will have until November 1, 1980 to take whatever action may be necessary under their laws to enable them to give their consent.

7. It is proposed that 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; and

(*c*) The date on which the Fund determines that the participation requirement in paragraph 2 of the proposed Resolution has been satisfied. The proposed Resolution provides, however, that if the participation requirement in paragraph 2 has not been met by June 30, 1980, no increase in quotas under the Seventh Review would become effective until after October 5, 1980, so that there would be no changes in quotas during, or shortly before, the 1980 Annual Meeting of the Board of Governors, when the next election of Executive Directors will take place. If the participation requirement were met during the period July 1 to October 5, 1980, increases in quotas would become effective only after October 5, 1980.

The participation requirement in paragraph 2 is reached when the Fund determines that members having not less than 75 per cent of the total of quotas on November 1, 1978 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, whether they are increases to the maximum amount provided for or to a smaller amount.

8. The proposed Resolution does not provide for increases in quotas by fixed installments. A member will be able, however, to consent to an increase smaller than the maximum provided for. The member will be able to consent to further increases, up to the maximum provided for, at a later date, provided it is within the period for consent under paragraph 3 of the proposed Resolution.

9. 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.

10. Reflecting the understandings reached at the September 1978 meeting of the Interim Committee, 25 per cent of the increase in quotas proposed as a result of the current review should be paid in SDRs for those members that are participants in the Special Drawing Rights Department, and 25 per cent of the increase in the quotas of nonparticipants should be paid in the currencies of other members specified by the Fund, subject to their concurrence. The balance of the increase shall be in a member's own currency. These payments are in accordance with the prescription of Article III, Section 3 (*a*), [Second Amendment], and therefore it is not necessary to include any provision for the payment of increases in the Resolution.

11. In accordance with paragraph 3 of the Interim Committee's communiqué of September 24, 1978, the Executive Board has taken decisions on aspects of the special drawing right that are referred to in paragraph 5 of that communiqué. These decisions will become effective on the dates referred to in them if the proposed Resolution and the Resolution on allocations of SDRs become effective. The proposed Resolution provides that it will become effective if it

and the proposed Resolution on the Allocation of Special Drawing Rights are adopted by the necessary majority of the total voting power for each.

12. The Executive Board recommends adoption of the attached Resolution. The attached 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.

Resolution Submitted to the Board of Governors†

WHEREAS the Executive Board has submitted to the Board of Governors a report entitled "Increases in Quotas of Fund Members—Seventh 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 Seventh 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, and may consent thereafter to further increases that raise its quota to the amount shown against its name in the Annex not later than the date prescribed by or under paragraph 3 below.

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 (*a*) no increase in quota shall become effective before the date of the Fund's determination that members having not less than three fourths of the total of quotas on November 1, 1978 have consented to increases in their quotas, and (*b*) if the determination has not been made before July 1, 1980, no increase in quota shall become effective until after October 5, 1980.

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 not later than November 1, 1980, 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. If this determination is made in the period between July 1 and October 5, 1980, for the purpose of this paragraph it shall be deemed to have been made on October 5, 1980.

5. This Resolution shall become effective if it and the Proposed Resolution on Allocation of Special Drawing Rights for the Third Basic Period are adopted by the necessary majority of the total voting power for each.

† Resolution No. 34-2, adopted by the Board of Governors effective December 11, 1978.

ANNEX TO RESOLUTION

	Proposed Maximum Quota (In millions of SDRs)
1. Afghanistan	67.5
2. Algeria	427.5
3. Argentina	802.5
4. Australia	1,185.0
5. Austria	495.0
6. Bahamas	49.5
7. Bahrain	30.0
8. Bangladesh	228.0
9. Barbados	25.5
10. Belgium	1,335.0
11. Benin	24.0
12. Bolivia	67.5
13. Botswana	13.5
14. Brazil	997.5
15. Burma	109.5
16. Burundi	34.5
17. Cameroon	67.5
18. Canada	2,035.5
19. Central African Empire	24.0
20. Chad	24.0
21. Chile	325.5
22. China	550.0
23. Colombia	289.5
24. Comoros	3.5
25. Congo, People's Republic of the	25.5
26. Costa Rica	61.5
27. Cyprus	51.0
28. Denmark	465.0
29. Dominican Republic	82.5
30. Ecuador	105.0
31. Egypt	342.0
32. El Salvador	64.5
33. Equatorial Guinea	15.0
34. Ethiopia	54.0
35. Fiji	27.0
36. Finland	393.0
37. France	2,878.5
38. Gabon	45.0
39. Gambia, The	13.5
40. Germany, Federal Republic of	3,234.0

	Proposed Maximum Quota (In millions of SDRs)
41. Ghana	159.0
42. Greece	277.5
43. Grenada	4.5
44. Guatemala	76.5
45. Guinea	45.0
46. Guinea-Bissau	5.9
47. Guyana	37.5
48. Haiti	34.5
49. Honduras	51.0
50. Iceland	43.5
51. India	1,717.5
52. Indonesia	720.0
53. Iran	1,075.0
54. Iraq	234.1
55. Ireland	232.5
56. Israel	307.5
57. Italy	1,860.0
58. Ivory Coast	114.0
59. Jamaica	111.0
60. Japan	2,488.5
61. Jordan	45.0
62. Kampuchea, Democratic	25.0
63. Kenya	103.5
63. Korea	255.9
65. Kuwait	393.3
66. Lao People's Democratic Republic	24.0
67. Lebanon	27.9
68. Lesotho	10.5
69. Liberia	55.5
70. Libya	298.4
71. Luxembourg	46.5
72. Madagascar	51.0
73. Malawi	28.5
74. Malaysia	379.5
75. Maldives	1.4
76. Mali	40.5
77. Malta	30.0
78. Mauritania	25.5
79. Mauritius	40.5
80. Mexico	802.5
81. Morocco	225.0

	Proposed Maximum Quota *(In millions of SDRs)*
82. Nepal	28.5
83. Netherlands	1,422.0
84. New Zealand	348.0
85. Nicaragua	51.0
86. Niger	24.0
87. Nigeria	540.0
88. Norway	442.5
89. Oman	35.1
90. Pakistan	427.5
91. Panama	67.5
92. Papua New Guinea	45.0
93. Paraguay	34.5
94. Peru	246.0
95. Philippines	315.0
96. Portugal	258.0
97. Qatar	66.2
98. Romania	367.5
99. Rwanda	34.5
100. São Tomé and Principe	3.0
101. Saudi Arabia	1,040.1
102. Senegal	63.0
103. Seychelles	2.0
104. Sierra Leone	46.5
105. Singapore	92.4
106. Solomon Islands	3.2
107. Somalia	34.5
108. South Africa	636.0
109. Spain	835.5

	Proposed Maximum Quota *(In millions of SDRs)*
110. Sri Lanka	178.5
111. Sudan	132.0
112. Suriname	37.5
113. Swaziland	18.0
114. Sweden	675.0
115. Syrian Arab Republic	94.5
116. Tanzania	82.5
117. Thailand	271.5
118. Togo	28.5
119. Trinidad and Tobago	123.0
120. Tunisia	94.5
121. Turkey	300.0
122. Uganda	75.0
123. United Arab Emirates	202.6
124. United Kingdom	4,387.5
125. United States	12,607.5
126. Upper Volta	24.0
127. Uruguay	126.0
128. Venezuela	990.0
129. Viet Nam, Socialist Republic of	135.0
130. Western Samoa	4.5
131. Yemen Arab Republic	19.5
132. Yemen, People's Democratic Republic of	61.5
133. Yugoslavia	415.5
134. Zaïre	228.0
135. Zambia	211.5

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PART FIVE

SDRs

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Special Drawing Account—Rules for Reconstitution of SDRs

Under the procedures established by the Articles of Agreement as amended in 1969 by the First Amendment, the Board of Governors was to review the rules for reconstitution of SDRs by the end of the first basic period, that is, by December 1972. Late in 1972, the Executive Directors sent to the Board of Governors a report recommending that the existing rules for reconstitution remain unchanged, and the Board of Governors adopted a resolution agreeing to this recommendation. The report of the Executive Directors and the related resolution of the Board of Governors are reproduced as (A) below.

Just before the end of the second basic period, on December 31, 1977, the Executive Directors once more reviewed the rules for reconstitution of SDRs and again recommended to the Board of Governors that no change be made in the existing rules. The Executive Directors proposed to review these rules after the Second Amendment came into effect. Early in 1978, the Board of Governors adopted a resolution agreeing to the Executive Directors' recommendation. The Executive Directors' report of 1977 and the related resolution of the Board of Governors are reproduced as (B) below.†

(A) Report of the Executive Directors to the Board of Governors (November 15, 1972)

1. Under Article XXV, Section 6(*b*) of the Fund's Articles of Agreement the rules for reconstitution set out in Schedule G must be reviewed before the end of the first and each subsequent basic period. In accordance with Article XXVII, Section (*a*)(i) these reviews are to be conducted by the Board of Governors. As a result of such a review the Fund may modify existing rules, or adopt new rules, or take a decision to abrogate all rules for reconstitution. The adoption of new or modified rules, or the abrogation of existing rules, requires a majority of 85 per cent of the total voting power of participants in the Special Drawing Account.

2. The review under Article XXV, Section 6(*b*) must be completed by December 31, 1972, when the first basic period ends. The Executive Directors have considered the rules for reconstitution set out in Schedule G and are submitting this report to the Board of Governors. The Executive Directors recommend the adoption of the resolution set forth in paragraph 7 below.

3. Under paragraph 1(*a*)(i) of Schedule G a participant's net use of its special drawing rights must be such that the average of its daily holdings over a five-year period will not be less than 30 per cent of the average of its daily net cumulative allocation of special drawing rights over the same period. Under paragraph 1(*b*) of Schedule G participants are also required to pay due regard to the desirability of pursuing over time a balanced

† The Executive Board's decision (No. 5936-(78/168) S) reviewing the rules for reconstitution of SDRs is reproduced below, p. 557.

relationship between their holdings of special drawing rights and their holdings of other reserve assets.

4. In accordance with Schedule G, paragraph 1(*a*)(ii), the Fund has been making monthly calculations for each participant since December 31, 1971 so as to ascertain whether and to what extent it has a need to obtain special drawing rights in order to maintain the required average holding of 30 per cent. As a result of a decision by the Executive Directors taken on December 3, 1971, a participant with a need to reconstitute its holdings of special drawing rights pursuant to Schedule G, paragraph 1(*a*) has been permitted to obtain from another participant, or from the General Account against gold or currency acceptable to the Fund, the full amount of special drawing rights indicated by the calculations as necessary to achieve the required average. Moreover, the Executive Directors decided that any participant that needs to reconstitute its holdings under this provision may obtain special drawing rights from the Fund when making a purchase in the General Account in accordance with the Fund policies on the use of its resources. A number of participants have taken the initiative to obtain special drawing rights from the General Account, and by October 31, 1972 a total of SDR 96.7 million had been obtained by participants to promote reconstitution under these procedures, of which SDR 38.0 million was obtained against the currencies of other members and SDR 58.7 million against participants' own currencies in connection with purchases in the General Account. It has not proved necessary for any participant to be made subject to designation to promote reconstitution pursuant to Article XXV, Section 5(*a*)(ii).

5. Reconstitution was incorporated in the provisions relating to the Special Drawing Account to discourage the prolongation of balance of payments deficits which allocations of special drawing rights might otherwise permit, the use of special drawing rights for longer-term financing, and the disproportionate use by participants of special drawing rights because of a preference for the retention of other reserve assets. A contrasting view advanced at the time of the drafting of the amendment of the Articles was that a legal obligation to reconstitute could not easily be reconciled with the view that special drawing rights should be endowed with the character of a reserve asset. Experience with the operation of the Special Drawing Account in general, and with the reconstitution provisions in particular, has been relatively short and has been affected by exceptional developments in the international monetary system, including marked increases in other reserves for a wide range of participants. Thus, it is difficult to draw firm conclusions from experience as to whether or not an obligation to reconstitute is an important element in safeguarding the special drawing rights scheme.

6. There is a widespread opinion among Executive Directors that, as the requirement to maintain average holdings of special drawing rights at a level of 30 per cent of average allocations over five-year periods constitutes a constraint on the use of special drawing rights, its abrogation would enhance their character as a reserve asset. It is, however, the view of the Executive Directors that, under the prevailing uncertainty as to the nature of the reform of the international monetary system and the future role of the various assets in reserves, a decision whether to abrogate or modify the rules of Schedule G should better be postponed. At the time this Schedule was adopted it was envisaged that the first basic period would cover five years, which would have allowed longer experience, even under the present system. Under Article XXV, Section 6(*b*) the rules for reconstitution must be reviewed again before the end of the next basic period and it is expected that at that stage the future role of special drawing rights in a reformed monetary system will have become clearer, thus providing a firmer basis for consideration of the modification or abrogation of the rules of reconstitution.

7. In the light of these considerations, the Executive Directors recommend that the Board of Governors adopt the following resolutions.

Resolution Submitted to the Board of Governors†

The Board of Governors, having received a report from the Executive Directors on the rules for reconstitution set out in Schedule G of the Articles of Agreement, and having reviewed the rules for reconstitution in accordance with Article XXV, Section 6(*b*) and Article XXVII(*a*)(i), hereby resolves to make no changes at this time in the rules set forth in Schedule G of the Articles of Agreement.

† Resolution No. 28-2, adopted by the Board of Governors effective December 18, 1972.

(B) Report by the Executive Directors to the Board of Governors (December 5, 1977)

1. Under Article XXV, Section 6(*b*) of the Fund's Articles of Agreement, the rules for reconstitution set out in Schedule G must be reviewed before the end of each basic period. In accordance with Article XXVII(*a*)(i), these reviews are to be conducted by the Board of Governors. As a result of such a review, the Fund may modify existing rules, or adopt new rules, or take a decision to abrogate all rules for reconstitution. The adoption of new or modified rules, or the abrogation of existing rules, requires a majority of 85 per cent of the total voting power of participants in the Special Drawing Account.

2. It will be recalled that the Board of Governors reviewed the rules for reconstitution at the end of the first basic period in December 1972 and resolved to make no changes in the rules set forth in Schedule G of the Articles of Agreement for the second basic period. The present review under Article XXV, Section 6(*b*) must be completed by the end of the second basic period on December 31, 1977 and, unless new rules are adopted or a decision is made to abrogate the rules, the present rules will continue to apply. The Executive Directors have considered the rules for reconstitution set out in Schedule G and are submitting this Report to the Board of Governors. The Executive Directors recommend the adoption of the resolution set forth in paragraph 6 below.

3. Under paragraph 1(*a*)(i) of Schedule G, a participant's net use of its special drawing rights must be such that the average of its daily holdings over a five-year period will not be less than 30 per cent of the average of its daily net cumulative allocation of special drawing rights over the same period. Under paragraph 1(*b*) of Schedule G, participants are also required to pay due regard to the desirability of pursuing over time a balanced relationship between their holdings of special drawing rights and their holdings of other reserve assets.

4. In accordance with Schedule G, paragraph 1(a)(ii), since December 31, 1971, the Fund has made monthly calculations for each participant so as to ascertain whether and to what extent a participant has a need to obtain special drawing rights in order to maintain the required average holdings of 30 per cent. Since the first review in 1972, a large number of participants have obtained SDRs, either from the Fund's General Account or other participants in order to reconstitute their holdings. By October 31, 1977, a total of SDR 1,965 million had been obtained by 52 participants to promote reconstitution, of which SDR 1,379 million was obtained directly from the Fund's General Account against payment of currencies acceptable to the Fund, SDR 296 million against participants' own currencies in connection with purchases from the General Account and SDR 290 million in transactions by agreement with other participants under Article XXV, Section 2(*b*)(ii). It has not proved necessary for any participant to be made subject to designation to promote reconstitution pursuant to Article XXV, Section 5(*a*)(ii).[1]

5. Pursuant to a request by the Interim Committee "to review the characteristics and uses of the SDR so as to promote the purposes of the Fund, including the objective of making the SDR the principal reserve asset in the international monetary system," the Executive Directors have recently begun their examination of these issues as well as the question of an allocation of SDRs. They are of the view that the question of whether the present reconstitution provisions should be retained, modified, or abrogated cannot be resolved independently of decisions about other major aspects of the Special Drawing Ac-

[1] One participant, Democratic Kampuchea, however, failed to meet the requirement. The participant could not be informed of its obligations because of the inability of the Fund to communicate through normal channels with the authorities of Democratic Kampuchea.

count. These include the principles of designation, the valuation of and yield on the SDR, and the greater freedom to use SDRs under the amended Articles. The outcome of the Executive Directors' consideration of these aspects will be a major factor in any future review of the present reconstitution requirements. The Executive Directors, therefore, propose to review the reconstitution provisions again when the amended Articles come into effect as part of their review of the characteristics and uses of the Special Drawing Right. Under amended Article XIX, Section 6(*b*), the rules for reconstitution can be reviewed at any time by the Executive Directors and a decision can be taken by a 70 per cent majority of the total voting power in the Special Drawing Account.

6. In the light of the foregoing, the Executive Directors recommend that the Board of Governors adopt the following resolution.

Resolution Submitted to the Board of Governors†

The Board of Governors notes the Report of the Executive Directors entitled "Special Drawing Account—The Rules for Reconstitution" and having conducted its review of the rules for reconstitution in accordance with Article XXV, Section 6(*b*) and Article XXVII(*a*)(i), requests the Executive Directors to continue their examination of the rules for reconstitution as part of their review of the characteristics and uses of the Special Drawing Right, and to submit a report and recommendations to the Board of Governors at an appropriate time.

† Resolution No. 33-1, adopted by the Board of Governors effective January 4, 1978.

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Allocation of SDRs for the Third Basic Period

Under the procedures established by the Articles of Agreement as amended in 1969 by the First Amendment, the Managing Director was required to report to the Board of Governors six months before the end of the second basic period, that is, by June 30, 1977, whether he could propose an allocation of SDRs for the third basic period. The report of the Managing Director of June 29, 1977 indicating that he was unable to propose an allocation is reproduced as (A) below.

By October 1978, the Managing Director was in a position to propose an allocation of SDRs for the third basic period. His report to that effect and the resolution adopted by the Board of Governors in December 1978 agreeing to the Managing Director's proposal are reproduced as (B) below.

(A) Report by the Managing Director to the Board of Governors and to the Executive Directors

(June 29, 1977)

Article XXIV, Section 1(*a*), of the present Articles [1] provides that "In all its decisions with respect to the allocation and cancellation of special drawing rights the Fund shall seek to meet the long-term global need, as and when it arises, to supplement existing reserve assets in such manner as will promote the attainment of its purposes and will avoid economic stagnation and deflation as well as excess demand and inflation in the world." Decisions to allocate or to cancel SDRs are made by the Board of Governors on the basis of proposals of the Managing Director, concurred in by the Executive Directors. Before making any proposal, "the Managing Director, after having satisfied himself that it will be consistent with the provisions of Section 1(*a*) of this Article, shall conduct such consultations as will enable him to ascertain that there is broad support among participants for the proposal." [2] Article XXIV, Section 4(*c*), of the present Articles provides that not later than six months before the end of each basic period the Managing Director shall either make such a proposal or report to the Board of Governors and to the Executive Board that "there is no proposal which he considers to be consistent with the provisions of Section 1 of this Article that has broad support among participants."

The present basic period, which is the second one, began as an "empty" period on January 1, 1973 in the absence of a proposal by the Managing Director and will terminate

[1] The references in this report to Article XXIV are to the present Articles [prior to the Second Amendment]. Some of the events mentioned in this report might occur after the Proposed Second Amendment has become effective. It should be noted, therefore, that Article XXIV, Sections 1(*a*) and 4(*a*), (*b*), and (*c*), will become Article XVIII, Sections 1(*a*) and 4(*a*), (*b*), and (*c*), respectively, of the amended Articles.

[2] Article XXIV, Sections 4(*a*) and (*b*).

at the end of this calendar year. I now wish to report that at the present time I am not in a position to make a proposal with respect to the next (third) basic period, which starts on January 1, 1978.

The possibility of an SDR allocation was not discussed by the Executive Board between 1973 and 1977, and major changes occurred in the international monetary system during that period. Indeed, such changes began to take place immediately following the first allocation. A figure of approximately SDR 9.5 billion had been agreed for the basic period of three years, 1970–72. This amount was expected to be approximately equal to the gap between the anticipated growth of reserve needs (of perhaps SDR 4–5 billion a year) and the predicted increase in the supply of reserves other than SDRs (some SDR 1–1.5 billion a year). During the period, however, there was a dramatic shift in the trend of reserve increases. In the three years 1967–69, members' reserves had risen by about SDR 6 billion. But in 1970–72 they rose by about SDR 68 billion (about SDR 15 billion in 1970, SDR 30 billion in 1971, and SDR 23 billion in 1972) with less than SDR 9 billion of this total coming from the SDR allocation.

When it came time to consider an allocation for the second basic period, there was considerable support for a further allocation over a short basic period of two years. Some members favored an annual figure roughly the same as in the first basic period, others were prepared to accept an amount approximately half this size, and some did not see the need for any allocation. On June 26, 1972, just over six months before the beginning of the second basic period, the Managing Director reported that he was unable to find sufficient support for an allocation proposal but indicated that he would continue his consultations. These consultations, in the second half of 1972, led to the conclusion that there was not broad support for any proposal, and the Managing Director ceased his consultations after the very large increase in foreign exchange reserves (about US$20 billion) that took place in the first quarter of 1973.

Major changes have occurred and are occurring in the international monetary system, and the question of an SDR allocation should be considered in relation to these continuing developments. In my view, some important issues still remain open, and the request of the Interim Committee that the Executive Directors give the subject further study provides an opportunity to see whether these questions can be resolved within the near future. From the consideration that has been given to the question of an SDR allocation in recent weeks, I would judge it unlikely that I shall be able to make a proposal before January 1, 1978. Thus, it may be expected that the third basic period will start as an empty period.

Active consideration of the issues involved is being planned for the months ahead. In their communiqué of April 29 the Interim Committee reached the following conclusions:

> The Committee also considered the question whether a further allocation of SDRs would be advisable at the present time. The Committee noted that the Executive Directors have been discussing this question and agreed to request them to give further consideration to all aspects of this matter and to report to the Committee at its first meeting in 1978.
>
> The Committee also agreed to request the Executive Directors to review the characteristics and uses of the SDR so as to promote the purposes of the Fund, including the objective of making the SDR the principal reserve asset in the international monetary system.

I should note that I can make a proposal at any time during the third basic period when I am satisfied that the requisite conditions of Article XXIV, Section 4(*b*), are fulfilled, and indeed am obliged to do so by Article XXIV, Section 4(*c*). If the outstanding questions can be resolved, I will submit a proposal for an SDR allocation as soon as I am satisfied that one can be made that will be consistent with the requirements of the Articles, or, if such a proposal cannot be made, I will report to the Board of Governors and the Executive Board at an appropriate time.

(B) Proposal by the Managing Director of the International Monetary Fund

(October 25, 1978)

Introduction

Article XVIII, Section 4(*a*) and (*b*) of the Articles of Agreement of the Fund provides in relevant part that:

> (*a*) Decisions under Section 2(*a*), (*b*), and (*c*) or Section 3 of this Article shall be made by the Board of Governors on the basis of proposals of the Managing Director concurred in by the Executive Board.
>
> (*b*) Before making any proposal, the Managing Director, after having satisfied himself that it will be consistent with the provisions of Section 1(*a*) of this Article, shall conduct such consultations as will enable him to ascertain that there is broad support among participants for the proposal.

On June 29, 1977, the Managing Director made a report to the Board of Governors entitled "Report by the Managing Director to the Board of Governors and to the Executive Directors on the Allocation of Special Drawing Rights (Article XXIV, Section 4(*c*))," [1] which concluded that, with respect to the third basic period, which would start on January 1, 1978, the Managing Director was not in a position to make a proposal before January 1, 1978.

The report referred to above noted that the Managing Director can make a proposal at any time during the third basic period when he is satisfied that the requisite conditions of Article XVIII, Section 4(*b*) are fulfilled, and indeed is obliged to do so by Article XVIII, Section 4(*c*).

Pursuant to Article VIII, Section 4(*a*) and (*b*), I am now submitting to the Board of Governors a proposal for allocation of special drawing rights during the third basic period. Before making this proposal, I have satisfied myself, as required by Article XVIII, Section 4(*b*), that the proposal will be consistent with the provisions of Section 1(*a*) of that Article. Section 1(*a*) provides that:

> (*a*) In all its decisions with respect to the allocation and cancellation of special drawing rights the Fund shall seek to meet the long-term global need, as and when it arises, to supplement existing reserve assets in such manner as will promote the attainment of its purposes and will avoid economic stagnation and deflation as well as excess demand and inflation in the world.

In addition, consultations have been conducted pursuant to Article XVIII, Section 4(*b*), which have enabled me to ascertain that there is broad support among participants for the proposal set forth in this Report. I refer in particular to paragraph 4 of the press communiqué of the Interim Committee of the Board of Governors of the International Monetary Fund, issued after its meeting on September 24, 1978, which states: "In the Committee's view the Fund should make allocations of 4 billion SDRs in each of the next three years 1979 to 1981."

Parts I and II of this report, which follow, dicuss the reasons underlying my proposal and explain its various features. Part III includes the proposal and the draft of a resolution of the Board of Governors approving allocation of special drawing rights in accordance with this proposal.

Part I. Need to Supplement Reserves

1. Basis for Allocation

This proposal to allocate special drawing rights is made in accordance with my conclusion that, as required by Article XVIII, Section 1(*a*), there is at present "a long-term global

[1] Refers to Articles of Agreement in effect before the Second Amendment. The remaining references in this report to the Articles of Agreement refer to the Articles after the Second Amendment.

need . . . to supplement existing reserve assets." The basis for this conclusion is set forth below.

With greater exchange rate flexibility, countries might have been expected to make do with much smaller reserves. Moreover, important changes have taken place in world financial markets in the last decade, and most countries can obtain reserves by making use of international money and capital markets.

Experience shows, however, that countries want to increase their reserves as the level of their international transactions rises, and such increases can be expected to continue in the coming years. While it is true that most countries have a means for satisfying their need for reserves when international capital markets are as free as they are today, the decision to allocate special drawing rights does not depend on a finding that the long-term global need cannot be met except by allocation. A characteristic of a system in which countries add to their gross reserves as their international indebtedness increases is that they are faced with the need for periodic refinancing. This difficulty does not arise when additions to net reserves are made through allocation of special drawing rights.

Another consideration is the objective of making the special drawing right the principal reserve asset of the international monetary system, as set out in Article VIII, Section 7 and Article XXII. Exclusive reliance on the accumulation of reserve currencies to provide the needed reserve increases would hardly be compatible with that objective. Although the role of the special drawing right does not depend on purely quantitative considerations, the amount of special drawing rights in existence is nonetheless relevant. The volume of special drawing rights has not increased since the beginning of 1972, and thus the share of this component in international liquidity has been progressively reduced. When allocation of special drawing rights for 1970-72 was decided upon at the end of 1969, it was thought that thereafter special drawing rights might well account for the bulk of reserve increases. In the event, holdings of reserve currencies have increased much faster than expected, and the actual share of holdings of special drawing rights in reserves excluding gold has declined from about 10 per cent at the beginning of 1972 to about 4 per cent at present. In the absence of allocation, the special drawing right would continue its rapid decline as a proportion of reserves.

In view of these considerations, I have concluded that, in accordance with the Articles, a decision should be taken to resume allocation of special drawing rights.

2. Size and Period of Allocation

Views on the desirable size of allocations of special drawing rights naturally take into account the present magnitude and expected growth of official reserves. The growth of official reserves in turn bears a relationship to the value of world trade, which for the next five years can conservatively be estimated to increase by some 10 per cent a year. The ratio of official reserves to the value of international trade has varied, however, from one period to another, and the increase in reserves could thus be above or below that rate. With the present level of members' holdings of foreign exchange and Fund-related assets of SDR 230 billion, an average increase of SDR 20 billion a year over the next five years would appear to be a low estimate of the likely growth. Figures of this kind do not, of course, provide precise guidance for determining the appropriate level and time of allocations of special drawing rights, but do offer some point of reference for consideration in making such decisions.

It can be maintained, although this view is not universally shared, that with a highly elastic supply of reserves available through international capital markets, a substantial part of any allocation of special drawing rights could be expected to substitute for increases in official holdings of foreign exchange that would otherwise have taken place. This line of reasoning would suggest that any expansionary effects of allocation would be limited in size. Whatever view is taken of these issues, there can be no question that in the world of today the possible

effects on expectations with respect to inflation of a decision to allocate special drawing rights also need to be taken into account. This consideration suggests that allocations at this time should be modest in terms of both annual size and the length of the period for which they should be made.

I have therefore concluded that the Fund should make allocations of SDR 4 billion in each of the next three years 1979 to 1981. In specifying these amounts, I have also had in mind the agreement that has been reached that special drawing rights will be used in partial payment for the quota increases that are to take place under the Seventh General Review of Quotas. The first allocation would be made as of the first day of the month following the effective date of the resolution of the Board of Governors, and the succeeding two allocations would be made as of the same day in each of the subsequent two years.

Part II. Elements of the Proposal

3. Proposed Basic Period

Article XVIII, Section 2(*a*) specifies that: "Decisions of the Fund to allocate or cancel special drawing rights shall be made for basic periods which shall run consecutively and shall be five years in duration." That same section, however, allows the Fund to provide that the duration of a basic period shall be other than five years.

On the occasion of the first decision to allocate, a basic period of three years running from January 1, 1970 was prescribed. The second basic period thus began on January 1, 1973; as the Fund did not provide otherwise, that period ran for five years, with the current, i.e., third, basic period beginning on January 1, 1978.

It is proposed that allocations now be made under Article XVIII, Sections 2(*c*) and 4(*c*)(ii) for three years of the third basic period, and that the basic period end on the final day of the year in which the last of the three annual allocations is made. The third basic period that began on January 1, 1978 would thus have a terminal date of December 31, 1981 and a duration of four years, with allocations in the last three of those four years.

4. Participation During Basic Period

Article XVIII, Section 2(*d*) deals with members that become participants after a basic period begins—on this occasion, as from January 1, 1978. New participants may be new or existing members. New participants would include two classes: (a) those that were not participants at the start of the third basic period but that were participants on the effective date of the proposed resolution and (b) those that become participants after the effective date of the resolution. Article XVIII, Section 2(*d*) declares that a new participant shall not receive allocations in the basic period in which it becomes a participant but authorizes the Fund to decide to permit the member to receive allocations made after it becomes a participant. The decision referred to is taken by the Executive Board by a majority of the votes cast. I would expect that the Executive Board would react sympathetically to any request by a new participant, whether in class (a) or (b), above, to receive allocations made in the third basic period after it becomes a participant.

5. Allocations as Percentages of Quotas

Article XVIII, Section 2(*b*) provides that: "The rates at which allocations are to be made shall be expressed as percentages of quotas on the date of each decision to allocate," but the Fund, under Section 2(*c*) of the same Article, may provide that the basis for allocations shall be quotas on dates other than the dates of decisions to allocate.

On the assumption that the only members receiving allocations were those that are at present participants, the rate for the first allocation would be 10.6 per cent of quotas. The method adopted to express the percentages of quotas for the proposal is designed to ensure that each of the three allocations will be close to SDR 4 billion and that the total amount allocated will be close to SDR 12 billion.[2] Specifically, the total would not be increased if the Executive Board should decide, by the date that the resolution of the Board of Governors becomes effective, to make new participants in class (a) of section 4, above, i.e., members that were not participants at the start of the third basic period but were participants on the effective date of the resolution, eligible to receive the allocations for that period.

The total amount of allocations would be reduced, however, if participants entitled to receive allocations "opt out."[3] In contrast, the total amount of allocations would be increased when any new participants in class (b) of section 4, above, i.e., those that become participants after the effective date of the resolution, are made eligible, by a decision of the Executive Board, to receive allocations made after they become participants.

The proposal also provides that the basis for each allocation shall be quotas on the day before that allocation. This provision is intended to deal with the expectation that increases in quotas under the Seventh General Review are to take place during the third basic period. It would have the result that all participants for which new quotas had gone into effect by the day prior to the allocation in question would receive allocations based on their share in the total quotas prevailing on that day, and that those participants whose new quotas had not gone into effect would receive a much reduced share.

6. Interrelated Issues

The draft resolution provides that it would not become effective unless the draft resolution on the Seventh General Review of Quotas that is being proposed for simultaneous adoption by the Board of Governors is adopted.[4] This provision of the draft resolution on allocation is in accordance with paragraph 3 of the Interim Committee's communiqué of September 24, 1978. In accordance with the same paragraph, the Executive Board has taken decisions on aspects of the special drawing right that are referred to in paragraph 5 of the communiqué. These decisions will become effective on the dates provided for in the decisions if the draft resolution becomes effective.

Part III. Proposal for the Allocation of Special Drawing Rights

I hereby propose that the Fund allocate special drawing rights to the participants in the Special Drawing Rights Department, in accordance with the Articles of Agreement, as follows:

1. The third basic period, which began on January 1, 1978, shall end on December 31, 1981.

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[2] Because the percentage is to be rounded to the nearest one tenth of 1 percentage point, an allocation could in practice exceed or fall short of the desired amount by not more than one twentieth of 1 percentage point of total quotas, i.e., a difference in absolute terms that would not be greater than about SDR 19 million on the basis of quotas at the present time.

[3] For a participant to be able to "opt out," in accordance with Article XVIII, Section 2(e), it must not have voted in favor of the resolution and must inform the Fund before the first allocation under the resolution that it does not wish to receive allocations under that resolution.

[4] See pp. 261–63, above.

2. Allocations during this basic period shall be made as of the first day of the month following the effective date of the resolution of the Board of Governors and as of the same date in each of the subsequent two years.

3. The rate for each participant receiving an allocation shall be the percentage, rounded to the nearest one tenth of 1 percentage point, resulting from dividing SDR 4 billion by the total of quotas on the day before allocation of those participants that were eligible to receive allocations on the date on which this resolution becomes effective.

I further recommend that in accordance with the foregoing proposal, which has been concurred in by the Executive Board on October 25, 1978, the Board of Governors adopt the following proposed resolution.

Proposed Resolution†

WHEREAS the Managing Director has submitted a proposal for the allocation of special drawing rights pursuant to Article XVIII, Section 4, of the Articles of Agreement of the International Monetary Fund;

WHEREAS in the Report containing his proposal, the Managing Director has declared that, before making the proposal, he had satisfied himself that the proposal would be consistent with the provisions of Article XVIII, Section 1(*a*) and that, after consultation, he has ascertained that there is broad support among participants for the proposal; and

WHEREAS the Executive Board had concurred in the proposal of the Managing Director;

NOW, THEREFORE, the Board of Governors, being satisfied that the proposal of the Managing Director meets the principles governing the allocation of special drawing rights set forth in Article XVIII, Section 1(*a*) hereby RESOLVES that:

1. The third basic period, which began on January 1, 1978, shall end on December 31, 1981.

2. The Fund shall make allocations to participants in the Special Drawing Rights Department that are eligible, in accordance with the Articles of Agreement, to receive allocations during the third basic period.

3. Allocations shall be made as of the first day of the month following the date on which this resolution becomes effective and as of the same date in each of the subsequent two years.

4. The rate for the allocations to participants eligible to receive allocations in accordance with 2 above shall be the percentage, rounded to the nearest one tenth of 1 percentage point, resulting from dividing SDR 4 billion by the total of quotas on the day before allocation of those participants that were eligible to receive allocations on the date on which this resolution becomes effective.

5. This resolution shall become effective if it and the proposed resolution on the Seventh General Review of Quotas are adopted by the necessary majority of the total voting power for each.

† Resolution No. 34-3 of the Board of Governors, adopted December 11, 1978.

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Selected Resolutions on SDRs

In the years 1972–78, in addition to the resolutions on the rules for reconstitution and allocations, the Board of Governors adopted three other resolutions relating to SDRs.

In March 1972, a resolution was adopted which made the SDR the unit of account for the Fund's financial statements, records, reports, and statistics. Previously, the Fund's accounts and statistics were expressed in terms of U.S. dollars.

In January 1974, the Board of Governors adopted a resolution prescribing the Bank for International Settlements as an "other holder" of SDRs. Previously, SDRs could be held only by the Fund and by the governments of Fund members, although provision had been made in the Articles of Agreement for prescribing additional institutions as "other holders" of SDRs. The Bank for International Settlements was the first such "other holder."

In March 1974, the Board of Governors adopted a resolution extending the period in which the "equal value" provision specified in the Articles of Agreement for exchanges of SDRs could be temporarily suspended. Earlier, in November 1973, the Executive Directors had taken a decision permitting a suspension for a period of 120 days, which was the maximum possible period for which the Executive Directors could suspend provisions of the Articles. The suspension of the equal value provision enabled European countries to use their holdings of SDRs in payments among themselves while consideration was being given to a new method for valuing the SDR.

Amendment of Section 20(b) of the By-Laws
(March 20, 1972)

Resolution No. 27-3 of the Board of Governors

RESOLVED:

That the first sentence of the fifth paragraph of Section 20(b) of the By-Laws shall be amended, effective March 20, 1972, to read as follows:

"All accounts of the General Account shall be summarized in special drawing rights of the value prescribed in Article XXI, Section 2. The currencies of members shall be converted at their par values, or in accordance with decisions of the Fund."

Prescription of the Bank for International Settlements as a Holder of Special Drawing Rights
(January 21, 1974)

Resolution No. 29-1 of the Board of Governors

WHEREAS the Bank for International Settlements, by a letter dated September 12, 1973, applied to be permitted under Article XXIII, Section 3, of the Articles of Agreement of the Interna-

tional Monetary Fund to accept, hold, and use special drawing rights in certain transactions with participants; and

WHEREAS pursuant to Section 25 of the By-Laws of the Fund, the Executive Directors, after consultation with the Representatives of the Bank for International Settlements, have recommended that the Bank for International Settlements be prescribed as a holder on the terms and conditions set forth in this Resolution; and

WHEREAS the Bank for International Settlements has indicated its concurrence in the proposed terms and conditions;

NOW, THEREFORE, the Board of Governors, having considered the recommendations of the Executive Directors, hereby RESOLVES that:

The Bank for International Settlements is prescribed as a holder of special drawing rights on the following terms and conditions:

1. *Definitions:* As used in this Resolution:
   (a) "Fund" means the International Monetary Fund.
   (b) "Bank" means the Bank for International Settlements.
   (c) "Participant" means a participant in the Special Drawing Account of the Fund.
   (d) "Articles" mean the Articles of Agreement of the Fund.
   (e) "Article" refers to an identified provision of the Articles.
   (f) "Need to use special drawing rights" means need as defined in Article XXV, Section 3(*a*).
2. *Application of General Provisions:* The provisions of the Articles, By-Laws, Rules and Regulations, and decisions of the Fund that apply to all holders shall apply under this Resolution.
3. *Acceptance, Holding, and Use by the Bank:*
   (a) *Acceptance:* The Bank may accept special drawing rights and provide currency in a transaction in agreement with a participant, which agreement includes an undertaking by the Bank and participant that the Bank will use the same amount of special drawing rights to obtain currency from that participant within a period of up to six months.
   (b) *Holding:* The Bank may hold special drawing rights accepted in accordance with (a) above or received from the Fund as interest on its holdings of special drawing rights.
   (c) *Use:* The Bank may use special drawing rights to obtain currency in a transaction in agreement with a participant:
      (i) to fulfill the Bank's undertaking assumed in accordance with paragraph 3(a) above; or
      (ii) after consultation with the Fund, to dispose of special drawing rights when the Bank finds that a participant has failed to carry out the agreement referred to in paragraph 3(a) above; and
      (iii) to dispose of special drawing rights received from the Fund as interest on the Bank's holdings of special drawing rights.

The Bank shall return special drawing rights to a participant which is required to accept them in accordance with paragraph 4(a)(ii).

   (d) *Exchange rates:* In all transactions under this Resolution the rules which determine the exchange rates applicable to participants under the Articles at the time of each transfer of special drawing rights shall also apply to the Bank.

4. *Use and Acceptance by Participants:*

   (a) *Use:*

      (i) A participant that represents to the Fund that it has a need to use special drawing rights may enter into a transaction in accordance with paragraph 3(a) above by giving notice to the Fund.

      (ii) The Fund shall not challenge the representation in (a)(i) above. The Fund, however, may require the participant to accept special drawing rights from the Bank, for currency acceptable to the Bank, to the extent the Fund later finds that the participant did not have a need to use special drawing rights.

   (b) *Acceptance:* A participant may accept special drawing rights in accordance with paragraph 3(c) above. A participant shall accept special drawing rights from the Bank and provide currency as required under (a)(ii) above.

5. *Information and Recording:* The Fund shall inform the Bank of all matters relevant to the acceptance, holding, and use of special drawing rights by the Bank. The Bank and the participant shall inform the Fund promptly of the facts necessary to record any transaction in which the Bank accepts or uses special drawing rights.

6. *Consultation and Review:* The Bank and the Fund will remain in close consultation with respect to this Resolution. The Executive Directors shall review this Resolution at least once every three years and submit any recommendation that they consider appropriate to the Board of Governors.

7. *General Undertaking of Bank:* The Bank undertakes, in its acceptance, holding, and use of special drawing rights, to collaborate with the Fund in order to facilitate the effective functioning of the Special Drawing Account and the proper use of special drawing rights in accordance with the Articles and this Resolution.

8. *Annual Report:* The Executive Directors shall discuss the operation of this Resolution in their annual report as part of their review of the operation of the Special Drawing Account.

9. *Suspension:* During any period in which a suspension under Article XXIX, Section 1, is in effect, transactions under this Resolution shall be suspended unless the Executive Directors decide otherwise.

10. *Termination:* The prescription hereunder may be terminated either by the Bank, or by the Fund on the decision of the Executive Directors, by transmitting a notice in writing to the Fund or the Bank at its principal office. Termination shall become effective on the date the notice is received. After termination the Bank may hold, receive, and use special drawing rights only in accordance with paragraphs 3(b), (c), and (d), above, and participants may accept special drawing rights from the Bank under paragraph 4(b) above.

11. *Adherence to Terms and Conditions:*

    (a) The Bank may adhere to this Resolution within six months of the effective date of this Resolution, which date shall be the date of its adoption by the Board of Governors.

    (b) Adherence hereunder shall be in the form of a letter to the Fund, acknowledging these terms and conditions and bearing signatures which legally commit the Bank.†

† The Bank for International Settlements adhered to this resolution in accordance with paragraph 11 of the resolution by letter dated January 30, 1974.

Extension of Suspension of Operation of Article XXV, Section 8(*a*) (March 4, 1974)

Resolution No. 29-2 of the Board of Governors

RESOLVED:

That the suspension of the operation of Article XXV, Section 8(*a*) with respect to transactions under Article XXV, Section 2(*b*)(i), which was decided by the Executive Directors on November 5, 1973 for a period of 120 days ending on March 5, 1974, shall be extended for an additional period of 240 days ending on October 31, 1974.

PART SIX

Amending the Articles of Agreement

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Drafting a New Article IV of the Articles of Agreement

As the Second Amendment of the Articles of Agreement was being prepared and discussed by the Executive Directors from July 1974 to March 1976, there was considerable controversy over the provisions governing exchange rates and exchange arrangements. In brief, officials of France argued that floating rates should not be "legalized" and that a par value system should be reinstituted in the Fund, while officials of the United States argued that it was premature to provide for a par value system and that floating rates should be acceptable in the Fund's amended Articles.

In the course of the debates by the Executive Directors concerning the provisions of Article IV, the Executive Director appointed by France, Jacques Wahl, and the Executive Director appointed by the United States, Sam Y. Cross, disagreed with the paper that the staff of the Legal Department had prepared and had circulated to the Executive Directors setting forth proposed provisions for Article IV dealing with the exchange rate obligations of members. They each circulated alternative versions.

The staff draft of and commentary on a proposed Article IV are published as (A) below. The drafts circulated by Messrs. Wahl and Cross appear below as (B) and (C), respectively.

(A) Staff Draft of and Commentary on Amendment of Article IV (March 14, 1975)

Article IV

Obligations Regarding Exchange Stability and Par Values of Currencies†

~~Section 1. *Expression of par values*~~

~~(*a*) The par value of the currency of each member shall be expressed in terms of gold as a common denominator or in terms of the United States dollar of the weight and fineness in effect on July 1, 1944.~~

~~(*b*) All computations relating to currencies of members for the purpose of applying the provisions of this Agreement shall be on the basis of their par values.~~

† The sections crossed through with solid lines are proposed deletions to the provisions of the original Articles of Agreement; words underscored indicate proposed insertions; words crossed through with dashed lines indicate deletions after discussion by the Executive Directors of an earlier draft.

Section ~~4~~ 1. *Obligations regarding exchange stability*

~~(a)~~ Each member undertakes to collaborate with the Fund and with other members to promote exchange stability, to maintain orderly exchange arrangements ~~with other members~~, and to avoid competitive exchange ~~alterations~~ policies.

~~(b) Each member undertakes, through appropriate measures consistent with this Agreement, to permit within its territories exchange transactions between its currency and the currencies of other members only within the limits prescribed under Section 3 of this Article. A member whose monetary authorities, for the settlement of international transactions, in fact freely buy and sell gold within the limits prescribed by the Fund under Section 2 of this Article shall be deemed to be fulfilling this undertaking.~~

~~Section 2. *Gold purchases based on par values*~~

~~The Fund shall prescribe a margin above and below par value for transactions in gold by members, and no member shall buy gold at a price above par value plus the prescribed margin, or sell gold at a price below par value minus the prescribed margin.~~

Section 2. Par values

(a) Each member shall establish a par value for its currency and shall maintain it in accordance with Section 3 of this Article unless it is availing itself of Section 4 of this Article.

(b) A member shall inform the Fund whether it maintains rates for exchange transactions in accordance with Section 3 or avails itself of Section 4 of this Article.

(c) The par value of a member's currency shall be expressed in terms of a common denominator which shall be determined by the Fund.

Section 3. *Foreign exchange dealings based on parity*

~~The maximum and the minimum rates for exchange transactions between the currencies of members taking place within their territories shall not differ from parity~~

~~(i) in the case of spot exchange transactions, by more than one percent; and~~

~~(ii) in the case of other exchange transactions, by a margin which exceeds the margin for spot exchange transactions by more than the Fund considers reasonable.~~

(a) Each member that has a par value for its currency undertakes to apply appropriate measures consistent with this Agreement in order to ensure that exchange transactions between its currency and the currencies of other members having par values for their currencies and applying such measures will take place within its territories only at rates consistent with (b) below. Each member that has a par value for its currency shall inform the Fund of the measures it applies for this purpose in order to enable the Fund to ascertain whether the member is fulfilling its undertaking under this provision.

(b) The maximum and the minimum rates for exchange transactions taking place within the territories of a member that has a par value for its currency between that currency and the currencies of other members that have par values for their currencies shall not differ from parity

(i) in the case of spot exchange transactions, by more than [four and one-half] percent or by such other margin or margins as the Fund may adopt [by an eighty-five percent majority of the total voting power], and

(ii) in the case of other exchange transactions, by a margin which exceeds the margin or margins for spot exchange transactions by more than the Fund considers reasonable.

The Fund may prescribe conditions to be observed by members in connection with the maintenance of margins under this provision.

~~Section 4. *Obligations regarding exchange stability*~~

~~(a) Each member undertakes to collaborate with the Fund to promote exchange stability, to maintain orderly exchange arrangements with other members, and to avoid competitive exchange alterations.~~

~~(b) Each member undertakes, through appropriate measures consistent with this Agreement, to permit within its territories exchange transactions between its currency and the currencies of other members only within the limits prescribed under Section 3 of this Article. A member whose monetary authorities, for the settlement of international transactions, in fact freely buy and sell gold within the limits prescribed by the Fund under Section 2 of this Article shall be deemed to be fulfilling this undertaking.~~

Section 4. *Foreign exchange dealings not based on parity*

Alternative 1

[A member may permit within its territories exchange transactions at rates not based on a par value for its currency in such [exceptional] [particular] situations, for such periods, and subject to such conditions as the Fund may determine.]

Alternative 2

[In particular situations specified by the Fund, a member may permit within its territories exchange transactions at rates not based on a par value for its currency. The member shall act consistently with policies established by the Fund for the management of exchange rates under this provision.]

Section 5. *Changes in par values*

(*a*) The Fund and each member that has a par value for its currency shall consult from time to time on the par value of the currency.

(*b*) ~~(*a*)~~ A member shall not propose a change in the par value of its currency except to maintain fundamental equilibrium or to correct, or prevent the emergence of, a fundamental disequilibrium.

(*c*) ~~(*b*)~~ A change in the par value of a member's currency may be made only on the proposal of the member and only after consultation with the Fund.

~~(c) When a change is proposed, the Fund shall first take into account the changes, if any, which have already taken place in the initial par value of the member's currency as determined under Article XX, Section 4. If the proposed change, together with all previous changes, whether increases or decreases,~~

~~(i) does not exceed ten percent of the initial par value, the Fund shall raise no objection,~~

~~(ii) does not exceed a further ten percent of the initial par value, the Fund may either concur or object, but shall declare its attitude within seventy-two hours if the member so requests,~~

~~(iii) is not within (i) or (ii) above, the Fund may either concur or object, but shall be entitled to a longer period in which to declare its attitude.~~

[(*d*) A member may change the par value of its currency without the concurrence of the Fund if the change does not exceed (i) [two] percent of its par value and (ii) [five] percent of its par value in any period of twelve months.]

[(*e*) ~~(*d*)~~ Uniform changes in par values made under Section ~~7~~ 9 of this Article shall not be taken into account in determining whether a proposed change falls within ~~(i), (ii), (iii) of (*c*)~~ (*d*) above.]

(*f*) ~~(*e*)~~ A member may change the par value of its currency without the concurrence of the Fund if the change does not affect the international transactions of members of the Fund.

(*g*) ~~(*f*)~~ The Fund shall concur in a proposed change [which is not within the terms of ~~(*e*) (ii) or (*e*)(iii)~~ (*d*) above] if it is satisfied that the change is necessary to maintain fundamental equilibrium, or to correct, or prevent the emergence of, a fundamental disequilibrium. In particular, provided it is so satisfied, it shall not object to a proposed change because of the domestic social or political policies of the member proposing the change.

~~Section 6. Effect of unauthorized changes~~

~~If a member changes the par value of its currency despite the objection of the Fund, in cases where the Fund is entitled to object, the member shall be ineligible to use the resources of the Fund unless the Fund otherwise determines; and if, after the expiration of a reasonable period, the difference between the member and the Fund continues, the matter shall be subject to the provisions of Article XV, Section 2(b).~~

Section 6. *Cessation and subsequent establishment of par value*

(*a*) The par value of a member's currency shall cease to exist for the purposes of this Agreement if the member informs the Fund that it avails itself of Section 4 of this Article.

(*b*) The Fund may decide that the par value of the currency of a member that has not availed itself of Section 4 of this Article shall cease to exist for the purpose of this Agreement because the member does not maintain rates for exchange transactions in accordance with Section 3 of this Article. The member shall act consistently with policies established by the Fund for the management of exchange rates.

(*c*) A proposal to establish a par value for a currency after it has ceased to exist under (*a*) or (*b*) above shall be deemed to be a proposal to change a par value within the meaning of Section 5 of this Article.

Section 7. *Foreign exchange dealings during interim period*

Sections 2, 3, 4, 5, 6, 8, 9, and 10 of this Article shall not apply until the Fund, by an eighty-five percent majority of the total voting power, decides that these provisions shall begin to apply because it finds that a large number of members, having a substantial share of the volume of international transactions, are able and willing to establish and maintain par values in accordance with these provisions. A member shall act consistently with policies established by the Fund for the management of exchange rates during the period in which these provisions do not apply, and thereafter until the member establishes a par value. The par values of currencies in effect on the date of the second amendment of this Agreement shall cease to exist for the purposes of this Agreement as of that date.

Section 8. *Establishment of initial par values after end of interim period*

(*a*) Within a reasonable period after Sections 2, 3, 4, 5, 6, 8, 9, and 10 of this Article have begun to apply, each member that does not avail itself of Section 4 of this Article shall propose an initial par value for its currency. An initial par value proposed at any time shall be the par value of the member's currency for the purposes of this Agreement unless, within [thirty] days after receipt

of the proposal, the Fund notifies the member that in its opinion the proposed initial par value would not enable the member to maintain fundamental equilibrium.

(*b*) A member proposing to the Fund an initial par value for the currency of its metropolitan territory shall simultaneously communicate a value for each separate currency, where such exists, in the territories in respect of which it has accepted this Agreement under Article XXXI, Section 2(g).

Section ~~7~~ 9. *Uniform changes in par values*

Notwithstanding the provisions of Section ~~5(b)~~(c) of this Article, the Fund [by an eighty-five percent majority of the total voting power] may make uniform proportionate changes in the par values of the currencies of all members. [The par value of a member's currency shall, however, not be changed under this provision if, within seventy-two hours of the Fund's action, the member informs the Fund that it does not wish the par value of its currency to be changed by such action.]

~~Section 8. *Maintenance of gold value of the Fund's assets*~~

~~(*a*) The gold value of the Fund's assets shall be maintained notwithstanding changes in the par or foreign exchange value of the currency of any member.~~

~~(*b*) Whenever (i) the par value of a member's currency is reduced, or (ii) the foreign exchange value of a member's currency has, in the opinion of the Fund, depreciated to a significant extent within that member's territories, the member shall pay to the Fund within a reasonable time an amount of its own currency equal to the reduction in the gold value of its currency held by the Fund.~~

~~(*c*) Whenever the par value of a member's currency is increased, the Fund shall return to such member within a reasonable time an amount in its currency equal to the increase in the gold value of its currency held by the Fund.~~

~~(*d*) The provisions of this Section shall apply to a uniform proportionate change in the par values of the currencies of all members, unless at the time when such a change is made the Fund decides otherwise by an eighty-five percent majority of the total voting power.~~

Section ~~9~~ 10. *Separate currencies within a member's territories*

A member proposing a change in the par value of its currency under Sections 5 or 6(*c*) of this Article or availing itself of Section 4 of this Article shall be deemed, unless it declares otherwise, to be proposing a corresponding change in the par value of, or to be availing itself of Section 4 of this Article with respect to, the separate currencies of all territories in respect of which it has accepted this Agreement under Article ~~XX~~ XXXI, Section 2(*g*). It shall, however, be open to a member to declare that its proposal or action relates either to the metropolitan currency alone, or only to one or more specified separate currencies, or to the metropolitan currency and one or more specified separate currencies.

Exchange Stability, Par Values, and Exchange Margins

Exchange Stability

The provisions of draft *Article IV* reflect the general recognition that in the reformed system exchange rates should continue to be a matter of international concern and consultation, that the exchange rate mechanism should be based on stable but adjustable par values, that the maximum margins for exchange transactions should be wider than those of the present Articles, and that, in particular situations and under adequate safeguards, floating rates could be an alternative technique to the maintenance of par values. At the same time, the draft

provisions reflect the recognition that the present situation of widespread floating may continue for an indeterminate period and that an international exchange system based on par values may not be applied until some time after the date on which the proposed amendment becomes effective.

The provisions of Sections 3 and 4 of Article IV of the present Articles have been rearranged in order to emphasize the central function in the code of conduct contained in the Articles of the obligation of members under the present Article IV, Section 4(*a*), which corresponds to one of the purposes of the Fund. Moreover, the rearrangement is intended to make the point that members could act consistently with the objective of exchange stability either through the maintenance of effective par values or through the adoption of floating rates in particular situations and subject to the observance of adequate safeguards, such as policies established by the Fund.

Article IV, Section 4(*a*) of the present Articles would become *Article IV, Section 1* of the draft and would differ from the present provision only in two respects: (a) The words "and with other members" would be added to make the obligation to cooperate applicable among members as well as with the Fund. The obligation would then resemble the similar undertaking of participants under the present Article XXVIII. (b) The word "policies" would be substituted for the word "alterations." This change is intended to make the obligation apply to all exchange policies and not simply to changes in exchange rates. As a result of the modified language, the Fund would be able to decide that a member was failing to observe its obligations with respect to competitive practices even though that failure took the form of inaction. Under the present text of Article IV, Section 4(*a*), the Fund would be able to decide that a member that does not change the rate of exchange for its currency was failing to perform its obligations under the provision only if the Fund concluded that the member was failing "to promote exchange stability" or "to maintain orderly exchange arrangements."

The substance of the present Section 4(*b*) is incorporated in the first sentence of draft *Section 3(a)*, which deals with the obligations of members that are maintaining par values. This provision is explained below.

Par Values

Under draft *Article IV, Section 7*, the par values in existence at the time the proposed amendment goes into effect will cease to exist for the purposes of the Articles, although their status under the domestic law of members will be governed by their laws. Cessation of the par values for the purposes of the Articles will be consistent with the facts that have prevailed for some time. The draft provisions on par values would not become operative until such time after the effective date of the proposed amendment as a large majority of the membership of the Fund, both in terms of numbers and in terms of their share in the volume of international transactions, were confident that they could operate their exchange systems on the basis of par values. Until that happened, members would have no par values under the Articles and would not be bound by the draft provisions relating to par values and exchange margins but would, nevertheless, be bound by the undertaking in draft *Article IV, Section 1* and the obligation under draft *Article IV, Section 7* to act consistently with policies established by the Fund for the management of exchange rates of currencies in the absence of par values. This obligation, which would be similar to the obligation of members with a floating currency after the par value provisions had been put into effect (draft *Article IV, Section 4*), would have to be observed also by members that had not yet established an initial par value after the par value provisions had been put into effect and the interim period had thus come to an end.

In the period before the provisions on par values became operative, the Fund's policies on exchange rates would be expressed in decisions that could deal with rates (including central rates), margins, and the management of exchange rates. The Fund would be able, there-

fore, to recognize the official character of rates and practices and to endorse them even though the concept of par value as it prevailed in the past would be in abeyance until revived.

When the interim period is ended by the Fund's decision to put the provisions on par values and exchange margins into effect, each member would have to establish and maintain a par value for its currency in accordance with *Sections 2, 3, and 8 of draft Article IV*, unless it chose to adopt a regime of floating rates in accordance with draft *Section 4* of the same Article.

Under draft *Article IV, Section 3(a)* the obligation to take appropriate measures to ensure that transactions within a member's territories take place only at rates based on parity would apply only to members that maintain par values. Furthermore, the obligation would apply only in respect of transactions between the currency of such a member and the currencies of other members that for their part were taking appropriate measures to maintain rates based on parity. Draft *Article IV, Section 3* does not prescribe how the responsibility of members to maintain exchange rates based on parity is to be carried out or how this responsibility is to be shared among the members whose currencies are traded in each other's markets. In the absence of agreement on the system and methods of intervention and on new convertibility arrangements that could be incorporated in the amended Articles, it is not feasible to specify now the various types of measures that a member could take in order to perform its obligation to maintain the effectiveness of its par value. To enable the Fund to ascertain how members were carrying out their responsibilities, the draft provision requires members to inform the Fund of the measures that they are taking for this purpose.

Under draft *Article IV, Section 5* a member would be able to propose a change in its par value not only to correct a fundamental disequilibrium but also to prevent the emergence of a fundamental disequilibrium or to maintain an equilibrium already attained. This change is in conformity with the practice of the Fund as it had developed in the par value regime of the present provisions. There are two other changes in draft *Section 5* as compared with the corresponding provision in the present Articles. The first is the introduction of draft *subsection (a)* under which members would be required to consult with the Fund on their par values, and the other is draft *subsection (d)*, which would replace the present subsection (*c*), and would provide for certain small changes in par values without the necessity to obtain the concurrence of the Fund. If it were found preferable not to permit this exception to the requirement of the concurrence of the Fund for changes in par value, draft *subsection (d)* would be omitted.

Under the provisions of draft *Article IV* it would be possible for a member to terminate the par value of its currency without establishing a new one, an action that is not legally possible under the present Articles. Under draft *Article IV, Section 6* the par value of a member that notified the Fund of its intention to avail itself of the draft provision on floating (draft *Article IV, Section 4*) would cease to exist for the purposes of the Articles. A par value that had ceased to exist in this way could not be reinstated without its establishment as a new par value. In addition, even though the member had not given notice, the Fund would be able to find that the par value of the member's currency had ceased to exist if the Fund were to determine that the member did not ensure that exchange transactions took place on the basis of parity. The Fund would not be required to make this determination if it was satisfied that the failure to observe the margins would be of brief duration and that the member wished to resume observance of the margins after a short interval. Whether a member's par value had ceased to exist because the member notified the Fund that it was availing itself of draft *Article IV, Section 4* or because the Fund found that the member's currency was floating, the member would be required to act consistently with the policies of the Fund with regard to the management of exchange rates not based on a par value. As noted, the first case would be covered by draft *Section 4*; the second would be covered by draft *Section 6(b)*. Under draft *Article IV, Section 7*, the requirement that members act consistently with the Fund's policies

on rates would apply with regard to all currencies during the period before the provisions on par values were made effective and after that date with regard to the currencies of those members for which initial par values had not been established.

A proposal to establish a new par value for the currency of a member after the cessation of a former par value would be treated as if it were a proposal for a change in par value, and the provisions of draft *Article IV, Section 5* would apply to it. The establishment of initial par values by members for their currencies and the separate currencies of their dependencies after the provisions on par values had become applicable would be governed by draft *Article IV, Section 8 (a) and (b)*.

In conformity with the consensus that gold should cease to be the common denominator in the new system, par values would no longer be expressed in gold. When the provisions on par values are put into effect, it would be necessary to establish a common denominator. The Fund could then decide to operate the par value system on the basis of an abstract unit. If, however, the conditions then prevailing warranted the action, the Fund could operate the system on the basis of the special drawing right as the common denominator.

Under draft *Article V, Section 11*, computations for the purpose of applying the provisions of the Articles other than those relating to par values and exchange margins, such as computations involving quotas, subscriptions, exchange transactions of the Fund with members, maintenance of value of the Fund's assets, etc., would be made in terms of the special drawing right. The function of an abstract unit would be limited to the determination of the parity relationships among the currencies of members maintaining par values and the margins within which exchange rates for transactions between any two of these currencies would have to be confined.

The question has been considered whether under the amended Articles the special drawing right should become the common denominator automatically when the Fund decided to make the par value provisions effective. In view of the uncertainties as to the conditions that might prevail at that time and as to the preferences of members regarding the role of the common denominator and the system of valuation of the special drawing right at that time, all possible courses of action regarding the choice of a common denominator should remain available.

Uniform Changes in Par Values

The provisions of draft *Article IV* envisage a system that might be based on the widespread observance of par values at some later date and that would employ the special drawing right not only for valuation in exchange transactions but possibly also as the common denominator. It seems advisable, therefore, to retain the provision of the present Articles with regard to uniform changes in par values. If, after the par value provisions were put into effect, the Fund were to decide to make the special drawing right the common denominator, the Fund might find it desirable to make an initial, and perhaps also subsequent, equiproportional adjustment in the par values of all currencies in order to bring par values into line with the values of the currencies in terms of the special drawing right as determined by the Fund for the purpose of its operations and transactions. The adjustments, which would be uniform for all currencies among which parity rates were maintained, could be made under draft *Article IV, Section 9*.

Draft *Article IV, Section 9* would enable the Fund to change the value of the special drawing right uniformly in terms of currencies. The occasions when the Fund might use this provision have been mentioned in the paragraph above. The function of a provision on uniform changes in terms of the special drawing right is different from the function of Article IV, Section 7 in the present Articles. A provision on uniform proportionate changes in the par values of all currencies in terms of gold was adopted in the Articles for the purpose of

making it possible to change the value of the stock of gold and the profitability of gold production, and in this way to bring about changes in international liquidity. Under the provisions dealing with special drawing rights, the volume of international liquidity can be affected by the allocation or cancellation of special drawing rights. Under the latter system, uniform proportionate changes in par values would serve the purpose of bringing par values into line with the values of currencies in terms of special drawing rights in operations and transactions when the former diverged substantially from the latter because of the method of valuation, such as the standard basket or the asymmetrical basket, employed for determining values for the purpose of operations and transactions.

On the occasion of the transition from the initial method of valuation of the special drawing right to the standard basket, the Fund decided to avoid abrupt changes in the value of the special drawing right as a result of the change in the method of valuation. It was held that abrupt changes should be avoided because they would be detrimental to the status of the special drawing right as the central reserve asset of the system.

In the light of the preceding discussion of uniform proportionate changes in par values, three questions should be considered in relation to draft *Article IV, Section 9*. The first question is whether a special majority should be necessary for a decision to make uniform proportionate changes. The second question is whether the required majority should differ from the majority required for a decision to change the method of calculation of the special drawing right. The third question is whether a member should be allowed to opt out of a uniform proportionate change. Opting out would be equivalent to a devaluation or revaluation but would be made without observance of the procedures necessary for a change in the par value of a currency under the draft provisions on par values.

(B) Provisions Regarding Par Values and Exchange Stability Under Article IV by the Executive Director for France, Jacques Wahl

(April 9, 1975)

Section 1. *General obligations regarding par values and exchange stability*

Each member undertakes to collaborate with the Fund and with other members to promote exchange stability, to maintain orderly exchange arrangements, and to avoid competitive exchange policies.

Section 2. *Par values*

(*a*) Each member shall establish a par value for its currency.

(*b*) The par value of a member's currency shall be expressed in terms of a common denominator which shall be determined by the Fund and shall not be the currency of any member or nonmember country.

(*c*) Each member shall maintain rates for exchange transactions based on the parity of its currency in accordance with Section 3 of this Article, subject to the provisions of Section 4 of this Article.

Section 3. *Foreign exchange dealings based on parity*

(*a*) Each member undertakes to apply appropriate measures consistent with this agreement in order to ensure that exchange transactions between its currency and the currencies of other members applying such measures will take place within its territories only at rates consistent with (*b*) below. Each member shall inform the Fund of the measures it applies for this purpose in order to enable the Fund to ascertain whether the member is fulfilling its undertaking under this provision.

(*b*) The maximum and the minimum rates for exchange transactions between the currencies of members taking place within their territories shall not differ from parity:

(i) in the case of spot exchange transactions, by more than 4.5 per cent or by such other margin or margins as the Fund may adopt by an 85 per cent majority of the total voting power, and

(ii) in the case of other exchange transactions, by a margin which exceeds the margin or margins for spot exchange transactions by more than the Fund considers reasonable.

The Fund may define under Section 1 of this Article more specific conditions to be observed by members in connection with the maintenance of rates for exchange transactions based on parity.

Section 4. *Deviation from parity*

In exceptional situations and at the request of a member, the Fund may authorize this member, for such periods and subject to such conditions as the Fund shall determine, to permit within its territories exchange transactions at rates not based on the parity of its currency as defined under Section 3 of this Article.

Section 5. *Changes in par value*

(*a*) A change in the par value of a member's currency may be made only on the proposal of the member and only after consultation with the Fund. When a change is proposed, the Fund may either concur or object but shall declare its attitude within a reasonable period.

(*b*) A member shall not propose a change in the par value of its currency except to correct, or prevent the emergence of, a fundamental disequilibrium.

(*c*) A member may change the par value of its currency without the concurrence of the Fund if the change does not affect the international transactions of members of the Fund.

(*d*) The Fund shall concur in a proposed change if it is satisfied that the change is necessary to correct, or prevent the emergence of, a fundamental disequilibrium. In particular, provided it is so satisfied, it shall not object to a proposed change because of the domestic social or political policies of the member proposing the change.

Section 6. *Effect of unauthorized changes in par value or undue deviations from parity*

If a member changes the par value of its currency without the concurrence of the Fund, or fails to fulfill any of its obligations under Section 4 of this Article, the member shall be ineligible to use the resources of the Fund unless the Fund otherwise determines. And if, after the expiration of a reasonable period, the difference between the member and the Fund continues, or the member persists in its failure to fulfill any of its obligations under Section 4 of this Article, the matter shall be subject to the provisions of Article XV, Section 2(*b*).

Section 7. *Uniform changes in par value*

Notwithstanding the provisions of Section 5(*a*) of this Article the Fund by an 85 per cent majority of the total voting power may make uniform proportionate changes in the par values of the currencies of all members. The par value of a member's currency shall, however, not be changed under this provision if, within seventy-two hours of the Fund's action, the member informs the Fund that it does not wish the par value of its currency to be changed by such action.

Section 8. *Separate currencies within a member's territories*

A member proposing a change in the par value of its currency shall be deemed, unless it declares otherwise, to be proposing a corresponding change in the par value of the separate currencies of all territories in respect of which it has accepted this agreement under Article XXXI, Section 2(*g*). It shall, however, be open to a member to declare that its proposal relates either to the metropolitan currency alone, or only to one or more specified separate currencies, or to the metropolitan currency and one or more specified separate currencies.

(C) Commentary on Alternative Approach to Article IV on Exchange Rate Arrangements by the Executive Director for the United States, Sam Y. Cross

(May 1, 1975)

The alternative approach to Article IV proposed informally by the U.S. Executive Director attempts to focus the Fund's attention more on the *policies* nations follow and less on *procedures* they employ—to concentrate on what they are doing rather than on exactly how they are doing it. It reflects the view that the question of whether a nation is pursuing inappropriate or harmful policies is of greater concern to the world community than the question of whether one exchange rate technique or another is utilized in the application of such policies. It should be evident that a country's policies should not be judged appropriate from an international point of view simply because it has a par value for its currency—obviously a country could be pursuing inappropriate policies even though it was maintaining a par value. Accordingly, the approach suggested shifts attention away from the essentially procedural issue of par values vs. no par values—and toward the more substantive issues of whether a nation's policies promote exchange stability, whether it maintains orderly exchange arrangements, and whether its policies affecting exchange rates are consistent with the broad purposes of the Fund.

These substantive issues address the question of whether a member is observing central and fundamental obligation to the Fund regarding exchange rates. It is possible for a nation to fulfill that fundamental obligation with any of a variety of exchange rate systems, and acceptance of the obligation should not imply the adoption of any specific set of procedures or exchange rate arrangements. The obligation to collaborate with the Fund and with other members to promote "exchange stability" is an obligation to promote orderly and equable market conditions, to seek to avoid disruption. "Exchange *rate* stability" does not necessarily lead to "exchange stability"—indeed, too firm a dedication to maintaining a particular exchange rate structure can bring heavy speculation and instability. Policies which are destabilizing or inconsistent with the Fund's purposes are possible whether the member applying such actions is regarded as having a par value or is considered to be floating, and the attention of the international community should be focused on the avoidance of such policies rather than on the exchange rate system maintained by an offending member.

During the two years of Committee of Twenty negotiations, debate on exchange rates centered largely on the question of par values vs. floating—two somewhat idealized concepts, neither of which is at present being applied in pure form by any Fund member. The approach we have proposed for Article IV does not aim at reopening that debate but rather at redirecting the dialogue into more meaningful channels. The language we have offered does not mention either "par value" or "floating," but looks beyond the procedural framework to the more substantive aspect of nations' obligations and policy actions. The approach would permit a widespread return to par values by nations which preferred that, but would not force it on those which did not. It would provide the procedural tolerance under which a nation could pursue the technical path of its choosing so long as it acted responsibly toward other members of the world community. The formula used in the Committee of Twenty discussions—stable but adjustable par values, with floating in particular situations—never in our view meant that, if a country chose not to maintain a par value, that would be a matter of international approbation, or would be subject to a time limit, or would require individual authorization or specific permission

of the Fund. Thus, we believe that the alternative approach we have suggested for Article IV is compatible with that formula.

Our approach calls for a declaration of the basic international undertakings of members with respect to exchange arrangements in its essentials, as follows:

First, an undertaking by each member to collaborate to promote exchange stability and to avoid policies affecting exchange rates that are inconsistent with the purposes of the Fund—respecting the right of each member to meet that undertaking through whatever exchange regime or arrangements it chooses.

Second, an undertaking by each member to keep the Fund informed of its policies and to be prepared to consult with the Fund about them. Willingness to provide such information would not imply that members would have to notify the Fund of such operational actions as day-to-day data or tactics on exchange market intervention. It does mean that each member would provide full information on its economic policies and strategy, and developments in its economy, to facilitate surveillance by the Fund of members' policies.

Third, an undertaking that the Fund would adopt a set of principles for the guidance of members with respect to their policies affecting exchange.

This proposal does not presume that establishment of a set of principles will be easy. The Fund has had some experience in formulating guidelines, in its work on the Guidelines for Floating. It would be a matter of negotiation among members to reach agreement on the principles called for in this approach. But in our view the principles would not be limited in coverage to a few countries as the Guidelines for Floating. We think that such principles as may be agreed by the Fund membership should be applied generally and should not be based on a country's exchange rate system.

The Guidelines for Floating provide an illustration of how the same principles should apply irrespective of a country's exchange rate system. One can argue that the dangers which the Guidelines for Floating are designed to guard against could occur whether a member was floating—individually, jointly, or otherwise—or maintaining a par value, or following some other exchange rate practice. Thus, (as in Guideline 1) sharp and disruptive day-to-day and week-to-week fluctuation should be a matter of concern with respect to a country maintaining 4½ percent margins as well as one nominally floating. The same is true for "temporary factors" and the possibility of offsetting them (Guideline 2). Equally, the concerns dealt with in the other Guidelines, aggressive intervention, excessive reserves, restrictions, conflicting intervention, etc., may apply irrespective of a country's exchange rate regime. Thus, in the limited area of intervention practices, as well as in broader questions of economic policy, we think the same principles or guidelines should cover all nations, and our approach is based firmly on that concept. All Fund members would be guided uniformly by the same principles and code of behavior, though the application of those principles in individual cases would take account of the special circumstances of members—for example, the kind of data supplied, and the frequency with which it would be supplied, would reflect a nation's ability to comply.

These principles would be manifested in Fund procedures and utilized in Fund operations. They would be taken into account in the Fund's consultations with members—the periodic reviews of economic developments in member countries would include consideration of the members' economic policies and performances against the backdrop of the agreed principles. In addition, Fund policies on transactions would reflect the observance by members of these principles. For example, the principles might be helpful as one of the various factors to be used in assessing a country's need to draw from the Fund, or, alternatively, a country's ability to provide credit through the Fund.

At the present time, no member is maintaining a par value in the sense provided for in the Fund's Articles. The Fund staff has, for the purposes of the Guidelines for Floating, classified member countries into five different categories: (1) floating individually; (2) floating jointly; (3) pegging to a floating currency (individually or jointly); (4) pegging to the (floating) SDR; and (5) pegging to an individual basket of the pegger's own creation. Even this taxonomy is incomplete: The fifth category (pegging to an individual basket) covers a variety of alternatives, and we have already seen cases of members whose exchange rate policies are guided by trade-weighted baskets, export-weighted baskets, current account baskets, and profitability of the export sector, as well as the unrevealed basket whose makeup is known only to the particular government using it.

This multiplicity of exchange rate techniques is not *ipso facto* harmful to the world economy or destructive of international trade and prosperity. When several countries shifted from the third above-listed category to the fifth, the move was not of particular international significance—and indeed the moves may have facilitated rather than damaged international equilibrium by relating currency relationships more closely to individual countries' trade and payments patterns. Any exchange rate mechanism, like any mechanism, is simply a tool, which can be used for good or ill.

We seek an international monetary system which discourages nations from maintaining exchange rates that are "wrong"—in the sense of being contrary to what is needed for sustainable international payments relationships. The possibility of having the "wrong" exchange rate and the "wrong" exchange rate policies can occur whether a country is technically floating or technically maintaining a par value. Thus, it is not meaningful or theoretically sound to proceed as though there were two separate "systems" of par values and floating, each of which should be subject to its own rules, conventions, and procedures, and one of which should be regarded as morally superior.

We have suggested an alternative approach to Article IV in light of the difficulties we see in the staff draft of Article IV. Specifically, the staff draft, despite some redrafting toward a more evenhanded approach as between par values and floating, nonetheless still seems to us an inappropriate framework for Fund consideration of exchange rates for several reasons:

—the draft holds up a purified par value system as the implicit objective, the ideal toward which the world should aim after some interim period, but does not propose other amendments, for example, dealing with balance of payments adjustment, to make such a system viable;

—it gives an impression that there is a critical distinction between par value and floating which is operationally significant, calling for different principles and codes of behavior;

—it perpetuates—and reaffirms—the idea that the guiding principle for exchange rate changes should be "fundamental disequilibrium," even though that concept has proved both indefinable and indeterminate except as a truism; and

—it calls on the world to rededicate itself to a procedural approach which may or may not prove appropriate to future conditions, and passes up an opportunity to shift the Fund's attention from matters of procedure to matters of principle and policy.

Agreement on Draft Amendment of Article IV

French and U.S. officials reached agreement on a draft amendment of Article IV of the Articles of Agreement of the Fund when the heads of state and government of six nations met in the Chateau de Rambouillet in France on November 15-17, 1975. Following is the text of the declaration issued on November 17, 1975 at the close of this economic summit. Paragraph 11 deals with exchange rate arrangements.

Declaration of Rambouillet

(November 17, 1975)

The Heads of States and Governments of France, the Federal Republic of Germany, Italy, Japan, the United Kingdom of Great Britain and Northern Ireland and the United States of America, met in the Chateau de Rambouillet from 15th to 17th of November, 1975, and agreed to declare as follows:

1. In these three days we held a searching and productive exchange of views on the world economic situation, on economic problems common to our countries, on their human, social, and political implications, and on plans for resolving them.

2. We came together because of shared beliefs and shared responsibilities. We are each responsible for the government of an open, democratic society, dedicated to individual liberty and social advancement. Our success will strengthen, indeed is essential to democratic societies everywhere. We are each responsible for assuring the prosperity of a major industrial economy. The growth and stability of our economies will help the entire industrial world and developing countries to prosper.

3. To assure in a world of growing interdependence the success of the objectives set out in this declaration, we intend to play our own full part and strengthen our efforts for closer international cooperation and constructive dialogue among all countries, transcending differences in stages of economic development, degrees of resource endowment, and political and social systems.

4. The industrial democracies are determined to overcome high unemployment, continuing inflation, and serious energy problems. The purpose of our meeting was to review our progress, identify more clearly the problems that we must overcome in the future, and to set a course that we will follow in the period ahead.

5. The most urgent task is to assure the recovery of our economies and to reduce the waste of human resources involved in unemployment. In consolidating the recovery it is essential to avoid unleashing additional inflationary forces which would threaten its success. The objective must be growth that is steady and lasting. In this way, consumer and business confidence will be restored.

6. We are confident that our present policies are compatible and complementary and that recovery is under way. Nevertheless, we recognize the need for vigilance and adaptability in our policies. We will not allow the recovery to falter. We will not accept another outburst of inflation.

7. We also concentrated on the need for new efforts in the areas of world trade, monetary matters, and raw materials, including energy.

8. As domestic recovery and economic expansion proceed, we must seek to restore growth in the volume of world trade. Growth and price stability will be fostered by maintenance of an open trading system. In a period where pressures are developing for a return to protectionism, it is essential for the main trading nations to confirm their commitment to the principles of the OECD [Organization for Economic Cooperation and Development] pledge and to avoid resorting to measures by which they could try to solve their problems at the expense of others, with damaging consequences in the economic, social, and political fields. There is a responsibility on all countries, especially those with strong balance of payments positions and on those with current deficits to pursue policies which will permit the expansion of world trade to their mutual advantage.

9. We believe that the multilateral trade negotiations should be accelerated. In accordance with the principles laid down in the Tokyo Declaration, they should aim at substantial tariff cuts, even eliminating tariffs in some areas, at significantly expanding agricultural trade, and at reducing nontariff measures. They should aim at achieving the maximum possible level of trade liberalization therefrom. We propose as our goal completion of the negotiations in 1977.

10. We look to an orderly and fruitful increase in our economic relations with socialist countries as an important element in progress in detente, and in world economic growth.

We will also intensify our efforts to achieve a prompt conclusion of the negotiations now under way concerning export credits.

11. With regard to monetary problems, we affirm our intention to work for greater stability. This involves efforts to restore greater stability in underlying economic and financial conditions in the world economy. At the same time, our monetary authorities will act to counter disorderly market conditions, or erratic fluctuations, in exchange rates. We welcome the rapprochement, reached at the request of many other countries, between the views of the U.S. and France on the need for stability that the reform of the international monetary system must promote. This rapprochement will facilitate agreement through the Fund at the next session of the Interim Committee in Jamaica on the outstanding issues of international monetary reform.

12. A cooperative relationship and improved understanding between the developing nations and the industrial world is fundamental to the prosperity of each. Sustained growth in our economies is necessary to growth in developing countries; and their growth contributes significantly to health in our own economies.

The present large deficits in the current accounts of the developing countries represent a critical problem for them and also for the rest of the world. This must be dealt with in a number of complementary ways. Recent proposals in several international meetings have already improved the atmosphere of the discussion between developed and developing countries. But early practical action is needed to assist the developing countries. Accordingly, we will play our part, through the Fund and other appropriate international fora, in making urgent improvements in international arrangements for the stabilization of the export earnings of developing countries and in measures to assist them in financing their deficits. In this context, priority should be given to the poorest developing countries.

13. World economic growth is clearly linked to the increasing availability of energy sources. We are determined to secure for our economies the energy sources needed for their growth. Our common interests require that we continue to cooperate in order to reduce our dependence on imported energy through conservation and the development of alternative sources. Through these measures as well as international cooperation between

producer and consumer countries responding to the long-term interest of both, we shall spare no effort in order to ensure more balanced conditions and a harmonious and steady development in the world energy market.

14. We welcome the convening of the conference on international economic cooperation scheduled for December 16. We will conduct this dialogue in a positive spirit to assure that the interests of all concerned are protected and advanced. We believe that industrialized and developing countries alike have a critical stake in the future success of the world economy and in the cooperative political relationships on which it must be based.

15. We intend to intensify our cooperation on all these problems in the framework of existing institutions as well as in all the relevant international organizations.

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Substitution Account for Gold

As draft amendments to the Articles of Agreement were being considered by the Executive Directors in 1975, much discussion was devoted to an amendment that would enable the Fund to establish a substitution account in which members could offer their gold holdings to the Fund in exchange for SDRs. The Committee of Twenty, which had also discussed the possibility of a substitution account in the Fund, had recommended that consideration be given to such an amendment. The staff circulated to the Executive Directors two papers that had been prepared in the Research Department, one in April 1975 and one in July 1975, describing possible provisions of a gold substitution account. These staff papers are published as (A) and (B) below. The Executive Director elected by Austria, Belgium, Luxembourg, and Turkey, Jacques de Groote, circulated to the Executive Directors an alternative approach to the gold substitution account. Mr. de Groote's paper appears as (C) below.

(A) A Substitution Account for Gold (April 23, 1975)

In response to a request by a number of Executive Directors, this paper presents some suggestions on a possible approach to, and possible provisions for, a substitution account for gold presently held by members. The paper does not deal with the subject of the use of the gold presently held by the Fund.

The approach is designed to achieve four interrelated objectives.

(*a*) To give members a once-for-all opportunity to convert part or all of their gold holdings into usable, more stable, and interest-earning assets. The once-for-all approach responds to a broadly expressed desire that the Fund should not provide a continuous market, and hence potential indirect price support, for gold.

(*b*) To bring reserves under more effective international influence by greatly reducing gold holdings in members' reserves and to avoid an excessively rapid increase in international reserves by distributing over time the effective increase in the value of members' gold reserves.

(*c*) To combine these arrangements with allocations of SDRs to members with zero or low gold holdings, in an effort to compensate to a reasonable degree the serious distributional effects on international liquidity arising from the increase in the market price of gold.

(*d*) To move the gold acquired by the Fund into the market at a gradual pace, thus furthering the reduction of gold in the international monetary system and enabling the Fund, by investing the proceeds, to acquire assets from the interest of which it can pay interest on the SDRs issued against gold.

Possible provisions to achieve these objectives are described in the five points listed below. They are not presented in detailed legal form; the sketch of provisions is intended to facilitate a discussion by Executive Directors as to whether this broad approach merits

to be pursued further. No attempt is made to present a full set of variants; many such variants could be considered, for example with respect to the interest provisions.

(1) When the Fund found that members that held a large proportion of the stock of monetary gold were prepared to offer all or a major part of their gold holdings in exchange for SDRs, the Fund would set a date and announce the terms on which it would stand ready to make such exchanges. The Fund's decision to this effect would presumably be governed by an 85 per cent majority.

(2) The terms set by the Fund would include the following:

(*a*) The price to be paid by the Fund would be related to, but presumably somewhat lower than, the market price at the time of the decision. The Fund would pay SDR 35 per ounce at once, and the balance in annual installments determined in advance. There could be provision for a member with payments problems to draw down in advance some future installments. The SDRs needed to make the payments on gold would be created by the Fund for this purpose.

(*b*) Each member exchanging gold for SDRs would provide the SDR mechanism with the corresponding required increase in acceptance of SDRs. Hence its maximum acceptance commitment would be increased by three times the amount of SDRs it had received in exchange for gold.

(*c*) The member would be subject to a charge on the SDRs received in exchange for gold to the extent necessary to cover any difference between the prevailing rate of interest on SDRs which it would receive and the interest earned by the Fund on the invested proceeds from the amount of gold sold. The need for this charge would arise primarily from the fact that the timing of the sale of gold would presumably lag behind the payments of SDRs under (2)(*a*). Gold-selling members might also be entitled to share in any excess of the Fund's interest receipts over its interest costs on the SDRs created in exchange for gold.

(3) When the Fund decided to buy gold under (1) it would also decide to allocate SDRs to all participants over the same period as that of the installments under (2)(*a*) in such a manner as to avoid a sharp disturbance in the distribution of reserves among major groups of members. Allocations under this provision could be made under a formula that entitled each participant to acquire SDRs, from the sale of gold and allocation combined, up to a stated percentage of its quota.

(4) The reserve increase involved in the annual creation of SDRs under (2)(*a*) and (3) combined would have to be determined by global liquidity needs, i.e., be in accordance with the principles and considerations of draft Article XXII, Section 1. (This would not apply to the initial payment of SDR 35 per ounce since it would not constitute new reserve creation.)

(5) The Fund would sell the gold acquired under (1) over time and invest the proceeds, e.g., in securities of other international institutions.

Some quantitative illustration of the financial implications of these provisions may be helpful, even if it has to be very rough. The stock of monetary gold in the hands of countries equals about 1 billion ounces. Suppose that the Fund decided to offer members SDR 120 per ounce (about $150 per ounce at current exchange rates), and that all gold was tendered to the Fund.[1] This would involve a reserve increase of SDR 85 per ounce, or a total increase of SDR 85 billion.

[1] To the extent that less gold would be sold by the Fund, part of the reserve creation would take place in the form of an increase in the value of the gold held by members.

Assume further that the Fund judged that reserve creation at a rate of SDR 10 billion per year would be appropriate for some period ahead; this would be about 5 per cent of the stock of reserves in the later 1970's. If one fourth of this amount were set aside for allocations to members with low gold holdings, SDR 7.5 billion would be available for the payment of annual installments on gold. This would mean that the Fund would take about 11 to 12 years (SDR 85 billion at the annual rate of SDR 7.5 billion) to pay the "profit" element of the agreed price for gold. On different assumptions for (i) the price of gold offered to members, (ii) the amount of reserve creation considered appropriate, and (iii) the proportion of SDRs to be created by allocation, the period over which annual installments would be distributed could work out considerably shorter or longer.

(B) Possible Provisions of a Gold Substitution Account (July 28, 1975)

In the paper, "A Substitution Account for Gold," the objectives of such an account are described, together with possible provisions to achieve those objectives and a quantitative illustration of the financial implications of the suggested provisions. This paper restates the provisions, with some elaboration and a few technical corrections in their description, and then proceeds to explore the question of what sort of amendments to the Articles would be required to implement such provisions.

As the original paper noted, the provisions set out in the six points listed below by no means attempt to indicate a full range of possible variants that could be consistent with the general approach. For example, any number of conditions applying to investments or to the disposition of net income can readily be envisaged.

(1) When the Fund found that members that held a sufficiently large proportion of the stock of monetary gold were prepared to offer some substantial part of their gold holdings in exchange for SDRs, the Fund would set a date and announce the terms on which it would stand ready to make such exchanges. (As suggested in (A) above, the gold substitution account is proposed to be activated on a single occasion; this "once-for-all approach responds to a broadly expressed desire that the Fund should not provide a continuous market, and hence potential indirect price support, for gold.") The Fund's decision to this effect would presumably be governed by an 85 per cent majority.[1]

(2) The terms set by the Fund would include the following:

(*a*) The price to be paid for the gold, which would be lower than the market price at the time of the decision. An amount of SDR 35 per ounce would be paid at once, and the balance in annual installments determined in advance. There could be provision for a member with payments problems to draw down in advance some future installments. The SDRs needed to make the payments on gold would be created by the Fund for this purpose. The gold substitution account would be responsible for paying, in SDRs, the charges on the SDRs issued, together with "assessments" to cover the administrative expenses of the Special Drawing Account.

(*b*) Each member exchanging gold for SDRs would assume an obligation to provide currency in return for SDRs through designation up to a maximum of three times the amount of SDRs it had received in exchange for gold.

(*c*) There would be a special levy, borne by gold-selling members in proportion to their sales to the account, to the extent necessary to cover any difference between the interest earned on the invested proceeds from the amount of gold sold, and the amounts needed to pay (i) charges and assessments on the SDRs created in payment for gold, at the same rates as those prevailing for net cumulative allocations, and (ii) interest due to members from the gold substitution account on amounts by which installments to participants had been reduced by allocations (see point (3), below). Apart from possible interest rate differentials, the need for this special levy would arise to the extent that the timing of the sale of gold lagged behind the payments of SDRs under (2)(*a*). (An alternative way could be considered for covering such a difference between the income received and paid by the account, namely, through the creation of additional SDRs in the amount of the

[1] Unless otherwise indicated, references to the Fund in this paper are to the Fund acting as such and without reference to the General Account, the Special Drawing Account, or the gold substitution account.

difference; the SDRs created for that purpose would be canceled again whenever the income receipts of the account exceeded its payments. In the staff's opinion, this approach does not recommend itself on the grounds that it sets an undesirable precedent and that it removes the incentive for the sale of gold.)

(*d*) Gold-selling members would be required to pay in SDRs any special levy under (2)(*c*) and to convert into SDRs the interest earned on invested proceeds, to the extent that it would accrue in currency. Any member that did not hold sufficient SDRs for these purposes would be obligated and entitled to obtain them in the manner described in (6).

(3) The Fund (Special Drawing Account) could decide to combine with the purchase of gold under (1) an allocation of SDRs to all participants, in order to mitigate a sharp disturbance in the distribution of reserves among major groups of members. The annual installments due to any participant under (2)(*a*) would be reduced by the amount of that participant's allocation during the same year,[2] but the member would receive interest (in SDRs) from the gold substitution account as if the full installment had been paid to it. (The effect of this provision would be as if participants that were receiving annual installments from the gold substitution account would not—during that period and to that extent—receive allocations of SDRs; the offsetting of payments from the account against SDR allocations is not proposed for the initial payment of SDR 35 per ounce on the ground that this amount, in any event, would not constitute new reserve creation.) The net reserve creation resulting from any allocation (SDR allocations less reductions in installments paid by the gold substitution account) would have to be consistent with the principles of draft Article XII, Section 1.

(4) The gold acquired under (1) would be sold over time and the proceeds would be invested, e.g., in securities of other international institutions.

(5) The gold acquired, the proceeds of sale, and the investments of such proceeds would be held in a new (third) Fund account, the gold substitution account. Participants in this account would be all members that had sold gold to the account for substitution. Decisions on matters relating to the account would be taken by participants, voting in proportion to their gold sales to the account. Participants would share, in proportion to their gold sales to the account, in the net income of the account and, on withdrawal or liquidation, in its capital value.

(6) A member to which SDRs had been issued that ceased to be a participant in the Special Drawing Account or an "other holder" of SDRs would return to the Fund for cancellation the amount of SDRs that had been issued to it, against a pro rata share of the gold and investments held by the gold substitution account. The member would be obligated and entitled to obtain enough SDRs (against convertible currency) to enable it to fulfill this requirement (i) from other participants in the gold substitution account (a) in proportion to the amounts they had received, and (b) if proportional amounts exhausted the holdings of one or more participants, further pro rata amounts up to the total holdings of all participants that had received issues; (ii) from the General Account, in such amount as the Fund might decide; (iii) from all other holders (a) in a manner to be decided by a high majority of the Fund or (b) if decision cannot be reached, in proportion to total holdings of individual members. In case of the liquidation of the Special Drawing Account or of the Fund, this same procedure would be extended to cover all holders to which SDRs had been issued. Any such cancellation of issued SDRs and corresponding return of the assets of the gold substitution account would be deemed to have taken place before any other settlements in connection with withdrawal or liquidation.

[2] They could also be increased by the amount for which the participant was subject to subsequent cancellation.

Even though the broad provisions suggested above could in practice be implemented in a number of ways, it is nonetheless inherent in their nature that an approach of this kind would not impinge in any way on the rights and obligations that a participant in the Special Drawing Account or other member of the Fund has under the present Articles or will have under the amended Articles.[3] This maintenance of the existing status would be assured, because the approach provides for (a) an increase in acceptance obligations pari passu with the creation of SDRs, (b) sources of income sufficient to meet all charges, and (c) withdrawal and liquidation provisions directly related to the gold substitution account. Furthermore, such effects on rights and obligations as might ensue would be felt solely by members participating in the account, and such participation would be at the initiative of the members concerned. It may be possible, therefore, to devise a self-contained section to be incorporated in the Articles by amendment that would permit a gold substitution account to be established and put into operation at some future time, if and when a large majority was in favor of doing so. These provisions would be enabling provisions; they would also establish that the specific terms that might eventually be adopted, whatever these might be, could not adversely affect the pre-existing rights and obligations of any member.

A basic reason why such a procedure would be feasible is that an "issue" of SDRs, i.e., the creation of SDRs for the purpose of paying for gold, can be clearly distinguished from an "allocation." Existing provisions such as those on charges and reconstitution, for example, would thus not need to be amended, since they refer entirely to net cumulative allocations; since an issue is not the same as an allocation, different provisions can be adopted on such matters in respect to issues of SDRs (such as a stipulation that the gold substitution account rather than the member shall pay the charges) without creating a conflict.

In contrast, despite the fact that two different processes could be used for creating SDRs, all SDRs would be identical in every respect. Therefore, those provisions on SDRs in the present Articles where the method of creation has no bearing, such as most of those dealing with operations and transactions, would be equally applicable to any SDRs that might be issued. No amendment of the provisions of that type in the Articles would thus be necessary.

The following matters would seem to be the ones that would have to be dealt with, as a minimum, in the enabling amendment.

(1) The Fund would have the right, under terms which it would set, to issue SDRs in payment for gold sold to the gold substitution account by members that were participants in the Special Drawing Account or "other holders."

(2) A recipient of an issue of SDRs in payment for gold would be under the same obligation to provide currency as if it had received an allocation of the same amount. (Although this provision might appear to be one of the terms that could be set by the Fund, it should in fact be included as an amendment. This would guarantee against any possibility that the Fund might fail to set such a term, which could adversely affect the quality of the SDR to the detriment of holders that were not recipients of an issue.)

(3) The gold substitution account would be authorized and required to pay charges and assessments to the Fund on issues of SDRs at the same rates as are paid by participants on net cumulative allocations.

[3] With the exception of the highly unlikely case that (ii) or (iii) of paragraph (6), or the corresponding provisions in (2)(*d*), would come into play.

(4) The gold substitution account, under terms set by the Fund, would have the authority to

(*a*) buy, hold, and sell gold;

(*b*) invest and reinvest the proceeds of gold sales;

(*c*) impose a special levy on the members to which SDRs had been issued, to the extent that the account's earnings from investments were insufficient to cover the charges and assessments payable under (3) above, and the interest payable on any installments that had been reduced by allocations;

(*d*) pay interest on any installments that had been reduced by allocations;

(*e*) dispose of its net income.

(5) Gold and the uninvested and invested proceeds of gold sales would not be deemed to be "Fund holdings" for the purpose of calculations or of the maintenance of value in the General Account under the Articles.

(6) There would be separation of the assets and of decision-making and liquidation provisions in accordance with what is stated in (5) and (6) on page 309, and provision for conversion of currencies into SDRs for the payment of charges and assessments on SDRs in accordance with (2)(*d*).

(C) An Alternative Approach to the Gold Substitution Account Observations of Jacques de Groote (September 26, 1975)

The main purpose of the suggestions advanced in this paper on a personal basis is to initiate further reflection on the question of gold and to consider, in particular, whether or not an enabling clause for a substitution or consolidation scheme should be included in the present amendment exercise. The modalities outlined here for a gold substitution account aim at substantiating the idea that a gold consolidation scheme could be made operative whenever it would benefit of sufficient support; they are, as such, illustrative and open for discussion.

I. Some comments on the gold substitution account

The scheme proposed to date to achieve a "phasing-out" of the role of gold in the international monetary system has three features, which either leave unsolved major problems or create further difficulties. These three features are the following:

1. The proposed scheme advanced by the staff relates to the gold held by member countries in their external reserves, while leaving unresolved the question of the disposition of the Fund's gold. However, gold held by the Fund is not in essence different from gold held by member countries; any decision taken on either the gold holdings of the Fund or the gold holdings of member countries necessarily affects both. A global approach that would encompass the Fund's gold as well as member countries' gold seems therefore preferable to a dual approach.

2. Under the staff's scheme, the country that sold gold to the substitution account would receive SDRs that would be a kind of hybrid between allocated and earned SDRs. The SDRs received in exchange for gold would be similar to allocated SDRs, for instance, with regard to the acceptance limit, the entitlement to use SDRs to obtain currency through designation and the requirement of need. Initially, these SDRs would also be similar to allocated SDRs, with no net interest income; they might even, for a period of time, be subject to a net charge, namely, the "assessment" under Section 4 of Article XXVI. Ultimately, after the gold has been sold and invested, the SDRs acquired against gold would get the full net income, and the member country that had acquired those SDRs would be in the same position as if it had earned them.

This aspect of the proposed substitution scheme calls for two observations. First, it seems unrealistic to expect central banks to agree to sell gold, thereby triggering unpredictable effects on the gold markets, in order to acquire SDRs on which they might have to pay an assessment charge during an undetermined period of time. Second, if this scheme were nevertheless put into operation, two varieties of SDRs would be in existence simultaneously, which would complicate the operation of the SDR system. If, in the hand of their holder, SDRs created by allocation and SDRs created in substitution for gold would be similar, payment of interest on the latter, which is not part of an altogether self-financed system, would remain an actual or potential burden for their original holder, depending on the profitability of the invested proceeds of gold sales.

3. Sales of gold in the markets by the substitution account are a built-in feature of the staff's proposal. It follows that the price of gold on the markets would have an impact on the functioning of the substitution account. There seems here to be an intrinsic conflict in a scheme that is under the pledge not to support the price of gold while it remains dependent on transactions on the gold markets.

Indeed, unless uncertainties for member countries are overlooked, unless permanent concern of central banks for the market-depressing effect of gold sales is disregarded, and unless financial risks for the Fund are neglected, the feasibility of the proposed scheme implicitly requires that the operations of the substitution account would be profitable in the long run, which means that they would have to be conducted in such a way as not to disappoint the expectation that the trend in the price of gold would be upward.

II. An alternative approach: The gold consolidation account

A. Objectives

A substitution scheme for gold should be designed to achieve the following interrelated objectives:

(i) to establish a mechanism that would ensure a phasing down of the role of gold in the international monetary system while enhancing the role of the SDR, thereby increasing the volume of international liquidity that would be brought under international management;

(ii) to give the Fund as well as members an opportunity to convert part or all existing gold holdings into a usable and more stable asset;

(iii) to associate to a reasonable degree the countries that do not hold a substantial part of their reserves in the form of gold to the increase in international liquidity connected with the increase in the market price of gold; and

(iv) to enable the Fund to utilize the increase in value of its gold holdings to grant financial assistance to the poorest among its member countries, either directly or through other international organizations.

Any substitution scheme would moreover have to eliminate incentives to provide a direct or indirect support for the price of gold and to prevent a strengthening of the role of reserve currencies. In that respect, the suggested consolidation scheme would avoid the increase in the role of reserve currencies that would result from sales of gold on the markets by central banks. Furthermore, it would not exclude and might indeed pave the way for a substitution system for reserve currencies. It must be recognized, however, that there is a substantial difference between gold, which is a primary reserve asset very close in nature to the SDR, and reserve currency balances, a portion of which is being held for the purpose of interventions in the foreign exchange markets to ensure, on a day-to-day basis, sufficient elasticity in the short-term and medium-term adjustment.

B. Possible provisions

Possible provisions to achieve these objectives could be sketched as follows:

1. Gold held by member countries

(i) When the Fund found that members that held a large proportion of the stock of monetary gold were prepared to renounce all or a major part of their gold holdings, and substitute SDRs for gold in their reserves, the Fund would set a date and announce the terms on which it would stand ready to make such substitutions. The Fund's decision to this effect should presumably be governed by a high majority, for instance 85 per cent.

(ii) The terms set by the Fund would include the following:

The Fund would allocate SDRs to member countries willing to renounce part or all of their gold holdings at a price based on the market price of gold at the time of the decision. These member countries would be entitled to a total allocation of SDRs correspond-

ing to the amount of gold it had delivered. The Fund would allocate SDR 35 per ounce at once, and the balance in installments which would be determined on the basis of an assessment of the need for international liquidity. There could be provision for a member with payments problems to draw down in advance some future installments.

No distinction would be made in any respect between SDRs received by countries under general allocations and SDRs allocated contingent upon the relinquishment of gold to the gold account. The gold account would not be allocated, nor would it hold or otherwise use SDRs for substitution purposes. This approach rests on the assumption that no financial incentive would be needed to foster substitution in view of the fact that members would exchange an asset frozen in practice for a more readily usable asset, with a predictable value. It could be argued that members, who will be net users of SDRs acquired for gold, and who would therefore have to pay charges, would have been better off had they settled with gold; however, cession of gold in payment of a debt also entails a loss, namely the potential income on the proceeds of gold sales.

Each member that would benefit from such allocation would relinquish its gold to a gold consolidation account, henceforth referred to as the gold account, against a noninterest-bearing claim on the account that would be activated only in case of withdrawal from the Fund or liquidation of the Fund. This nonliquid claim would no longer be a monetary asset.

The gold account would not be under the obligation to sell gold on the market. Consideration would have to be given to the use the gold account could make of its gold. Countries that held a consolidated claim on the gold account would have to decide collectively whether to keep gold frozen in the gold account for some time as a physical guarantee for their claim in case of withdrawal or liquidation, or to sell gold on the markets at a later stage and use the proceeds, for instance, for loans to the General Account or investment in securities of other international organizations. It might be envisaged that the gold account could borrow against gold collateral.

2. *Gold held by the Fund*

(i) Restitution of one sixth of the Fund's gold would take place, as has been decided at the fourth meeting of the Interim Committee.

(ii) Irrespective of the amounts involved, the following consolidation mechanism could be used for any portion of the balance of the Fund's gold:

The General Account would relinquish gold to the gold account, in exchange for a consolidated claim on that account, so as to balance the Fund's books;

The Fund would correspondingly allocate SDRs to the General Account on the basis of SDR 35 per ounce of gold, so as to preserve the liquidity of the General Account;

An additional amount of SDRs, calculated on the basis of the difference between a market related value for the gold relinquished by the General Account and the official SDR price of gold could be allocated by the Fund, for instance to the Trust Fund or directly to member countries in order to associate those members who do not hold a substantial part of their reserves in the form of gold to the increase in international liquidity connected with the increase in the market price of gold.

(iii) The technique sketched under (ii) above could be used for one sixth of the Fund's gold or for a fraction of that percentage, if no other method were to be found satisfactory to achieve the aim of providing a meaningful amount of resources to the Trust Fund. The same technique could be applied for any part of the remaining four sixths of the Fund's gold, conceivably *pari passu* with further restitution.

C. Main advantages

The main advantages of the alternative approach suggested above would seem to be the following:

1. To the extent to which gold would have been relinquished to the gold account, the volume of international liquidity would be isolated from the vagaries of the private gold markets, and central banks would no longer be faced with uncertainty as to the value of their reserves.

2. It would ensure to the same extent a one-way effective demonetization of both gold held by the Fund and gold held by member countries in their reserves. Indeed, if gold has to be phased out as the central reserve asset of member countries, it seems coherent that gold would in the same manner cease to be the central asset of the Fund.

3. The financing of the Trust Fund from the increase in value of one sixth of the Fund's gold, beyond other possible sources of financing, would become operationally simple, and the amounts available would be known instead of being dependent on the success of sales of gold on the markets. In this way, it would be possible to avoid the basic conflict between the desire to maximize profits on sales of gold to the benefit of the Trust Fund and the effects of such sales in the markets, which frustrate the aim of the operation.

4. Any link between the SDR and gold would disappear, not only as a matter of law, but also as a matter of fact. One might even venture the thought that the decisions on the timing of SDR allocations, contingent upon relinquishment of gold, could be regarded as a decision on the volume of international liquidity in the years to come, without any relation to gold; indeed, such decisions would be based on assessment of the need for international liquidity.

5. The role of the SDR would be considerably enhanced, not only by the mere fact that the total volume of SDRs would increase, but also because of the fact that the General Account would become the beneficiary of SDR allocations. It has become evident in the discussions on the amendment of the Articles that the present provisions concerning the General Account as an "other holder" of SDRs are unduly restrictive, and that the General Account should be given the same rights and obligations as the participants in the SDR system.

6. Members would receive SDRs by way of a technique with which they are familiar, namely allocation, and the SDR system as a whole would remain financially in equilibrium, irrespective of the price of gold on the markets. There would therefore be no built-in pressure for sales of gold on the markets, conflicting with the need to secure a price that would make the staff's scheme financially sound. Under the alternative presented here, the relinquishment of gold by central banks to the gold account would lead the markets to abandon the expectation that monetary authorities would have to support the price of gold.

D. Points for further consideration

Some aspects of the approach suggested above would need very careful consideration.

1. The price of gold, or, more exactly the total number of SDRs to be allocated contingent upon relinquishment of one ounce of gold, remains a very delicate political and economic issue. However, this issue would seem to be somewhat easier to settle under the suggested approach than under the staff's scheme. Indeed, the expectations as to the price of gold on the market and members' aspirations as to this price would become less relevant.

2. The alternative approach raises the problem that a now largely dormant liquidity in the present official gold stock would be transformed into effective liquidity. However, potential inflationary effects of such transformation should not be overestimated, since the increased liquidity would only become available over time in a controlled and rational way, on the basis of an assessment of the need for international liquidity. It should be mentioned, moreover, that any substitution scheme would avoid the potential inequity that could result from the fact that some members might be tempted to do away with their gold on the markets in order to benefit from higher prices, thereby depressing the price at which others might find themselves obliged to use their gold for balance of payment purposes.

3. The allocation of SDRs to the General Account and to the Trust Fund would entail an allocation without a corresponding increase in the obligation to provide currency, since it would not appear meaningful for either the General Account or the Trust Fund to assume such an obligation. However, the overall reduction in the obligation to provide currency in relation with the SDRs outstanding would seemingly be relatively small; moreover, since the members who would relinquish gold would probably be in a position that would enable them to fulfill the obligation to provide currency, the strength of the SDR is not likely to be appreciably affected.

4. The allocation of SDRs to the Trust Fund raises the additional question on how the charges, which are payable on net cumulative allocations, would be met. In order to maintain its financial equilibrium, the Trust Fund's charges on its lendings would have to be equal to the rate of charges on SDRs, which would conflict with the role of the Trust Fund as a lender on highly concessional terms. However, different solutions could be envisaged, for instance in earmarking part of the gold profits for an interest subsidy on lending of the remainder or in utilizing to this end part of the other sources of financing of the Trust Fund.

5. Some legal problems might be involved in the drafting of withdrawal and liquidation clauses and in the assignment to the General Account of the quality of beneficiary of allocations.

6. It might prove necessary to provide for the possibility of a two-step sterilization of members' gold, if participation in a first round, though successful, were not widespread enough.

Proposed Amendment of Articles of Agreement

In March 1976 the Executive Directors submitted to the Board of Governors a comprehensive Proposed Second Amendment to the Articles of Agreement of the Fund. Although the amendment did not represent a total revision of the Articles, it was extensive. The Proposed Second Amendment was approved by the Board of Governors on April 30, 1976 and entered into force on April 1, 1978.

Proposed Second Amendment to the Articles of Agreement of the International Monetary Fund (March 1976)

A Report by the Executive Directors to the Board of Governors

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PART I: INTRODUCTION

In the Report to the Board of Governors by the ad hoc Committee on Reform of the International Monetary System and Related Issues (Committee of Twenty), dated June 14, 1974, to which an *Outline of Reform* was attached, it was noted that in the conditions that had developed it had been recognized that priority should be given to certain aspects of reform. The Committee regarded it as of the highest importance that immediate steps should be taken to begin an evolutionary process of reform. Part II of the *Outline* sets out the immediate steps on which the Committee was agreed. Among them was the preparation of draft amendments of the Articles of Agreement of the International Monetary Fund.

In the Fourth Resolution (No. 29-10) of the Composite Resolution of the Board of Governors on the Work of the ad hoc Committee on Reform of the International Monetary System and Related Issues and on a Program of Immediate Action, Paragraph 9 requested that the consideration of possible amendments to the Articles of Agreement should be pursued with a view to the presentation of draft amendments to the Board of Governors in due course.

The Executive Directors began to consider possible draft amendments in mid-summer 1974 and have continued to work on them since that time. They have submitted reports on the progress of this work to the Interim Committee of the Board of Governors on the International Monetary System and have received guidance on a number of topics. As stated in the Communiqué issued by the Committee on January 8, 1976 after its fifth meeting, in Kingston, Jamaica, the Committee had considered and reached agreement on the remaining issues on which the Executive Directors had sought guidance. The Committee requested the Executive Directors to complete their work on amendment in the light of the guidance given by the Committee, and to submit a Comprehensive Draft Amendment for the approval of the Board of Governors, together with a Report. The numerous changes in the Proposed Amendment will make it necessary for the Executive Directors to review the By-Laws, Rules and Regulations, and general decisions of the Fund to ensure that they are compatible with the revised Articles and that they provide the necessary operating principles and procedures.

The rest of this Report consists of three parts. Part II is a Commentary on the Proposed Amendment of the Articles of Agreement. For the most part, the Commentary follows the order of the provisions in the proposed text. It should be noted that the sequence of provisions is slightly changed so that the Articles can follow a more logical order. An Annex is attached to the Commentary in Part II that sets forth in tabular form the special majorities of voting power that would be required for certain decisions under

† Not included in these volumes: see *Proposed Second Amendment to the Articles of Agreement of the International Monetary Fund: A Report by the Executive Directors to the Board of Governors* (Washington: International Monetary Fund, 1976).

the amended Articles and the organs of the Fund that could take those decisions. Part III of this Report describes the procedure to be followed in order to give effect to the Proposed Amendment.

Part IV of this Report sets forth a proposed Resolution that the Executive Directors recommend for adoption by the Board of Governors. Annexed to the Resolution is the proposed text of the amended Articles of Agreement. In the Appendix to Part II, this text is shown in the left-hand column of the pages of the Appendix. The right-hand column sets forth the corresponding provisions of the present Articles, in an order therefore that does not follow the sequence of the present Articles.

The proposed modifications of the Articles are extensive, but the main themes can be summarized under six headings.

(*a*) Exchange arrangements of each member's choice; the possible adoption of particular general arrangements, and the possible adoption of a system of par values that members will have an option to participate in; subject at all times to general obligations and firm surveillance by the Fund (Chapter C).*

The provisions on exchange arrangements recognize that the essential purpose of the international monetary system is to provide a framework that both facilitates the exchange of goods, services, and capital among countries and sustains sound economic growth, and that a principal objective is the continuing development of the orderly underlying conditions that are necessary for financial and economic stability. Members undertake a general obligation to collaborate with the Fund and with other members in order to assure orderly exchange arrangements and to promote a stable system of exchange rates. Members must perform this obligation by observing certain specified undertakings with respect to domestic and external economic and financial policies.

The general obligation and specified undertakings apply to all members at all times. Members are free, however, to apply the exchange arrangements of their choice. The Fund will be able, by decisions taken with an eighty-five percent majority of the total voting power, to recommend exchange arrangements that accord with the development of the international monetary system, but members will continue to have the right to choose their own arrangements.

The Fund is required to oversee the international monetary system in order to ensure its effective operation and to oversee the observance by each member of its obligations.

The Fund may determine, by the majority already referred to, that international economic conditions permit the introduction of a system based on stable but adjustable par values, whereupon provisions governing such a system will apply. Each member will then establish a par value unless it intends to apply other arrangements.

(*b*) A reduction in the role of gold, including the disposition of the Fund's own holdings of gold (Chapter I).

The most important changes under this heading are as follows:

- (i) the elimination of the function of gold as the common denominator of the par value system and as the unit of value of the special drawing right (Chapter I, section 2);
- (ii) the abolition of the official price of gold (Chapter I, section 3);

* References in the Introduction to chapters are to chapters in Part II of this Report.

(iii) the abrogation of obligatory payments in gold by members to the Fund and by the Fund to members (Chapter I, section 4), and elimination of authority for the Fund to accept gold except under decisions taken with a high majority of the total voting power (Chapter I, section 8(*d*));

(iv) the requirement that the Fund complete the disposition of fifty million ounces of gold (Chapter I, sections 5–7);

(v) the authorization of the Fund to dispose of the remainder of its gold holdings in various ways by sale on the basis of prices in the market or at the official price in effect before the second amendment (Chapter I, section 8);

(vi) "profits" on the sale of gold on the basis of prices in the market would be placed in a special account for use in the ordinary operations and transactions of the Fund or for other uses, including those for the special benefit of members with low per capita income (Chapter I, section 8(*b*) and section 13);

(vii) the requirement that the Fund, in its dealings in gold, avoid the management of the price, or the establishment of a fixed price, in the gold market (Chapter I, section 10); and

(viii) the undertaking of members to collaborate with the Fund and with other members in order to ensure that their policies with respect to reserve assets will be consistent with the objectives of promoting better international surveillance of international liquidity and making the special drawing right the principal reserve asset in the international monetary system (Chapter I, section 10).

Many of the powers that the Fund may exercise under this heading (*b*) are subject to a majority of eighty-five percent of the total voting power.

(*c*) Changes in the characteristics and expansion of the possible uses of the special drawing right so as to assist it to become the principal reserve asset of the international monetary system (Chapter Q).

Numerous changes have been made in the provisions dealing with the special drawing right in order to modify its characteristics and extend its usability. Some of the most important modifications are listed below:

(i) Participants will be able to enter into transactions by agreement without the necessity for decisions by the Fund (Chapter Q, section 2(v)), and a participant transferring special drawing rights in such a transaction need not observe the requirement of need that is included in the Articles (Chapter Q, section 2(viii)).

(ii) The Fund may authorize operations between participants that are not otherwise provided for by the Articles, subject to appropriate safeguards (Chapter Q, section 2(vii)).

(iii) The Fund may review the rules for reconstitution of participants' holdings of special drawing rights at any time and may adopt, modify, or abrogate the rules by a lower majority of the total voting power than is necessary at present (seventy instead of eighty-five percent) (Chapter Q, section 2(xiii)).

(iv) The possible uses of special drawing rights in operations and transactions conducted through the General Department of the Fund have been expanded (Chapter Q, sections 2(i) and 3).

(v) The Fund may broaden the categories of other holders of special drawing rights, although not beyond official entities, and the operations and transactions in which they may engage (Chapter Q, section 2(ii) and (iii)).

(*d*) Simplification and expansion of the types of the Fund's financial operations and transactions, particularly those conducted through the General Department (Chapters D, E, F, G, H, J, and L).

The opportunity has been taken to incorporate in the Articles certain policies and practices that experience has proved to be useful. A leading example is the Fund's policy on repurchase, which is designed to ensure that the use of the general resources will not extend beyond three to five years, unless a longer period is permitted under a special policy on use. The detailed formulae of the present Articles on repurchase and on the calculation of monetary reserves that governed the accrual of repurchase obligations and distribution among reserves have been deleted (Chapter E, section 1).

Provisions have been adopted to ensure that the Fund's holdings of the currencies of all members will be usable by the Fund in its operations and transactions in accordance with its policies. Similarly, members will be able to obtain the currencies of other members when they have been specified by the Fund for repurchase. Appropriate safeguards are adopted for members (Chapter D, sections 11–15, and Chapter E, section 2(x)).

Among other changes in relation to the use of the general resources of the Fund is the more extensive authority it will have to permit members to engage in transactions under special policies without at the same time foregoing their reserve tranche positions (formerly gold tranche positions) (Chapter D, section 9).

(*e*) The possible establishment of the Council as a new organ of the Fund (Chapter P).

The Board of Governors may decide, by an eighty-five percent majority of the total voting power, to call a new organ of the Fund, the Council, into being if this action is deemed appropriate. This organ would resemble the present Interim Committee of the Board of Governors in composition and terms of reference. It would differ from the Committee in that it would have powers of decision and not solely advisory authority. If the Board of Governors were to decide that the Council should be established, detailed provisions governing the Council would begin to apply.

(*f*) Certain improvements in organizational aspects of the Fund (Chapter O).

The provisions governing the election of Executive Directors have been brought up to date by the incorporation of the present number of elective Executive Directors in the Articles, together with authority to modify the number by a high majority of the total voting power. In addition, a member entitled to appoint an additional Executive Director in certain circumstances may decide to participate in the election of Executive Directors instead of making an appointment. It is also provided that if the member does make an appointment, it may arrange with individual members in its former "constituency" to have the Executive Director it appoints cast the number of votes alloted to them (Chapter O, section 2(*b*)).

Other major improvements under this heading are the clarification and simplification of the distribution and delegability of powers among the organs of the Fund and the reduction of the categories of special majorities to seventy percent and eighty-five percent (and in one instance an absolute majority). Special majorities would apply to a wide range of decisions beyond those that have been noted already under (*b*) above (Annex).

The complete text of the Articles incorporating the proposed revisions, rather than a series of proposed amendments of particular provisions, is attached to the Resolution. The reason for adopting this technique is that, although the amendment does not repre-

sent a total revision of the Articles, the second amendment is an extensive one, affecting many provisions of the Articles. Nevertheless, the proposed revision is an amendment of the existing Articles and does not constitute a new international treaty.

Various changes in nomenclature in use in the Fund have been made. Some of the changes are intended to convey more clearly the structure of the Fund, which will consist of the General Department and the Special Drawing Rights Department. There will be three Accounts in the General Department: the General Resources Account, the Special Disbursement Account, and the Investment Account. These changes do not involve changes of substance in the legal or operational organization of the Fund (Chapter A, section 1).

PART II: COMMENTARY ON THE PROPOSED AMENDMENT OF THE ARTICLES OF AGREEMENT

A. Structure of the Fund (Introductory Article and Article I)

1. In view of the creation of the Special Disbursement Account (see Article V, Section 12(*f*)) and the Investment Account (see Article XII, Section 6(*f*)), it has been thought appropriate to improve the nomenclature relating to the structure of the Fund, without however changing that structure. The General Account is renamed the General Department, and the Special Drawing Account is renamed the Special Drawing Rights Department. The General Department will consist of three Accounts, the General Resources Account, the Special Disbursement Account, and the Investment Account. The resources that are at present held by the Fund for use in the operations and transactions conducted through the General Account will be held in the General Resources Account. These resources are referred to in Article I and elsewhere as the general resources of the Fund. "Profits" on the sale of the Fund's gold will be held after the date of the second amendment in the Special Disbursement Account for use in accordance with the provisions governing that Account. The resources used for and resulting from investment will be held in the Investment Account. The resources of the three Accounts will be kept separate from each other.

2. The Introductory Article declares that membership in the Fund gives the right to participation in the Special Drawing Rights Department, and that all operations and transactions authorized by the Articles of Agreement shall be conducted through the General Department, except that operations and transactions involving special drawing rights shall be conducted through the Special Drawing Rights Department. These operations and transactions are conducted through both Departments, however, if the Fund is a party to an operation or transaction involving special drawing rights.

3. "Transactions" of the Fund are defined in Article XXX(*h*) for the purposes of the Agreement as exchanges by the Fund of monetary assets for other monetary assets, and "operations" are defined as other uses or receipts of monetary assets by the Fund. "Transactions" in special drawing rights means exchanges of them for other monetary assets, and "operations" in special drawing rights means other uses of them (Article XXX)(*i*)).

4. The Fund is authorized by Article V, Section 2(*b*) to administer resources on behalf of members consistently with the purposes of the Fund, but operations and transactions in these resources are not conducted through the General Department as they are not on the account of the Fund. Special arrangements would be made for the administration of these resources, as have been made in connection with the Trust Fund and the Subsidy Account.

B. Membership and Subscriptions (Articles II and III)

1. The second sentence in Section 2 of Article II expresses the principle that the terms for membership should not be discriminatory. An applicant's quota should be in the same range as the quotas of members of the Fund considered by the Fund to be in a comparable situation, and the other terms for membership should not discriminate in other respects between applicants and existing members in similar circumstances. Moreover, a basic objective of the provision is to preserve the principle that membership resolutions must not create permanent rights and obligations that vary among members. One purpose of the sentence is to ensure the continuation of the established practice that a new member pays an appropriate part of its original subscription in reserve assets. Therefore, as in the past, the Fund will take into account the size of an applicant's reserves in determining the portion of the subscription to be paid in reserve assets. Under Article III, Section 1, as under the present Articles, the quotas of new members are determined by the Board of Governors, and the subscriptions of members, which are equal to their quotas, must be paid in full. The Board of Governors must decide the amount to be paid in an applicant's own currency and the amount to be paid in reserve assets (special drawing rights or the currencies of other members), but this latter amount could not exceed twenty-five percent of quota in view of the last clause of Article II, Section 2. The level of the Fund's holdings of a new member's currency below which the Fund will pay remuneration is fixed by Article V, Section 9(*b*)(i). The Board of Governors may wish to take into account the effect of a payment in reserve assets on the remuneration that might be payable to the member. If the percentage payable by a new member in its own currency resulted in holdings below the level relevant for remuneration under Article V, Section 9(*b*)(i), the Fund would have to pay remuneration to the new member at once. The balance of the subscription beyond the part paid in reserve assets is payable in the member's currency.

2. The reference to "government" in the corresponding provisions of the present Articles is deleted and "country" is used instead. This change is intended to reflect the fact that countries, and not governments, are members of the Fund.

3. The last sentence of Article III, Section 1, in equating subscriptions with quotas, states a principle that applies to all members. Inclusion of the sentence makes it possible to delete Article III, Section 3 of the present Articles, which applied solely to the initial subscriptions of original members. In keeping with Article V, Section 10(*a*), which requires all accounts of the Fund to be expressed in terms of the special drawing right, Article III, Section 1 now requires that quotas be expressed in terms of special drawing rights.

4. The words "the Board of Governors" in Article II, Section 2 and Article III, Section 1 have been substituted for "the Fund" in order to provide that the prescription of the terms of membership, including determination of the quotas of new members, is a power of the Board of Governors that may not be delegated to other organs of the Fund.

Adjustment of Quotas (Article III, Section 2)

5. Article III, Section 2(*d*) provides that, as at present, a member's quota in the Fund can be changed only with the member's consent. A second prerequisite has been adopted for all changes in quota: an adjustment in quota cannot become effective until payment has been made of the amount of the difference between the old subscription and the new subscription. The provision applies to both increases and decreases in quota, and, therefore, applies to payments both by members and by the Fund. This requirement incorporates in the Articles the principle that has been applied in practice in connection with increases in quotas pursuant to general reviews. The rule, which would also apply to increases by installments if they were permitted by a resolution of the Board of Governors, prevents an in-

crease in potential uses of the general resources of the Fund before the resources themselves are increased. In connection with reductions in quota, the rule prevents the Fund from enjoying a temporary advantage by retaining assets for a time after a reduction in quota has occurred.

6. The words "the Fund" in Section 2(*a*) are replaced by "the Board of Governors" in order to specify that a general review and the proposal of adjustment of the quota of a member, whether as the result of a general or an individual review, are among the powers of the Board of Governors that may not be delegated to other organs of the Fund.

7. Article III, Section 2(*b*) enables the Fund to propose increases in quotas equivalent to the "profits" on sales of gold transferred from the Special Disbursement Account to the General Resources Account of the Fund. The Special Disbursement Account is the account in which, according to Article V, Section 12(*f*), the Fund will hold the excess it receives over the present official price of gold when it sells gold under Article V, Section 12(*c*).

8. If the Fund decides under Article V, Section 12(*f*), (*i*) or (*j*) to transfer assets from the Special Disbursement Account to the General Resources Account for immediate use in the ordinary operations and transactions of the Fund as authorized by the Articles, the Fund may decide then or at a later date to "capitalize" the amount of the transfer or transfers by offering increases in quotas to members. The offer will be made to all members that were members of the Fund on August 31, 1975 and in proportion to their quotas on that date. No member will be required to accept an increase. If a member consents, the increase will take effect on consent, under Article III, Section 3(*b*), and its additional subscription will be deemed to have been paid. The decision to "capitalize" transfers may be taken by the Executive Board if this power is delegated to it by the Board of Governors. All decisions to permit the adjustment of quotas, whether resulting from a general or an individual review, and whether taken by the Board of Governors, or by the Executive Board under Article III, Section 2(*b*), will be taken by a majority of eighty-five percent of the total voting power. Under the present Articles, this proportion of the total voting power is required for adjustments proposed as the result of a general review, but eighty percent of the total voting power is required for adjustments that are proposed as the result of individual reviews. There is no provision in the present Articles corresponding to Article III, Section 2(*b*) under which "capitalization" can take place.

Payments When Quotas Are Changed (Article III, Section 3)

9. The requirement under the present Articles that an increase in subscription must be paid within thirty days after consent to an increase in quota has been replaced by the requirement that the payment must be made within a period determined by the Fund. This change is intended to provide flexibility for arranging payment.

10. Under Article III, Section 3(*a*), the portion of an increase in quota now payable in gold, equivalent to twenty-five percent of the increase, is payable in special drawing rights, but the Board of Governors can prescribe, in connection with any review, that payment may be made in whole or in part in the currencies of other members, with the concurrence of these members, or in the member's own currency. Any prescription of the mode of payment must apply to all members on the same basis. This principle is subject to the qualification that nonparticipants in the Special Drawing Rights Department are permitted to pay the portion of the increase that must be paid by participants in special drawing rights in the currencies of other members specified by the Fund with the concurrence of these members. If the currencies of other members are specified as a means of payment by members, the proportion of each currency need not be the same for all members, but each member must pay the same total proportion of the increase in the currencies of other members.

11. If the Board of Governors prescribes that payment may be made in the currencies of other members, the particular currencies may be specified by the Executive Board by a majority of the votes cast under a delegated power. The Executive Board will be able to adopt policies with respect to the currencies that can be used for the payment of increases in subscriptions. In formulating these policies, the Fund would take into account the policies it had adopted under Article V, Sections 3(*d*), 6(*c*), 7(*i*), and 12(*c*). Payment in the currency of another member cannot be permitted if the Fund's holdings would be increased above the level at which charges would be payable by the member under Article V, Section 8(*b*)(ii). This level would be the quota, unless purchases were outstanding under floating facilities, in which circumstances the level would be the quota plus the amount of the member's currency obtained by the Fund in these purchases. Under Article V, Section 12(*d*), the Fund, by an eighty-five percent majority of the total voting power, could permit a member to pay the increase in its quota in gold at a price agreed between the Fund and the paying member on the basis of prices in the market.

12. Article III, Section 3(*c*), which deals with a reduction in quota, is designed to correspond to some extent to the provisions dealing with an increase in quota. Under the provision, the period for the payment by the Fund of the reduction in quota is sixty days after the consent to the reduction by the member. The payment must be made in the member's currency to the maximum extent possible, but without reducing the Fund's holdings of the currency below the new quota in any but exceptional circumstances. Examples of such exceptional circumstances might be the meagerness of the Fund's holdings of special drawing rights or the fact that the member to be repaid was neither a participant nor an other holder of special drawing rights and it was not possible or advisable to use the currencies of other members. To the extent that the Fund did not make a payment in the member's own currency, payment would be made in special drawing rights or in the currencies of other members that concurred in this use. The Executive Board would specify the currencies of other members for this purpose by a majority of the votes case under a delegated power.

Substitution of Securities for Currency (Article III, Section 4)

13. Any currency held by the Fund in the General Resources Account will be subject to Article III, Section 4. A member is able, therefore, to substitute nonnegotiable, noninterest-bearing notes or similar obligations issued by the member or by the depository designated by it under Article XIII, Section 2 for these holdings to the extent that the Fund does not currently need them for use in accordance with the provisions of the Articles. Article III, Section 4 does not apply to any cash balances in the Special Disbursement Account or the Investment Account. The reason for this limitation is that these holdings may be transitory. A member's currency in these Accounts, however, may be invested by the Fund only with the member's concurrence.

14. The words "face value" are substituted for the words "par value" in this section in order to avoid the confusion that might be created by the different meanings of the expression "par value."

C. Exchange Arrangements (Article IV and Schedule C; Article VIII, Sections 2(*a*) and 4)

General Provisions

1. The provisions on exchange arrangements are based on the recognition that the essential purpose of the international monetary system is to provide a framework that both facilitates the exchange of goods, services, and capital among countries and sustains

sound economic growth, and that a principal objective of the system is the continuing development of the orderly underlying conditions that are necessary for financial and economic stability. The members of the Fund undertake, in Article IV, Section 1, a general obligation to collaborate with the Fund and with other members in order to assure orderly exchange arrangements and to promote a stable system of exchange rates.

2. Members must perform their general obligation by observing, in particular, the undertakings with respect to domestic and external economic and financial policies set forth in Article IV, Section 1(i), (ii), (iii), and (iv). The particular undertakings referred to are general in scope and applicability. There is recognition, however, of the relevance of the circumstances of members in the formulation of the undertakings according to which members must "endeavor" or "seek" to pursue certain courses, as well as in the clause "with due regard to its circumstances" in Article IV, Section 1(i), the phrase "with due regard to its circumstances" does not represent a dilution of members general obligations under the Articles of Agreement, but refers to the differing economic needs and circumstances of members and the nature of the problems they face and the priorities they choose in the pursuit of their objectives consistently with the Articles of Agreement.

3. The obligations of members under Article IV, Section 1 apply to all members at all times and whatever their exchange arrangements may be. Under Article IV, Section 2(*b*) members may choose the exchange arrangements they wish to apply. This freedom of choice will continue to exist for all members even after the Fund has determined that conditions permit the introduction of a system of exchange arrangements based on par values and has notified members of the application of the provisions of Schedule C. In those circumstances, as explained in 6 to 13 below, Schedule C will apply to exchange arrangements of members.

4. Section 2(*b*) describes two of the principal types of exchange arrangements, and refers in a general way to all others as arrangements that members may apply in an international monetary system like the one prevailing at the beginning of 1976. The provision refers to the system as it existed on January 1, 1976 in recognition of the fact that it may develop in new directions thereafter. In the context of a different international monetary system, members may find it necessary or convenient to apply exchange arrangements other than those referred to in Section 2(*b*)(i) or (ii). Section 2(*c*) enables the Fund, by an eighty-five percent majority of the total voting power, to recommend general exchange arrangements that accord with the development of the system. This action of the Fund, however, could not limit in any way the right of members to have exchange arrangements of their choice consistent with the purposes of the Fund and the obligations of members under Section 1.

5. Under Section 3(*a*), the Fund is required to oversee the international monetary system in order to ensure its effective operation and to oversee the observance by each member of its obligations under Section 1. Each member is required to notify the Fund under Section 2(*a*) of the exchange arrangements it intends to apply in fulfillment of these obligations, and of any changes in its exchange arrangements. Section 3(*b*) emphasizes the functions of the Fund under Section 3(*a*) by directing it to exercise firm surveillance over the exchange rate policies of members and to adopt specific principles for the guidance of all members with respect to those policies whatever exchange arrangements a member may apply. The principles may be adapted from time to time in the light of experience and the development of the international monetary system. The principles will have to be based on, and respect, the general obligations of members under Section 1 regarding, for example, the pursuit of orderly economic growth and reasonable price stability, and must be consistent with the freedom of members to choose their exchange arrangements. In this connection, as well as in Section 2(*b*), there is special reference to cooperative arrangements by which the values of currencies are maintained between or

among members. The principles must also respect the domestic social and political policies of members. In applying these principles, the Fund is required to pay due regard to the circumstances of members.

Par Values

6. Section 4 authorizes the Fund to make a determination, by an eighty-five percent majority of the total voting power, that international economic conditions permit the introduction of a par value system, that is, a widespread system of exchange arrangements based on stable but adjustable par values. The criteria that the Fund must take into account for making that determination are set forth in Section 4. If the Fund makes a determination, it must notify members that the provisions of Schedule C apply, and Schedule C is then operational. On the date of the second amendment, par values in existence under the present Articles will cease to be in effect for the purposes of the Articles of Agreement.

7. Application of the provisions of Schedule C will require a member to establish a par value for its currency unless it intends to apply other exchange arrangements. If it chooses the latter course, it must consult with the Fund and ensure that its exchange arrangements are consistent with the purposes of the Fund and are adequate to fulfill its obligations under Article IV, Section 1. A member wishing to establish a par value under the provisions of Schedule C can at any time propose a par value to the Fund, whether initially under Schedule C, paragraph 2 or subsequently under Schedule C, paragraph 4. The proposed par value will take effect if the Fund concurs in it. It is provided that the Fund shall not object because of the domestic social or political policies of the member proposing the par value.

8. Under Schedule C, paragraph 5, the margin for spot exchange transactions between currencies for which par values are maintained is four and one-half percent on either side of parity. Members can maintain narrower margins consistently with this provision if they wish to do so. The Fund will be able, by an eighty-five percent majority of the total voting power, to establish a different margin, which might be either wider or narrower than four and one-half percent, for all spot exchange transactions, or to permit, for example, the application of one margin for the currencies of members participating in a multi-currency intervention system and another margin for spot exchange transactions between these currencies and other currencies. The authority of the Fund under the present Articles to establish specific margins for other exchange transactions, including forward exchange transactions, has been eliminated. In view of the greater width of margins, it has been made clear that the Fund's jurisdiction over multiple currency practices and discriminatory currency arrangements applies to rates within or outside margins observed by members under Article IV or prescribed by or under Schedule C, paragraph 5 (Article VIII, Section 3). The Fund will be able to develop a body of principles on what practices are to be regarded as multiple currency practices or discriminatory arrangements, subject to the practices authorized by the provisions of the Articles. This is the way in which these concepts have been applied under the present Articles.

9. A change in the par value of a member's currency for the purposes of the Articles of Agreement may occur only if the member proposes the change in order to correct, or prevent the emergence of, a fundamental disequilibrium and if the Fund concurs in the change. The concept of preventing the emergence of a fundamental disequilibrium goes beyond the text of the present Articles. If a change in par value is proposed by a member, the Fund must concur in or object to it within a reasonable period. The Fund must concur if it is satisfied that the change is necessary to correct, or prevent the emergence of, a fundamental disequilibrium. As in the present Articles, it is provided, in Schedule C, paragraph 7, that the Fund shall not object because of the domestic social or political policies

of the member proposing the change. It will continue to be possible, therefore, for the Fund to object because of other policies. If the Fund does object, the proposed change will not take effect for the purposes of the Articles. If nevertheless the member were to make the change, the Fund would be able to apply the measures of Article XXVI, Section 2 against the member, i.e., ineligibility to use the general resources of the Fund and compulsory withdrawal. The Fund is not required to apply these measures.

10. Only the member is authorized to propose a change in the par value of its currency, which is the position under the present Articles. Although the Fund is not authorized to propose a change, it is required to discourage the maintenance of an unrealistic par value by a member.

11. A par value ceases to exist for the purposes of the Articles of Agreement if the member terminates it or if the Fund finds that the member is not maintaining rates for a substantial volume of exchange transactions in accordance with Schedule C, paragraph 5. These provisions eliminate the principle under the present Articles that a par value continues to exist for the purposes of the Articles even though it has been completely out of touch with actual rates for many years and there is no prospect that the par value will be made effective again. The Fund may object to the termination of a par value, but only by a decision taken by eighty-five percent of the total voting power. The member may terminate the par value for its currency despite the objection of the Fund, but such an action will make the member subject to the application by the Fund of the measures included in Article XXVI, Section 2.

12. If the par value of the currency of a member ceases to exist, the member has the same choice as upon the initial application of Schedule C. It can establish a new par value or apply other exchange arrangements (Schedule C, paragraphs 9 and 10). If it does not have an effective par value it must consult the Fund and must ensure that its exchange arrangements are consistent with the purposes of the Fund and adequate to fulfill its obligations under Article IV, Section 1.

13. Under Schedule C, paragraph 1, the Fund will choose the common denominator of the par value system under that Schedule. It may be the special drawing right or some other common denominator except gold or a currency. If the special drawing right were chosen as the common denominator, the Fund might wish from time to time to make uniform proportionate changes in par values. For this purpose Schedule C, paragraph 11 authorizes the Fund to decide, by a seventy percent majority of the total voting power, to make uniform proportionate changes in all par values if the changes will not affect the value of the special drawing right. These changes would not be made in order to increase or decrease global liquidity, because this effect could be achieved by the allocation or cancellation of special drawing rights, but in order to bring par values into line with the values of the currencies in terms of the value of the special drawing right in transactions as determined under Article XV, Section 2. A member will have the right, which it has under the present Articles, to decide that the par value of its currency will not be changed, but it must give the Fund notice of this decision within seven days after the Fund's action.

Convertibility Under Article VIII

14. Article VIII, Section 2(*a*) constitutes what has become the basic convertibility provision of the Articles of Agreement. The mechanism of convertibility under this provision is available to all parties, whether private or governmental, and under it holders of currency balances recently acquired as a result of current transactions must be allowed to transfer those balances through the exchange markets.

15. The basic convertibility mechanism of Article VIII, Section 2(*a*) was supplemented, in the original Articles, by another form of convertibility under Article VIII, Section 4 to which the monetary authorities of members, and only those authorities, could have recourse. This supplemental mechanism for monetary authorities was provided for by the drafters of the original Articles on the basis of certain assumptions about the character and operation of the monetary system after 1944, which has, however, developed in other directions. They assumed, for example, that conversions through the market might be moderate, but that governments might centralize all foreign exchange receipts, with the result that official balances might be enormous and conversion impossible without the use of the Fund's resources.

16. The obligation of members to convert under Article VIII, Section 4 is a closely defined obligation and subject to certain conditions. One important condition is that the balances presented for conversion have been recently acquired as a result of current transactions, or that conversion of the balances is needed for making payments for current transactions. Another important condition is that the member asked to convert must be entitled to use the Fund's resources. The theory of Section 4 is convertibility of official balances through the mechanism of the Fund, and a member is under no obligation to convert official balances of its currency, whether through the use of the Fund's resources or with other assets, unless it can purchase from the Fund the currency of the member requesting conversion

17. The world has not developed along the lines expected by the drafters of Article VIII, Section 4, and the convertibility mechanism envisaged in that provision has never been applied. Section 2(*a*) of Article VIII, and not Section 4, has provided the mechanism for conversion, and the Fund has supported this form of convertibility with its resources.

18. The second amendment has been agreed on the understanding that the situation as described above will continue to prevail, so that no obligation will be applied for a member so long as exchange markets for the currency held normally serve this function. Members are, of course, free to agree to convert balances of their currency held by other members, as they have done on occasions in the past, or can, by agreement, transfer special drawing rights to other members for this purpose. It has been considered unnecessary, therefore, to attempt to modify the provision at this time, taking into account the fact that circumstances similar to those that the drafters of the original Articles had in mind might possibly emerge, thus justifying more reliance on the provisions of Article VIII, Section 4. Any study of a possible future modification of the provision could be undertaken more usefully in the light of developments in connection with exchange arrangements under Article IV.

D. Use of Fund's General Resources (Article V, Sections 2, 3, 4, 5, and 6; Article XXX(*c*))

1. The provisions of the Articles dealing with the use of the Fund's general resources (Article V, Sections 2 to 6) are revised, largely in order to give expression to the practices, including those relating to the selection of currencies for use in the transactions of members with the Fund, that have evolved in the course of the years on the basis of the present provisions. The new provisions, however, are not confined to the modernization of the Articles but also introduce improvements in them, for example with respect to the usability of the Fund's holdings of currencies in the General Resources Account.

2. Under Section 2(*a*) the Fund's authority to enter into operations and transactions on its own account is limited to those included in the Articles. Special mention is made of the sale to a member, on its initiative, of special drawing rights or the currencies of other

members held in the General Resources Account for the member's own currency. Under Section 2(*b*) the Fund, if requested, may decide to perform financial or technical services that are not on the account of the Fund, provided that they are consistent with its purposes. Decisions under this provision would be taken by a majority of the votes cast in the Executive Board. The technical services include technical assistance within the Fund's sphere of interest. It is expected that the Fund would not make its services available to assist members to conduct their transactions in gold. The financial services include the administration of resources contributed by members or by others. The Trust Fund, and the Subsidy Account established in 1975 to assist members that were most seriously affected by the prevailing situation to meet the cost of using the Fund's oil facility, are examples of this kind of service. Operations and transactions involved in the performance of these financial services would not be on the account of the Fund. That is to say, the assets in the Accounts of the General Department or any assets in the Special Drawing Rights Department would not be available to meet obligations or liabilities incurred in the course of these services. The assets administered by the Fund under this provision might be owned by the Fund if certain legal techniques, such as a trust, were employed, and, therefore, to take one example, the assets would be assets of the Fund for the purposes of the immunities and privileges of Article IX even though they would not be held within the General Department (Article XVI, Section 2). Services rendered by the Fund under Article V, Section 2(*b*) cannot impose obligations on a member unless it agrees to assume them. As in the past, the Fund would be able to absorb the administrative costs of the services or agree with members on some other arrangement.

3. Article V, Section 3(*a*) refers to "stand-by or similar arrangements." The concept of the "stand-by arrangement," which is defined in Article XXX(*b*), is an important development in the practice of the Fund but is not referred to in the present Articles. An example of a "similar arrangement" would be an extended arrangement granted by the Fund under its decision establishing the "Extended Fund Facility" (Decision No. 4377-(74/114), September 13, 1974). Article V, Section 3(*a*) directs the Fund to adopt policies on the use of its general resources, including the use under stand-by or similar arrangements. The Fund would continue to be able to adapt its policies with respect to stand-by or similar arrangements, and to adopt special policies for the use of its resources, subject to the provisions of the Articles, including the requirements with respect to the majorities for decisions.

4. The entitlement of members to use the Fund's general resources is not formulated in terms of particular currencies, subject to the exception in the last clause of Article V, Section 3(*d*). The particular currencies to be sold to a member making a purchase would be selected by the Fund in accordance with policies and procedures to be adopted by the Fund (Section 3(*d*)). These policies and procedures must take into account, in consultation with members, the balance of payments and reserve position of members and developments in the exchange markets, as well as the desirability of promoting over time balanced positions among members in the Fund. Developments in the exchange markets have been included because they may signal an improving or deteriorating payments position. Section 3(*d*) will provide an express legal basis for currency budgets comparable to the designation plans for special drawing rights under Article XIX, Section 5. The Fund will apply similar criteria in the preparation of both the budgets and the plans. Under the exception in the last clause of Section 3(*d*), however, a member will be entitled to purchase a specific currency if it represents that it needs that currency in order to redeem an equivalent amount of its own currency held by another member and offered by the holder for redemption. This exception is subject in turn to the qualification that a member will not be entitled to purchase the currency of another member under Section 3(*d*) if the Fund has given notice under Article VII, Section 3 that its holdings of the currency have become scarce.

5. In order to be entitled to make a purchase, a member must satisfy four conditions:

- (i) The member's use of the resources in the General Resources Account would be in accordance with the Articles and the Fund's policies.
- (ii) The member represents that it has a need to make the purchase because of its balance of payments or reserve position or because of developments in its reserves.
- (iii) The proposed purchase would be a reserve tranche purchase or would not cause the Fund's holdings of the purchasing member's currency to exceed two hundred percent of its quota.
- (iv) The Fund has not declared the member ineligible to use the Fund's general resources under any of the provisions under which the Fund can take this action.

6. With respect to condition (i), the Fund is directed to examine a request for a purchase in order to determine that the request is in all respects in conformity with the Articles and with the Fund's policies (Article V, Section 3(*d*)). If the Fund decides that, for whatever reason, the condition is not met, the Fund will refuse to comply with the request, subject to the qualification that the Fund cannot refuse a request for a reserve tranche purchase by a member that is eligible to use the Fund's general resources (see 9 below).

7. The Fund will continue to be able to challenge for good cause a member's representation of need under condition (ii). The provision relating to the requirement of "need" has been formulated in a manner that brings it into line with the comparable requirement of "need" under Article XIX, Section 3(*a*) for the use of special drawing rights by participants. Under the concept of need in Article V, Section 3(*b*)(ii), a member will be able to purchase the currencies of other members from the Fund if its balance of payments position or its reserve position is unfavorable, or if there is an unfavorable development in its reserves, e.g., because of an impending discharge of liabilities, even though it does not have a deficit in its balance of payments according to accepted definitions of the balance of payments.

8. In condition (iii), the limit on purchases formulated in the present Articles in terms of an increase in the Fund's holdings of a member's currency equivalent to twenty-five percent of quota has been deleted. The needs of members have necessitated frequent waivers of this limit under Article V, Section 4 of the present Articles even though the drafters of the provision appear to have contemplated that waivers would be uncommon. The Fund's policies on the use of its resources have been more adequate safeguards of the Fund's resources than the deterrence implied in the necessity for waivers. The limit of two hundred percent of quota has been retained. This limit refers to the Fund's total holdings of a currency. That is to say, holdings obtained under a special policy are not deducted, so that a waiver is necessary for any proposed purchase, other than a reserve tranche purchase, that would increase the Fund's holdings in the General Resources Account above two hundred percent of quota.

9. In condition (iii), the concept of "gold tranche purchase" has been replaced by the concept of "reserve tranche purchase" in order to reflect more accurately the character of the right of members to make purchases that are not subject to challenge by the Fund. A "reserve tranche purchase" is defined in Article XXX(*c*) as a purchase by a member of special drawing rights or another member's currency in exchange for the member's own currency if the Fund's holdings of the member's currency in the General Resources Account will not be increased above its quota. For this purpose, however, the Fund, by a general decision taken by a majority of the votes cast, may calculate holdings by exclud-

ing currency obtained as a result of purchases under the facility for the compensatory financing of export fluctuations or under the facility for the financing of contributions to international buffer stocks of primary products. The Fund will be able to exclude purchases under other policies on the use of its general resources but only by decisions taken by an eighty-five percent majority of the total voting power. If the Fund makes an exclusion in respect of purchases under a particular policy, a member will be able to make a purchase under that policy without losing any part of a reserve tranche position that is available to it. Under the present Articles, this result is possible only with respect to purchases under the compensatory financing facility. With respect to purchases under other policies, it has been possible only to ensure that they do not affect the purchases that can be made under the credit tranche policies. The Fund will continue to have this authority under the amended Articles.

10. Article V, Section 4 enables the Fund to waive conditions (iii) and (iv) in Article V, Section 3(*b*). It is made clear that the Fund cannot waive the condition that requires the consistency of a request with the Articles and with the policies of the Fund and the condition that the member must have a need to make the purchase it requests. The Fund may accept collateral security to safeguard its interests when granting a waiver. Particular types of collateral are no longer mentioned. There is a general reference to "acceptable assets," which would include, for example, special drawing rights. The provision, therefore, would authorize members to use, and the Fund to accept, special drawing rights for this purpose. The Fund's practice, however, has been not to require collateral. It is not expected that this practice will be changed.

11. In order to make it possible for the Fund to use all currencies held in the General Resources Account in transactions conducted through that Account in accordance with the Fund's policies, Article V, Section 3(*e*) sets forth certain provisions intended to ensure that a member purchasing another member's currency from the Fund will be able to use it, directly or indirectly, to meet its balance of payments needs. These provisions supplement Article V, Section 3(*d*), which empowers the Fund to select the currencies to be sold to members making purchases from the Fund. Article V, Section 3(*e*) gives expression in the form of an obligation of members to a practice that hitherto has rested solely on the collaboration of members. Members must perform this obligation, as well as the parallel obligation imposed by Article V, Section 7(*j*), to the satisfaction of the Fund. Article V, Section 3(*d*) reflects the consensus that the ability of the Fund to use all its general resources for the benefit of members should be based on a clear legal foundation. In accordance with the purpose of this provision, members must perform all necessary steps promptly. The Fund will make arrangements designed to ensure that all steps can be carried out on the same day or, if this is not practicable, as expeditiously as possible.

12. A member whose currency is not a freely usable currency has the obligation to ensure that balances of its currency purchased from the Fund can be exchanged for a freely usable currency selected by the member whose currency is purchased at an exchange rate between the two currencies corresponding to their values in terms of the special drawing right under Article XIX, Section 7(*a*). This obligation applies only if the purchasing member requests the exchange at the time of the purchase. The purchasing member must make the exchange with the monetary authorities of the issuing member, unless the two members agree on some other procedure. The provision means, therefore, that either of the two members involved can insist on an official exchange. If the currency purchased from the Fund is a freely usable currency and the purchasing member wishes to exchange it for another freely usable currency, the purchasing member is not entitled to demand an official exchange, but it must exchange the currency purchased from the Fund with the monetary authorities of the issuer of the currency if the issuer so requests. In that event, the issuer also has the choice of the freely usable currency that it

will deliver, and the exchange must be made at an exchange rate between the two currencies corresponding to their values in terms of the special drawing right under Article XIX, Section 7(*a*). Under the collaboration clause, discussed in 13 below, it is expected that the issuer would take into account the preference that the purchasing member may express for a particular freely usable currency.

13. In addition, each member, whether its currency is or is not a freely usable currency, is required to collaborate with the Fund and other members to enable balances of its currency that another member holds as the direct or indirect result of a purchase from the Fund to be exchanged, at the time of the purchase, for the freely usable currencies of other members. This provision assists a purchasing member in either of two ways in the situation in which the freely usable currency selected by the member whose currency is purchased is not the currency that the purchaser wants. The purchaser can ask the issuer to collaborate by exchanging its currency into a currency that the purchaser does want, or the purchaser can accept the currency selected and ask the issuer of that currency to collaborate in the exchange of that currency for another freely usable currency. Whichever course is adopted, the obligation applies only if the exchange is sought at the time of the purchase. The obligation of collaboration is not the same as an obligation to provide the currency wanted by the purchasing member through an official exchange, but instead members must do what can reasonably be expected of them. The Fund would be able to decide whether a member was performing the obligation of collaboration, and in this connection the Fund will consult with members in order to reach understandings on ways in which collaboration would be made effective.

14. The definition of a freely usable currency is set forth in Article XXX(*f*). This definition and all other definitions in Article XXX are designed for the purpose of applying the provisions of the Articles. A currency that does not fall under Article XXX(*f*) for the Fund's purposes because it is not widely used for international payments may nevertheless be freely exchangeable for other currencies in some of the principal exchange markets. Under the definition in Article XXX(*f*), a member's currency will be regarded as freely usable by the Fund only if the Fund determines that the currency meets two criteria: (a) the currency is, in fact, widely used to make payments for international transactions, and (b) it is widely traded in the principal exchange markets. The Fund will apply this definition and establish which currencies are to be deemed freely usable for the purposes of the Articles. The Fund would be able to add to or subtract from the list should changing circumstances make these modifications necessary. It can be expected that the Fund would consult a member before placing its currency on the list or removing it, but the final decision would rest with the Fund.

15. The concept of freely usable currency appears in the following provisions:

Article V, Sections 3(*e*) and 7(*j*);
Article XIX, Section 4(*a*);
Article XX, Section 5;
Article XXIV, Sections 3, 5, and 6;
Article XXX(*f*);
Schedule G, paragraph 1(*a*)(iv);
Schedule H, paragraphs 1 and 2;
Schedule I, paragraph 1;
Schedule J, paragraphs 2 and 4.

16. The Fund may agree to provide a member, if it is a participant in the Special Drawing Rights Department, with special drawing rights held in the General Resources Account, instead of the currencies of other members, in return for the purchasing member's currency. Article V, Section 3(*f*) requires the Fund to adopt policies and procedures

for these transactions. On the basis of this authority, the Fund may give general approval for purchases of special drawing rights by participants under general policies, or may limit its agreement to specific cases. The agreement of the Fund is required for various reasons. For example, the Fund might wish to retain its holdings of special drawing rights in order to replenish its holdings of currency under Article VII, Section 1(ii), or because the Fund's holdings of special drawing rights in the General Resources Account might be inadequate to meet all requests.

17. Under Article V, Section 6, the Fund can provide a member with the currencies of other members in return for special drawing rights. Similarly, the Fund can provide a participant, at its request, with special drawing rights held in the General Resources Account for an equivalent amount of the currencies of other members. These transactions cannot be entered into without agreement between the Fund and the member. It was concluded that the Fund should be empowered to enter into these transactions because participants will be able to enter into similar transactions between themselves under Article XIX, Section 2(*b*). Neither kind of transaction under Article V, Section 6 is a "credit" transaction comparable to the transactions, other than reserve tranche purchases, in which a member makes purchases under Article V, Section 3 in return for its own currency. Therefore, there is no condition that the member must have a need to enter into the transaction. There are, however, certain limitations on transactions under Article V, Section 6:

(*a*) The Fund's holdings of a member's currency that it receives in the General Resources Account must not be increased above the level at which the member would have to pay charges on them under Article V, Section 8(*b*)(ii).

(*b*) The Fund may not enter into a transaction unless the member whose currency is provided or accepted by the Fund concurs in the use of the currency.

(*c*) The currencies provided or accepted by the Fund must be in accordance with policies of the Fund, and these policies must take account of the principles set forth in Article V, Section 3(*d*) for the selection of currencies in transactions under Article V, Section 3(*b*).

E. Repurchase (Article V, Section 7 and Schedule B, Paragraphs 1 to 5)

General Provisions

1. The provisions on repurchase in the amended Articles differ substantially from the provisions of the present Articles under which members incur repurchase obligations on the basis of complex and rigid rules that determine the amounts to be repurchased, the assets with which repurchases are to be made, and the timing of the repurchases. The accrual of repurchase obligations under the present Articles depends to a large extent on a definition of types of assets held by the central and official authorities of members that no longer accords with actual practice. In spite of the complexity of the provisions, repurchase obligations have not accrued in sufficient amounts to ensure that members would always make a temporary use of the Fund's resources. Sometimes, repurchase obligations have accrued at inconvenient times. In order to ensure temporary use, the Fund has had to augment the provisions with policies on repurchase, although it has not been possible to make policies obligatory in all circumstances. The policies have been simpler and more effective, but concurrent application of both the provisions and the policies has created complications. It has not been possible to resolve them by the waiver of the provisions, because the Fund has no authority to take that action. Article V, Section 7 of the amended Articles eliminates the formulae of the present Articles that govern the accrual of repurchase obligations and the calculation of monetary reserves on the basis of which

the obligations arise. The provision largely reflects the supplementary policies on repurchase that the Fund has developed over the years, but it retains certain of the principles underlying provisions of the present Articles, such as the duty to repurchase on the basis of increases in reserves.

2. The new rules in Article V, Section 7, which apply only to currency held in the General Resources Account, are as follows:

(i) Under subsection (*a*), a member is entitled, as it is under the present Section 7(*a*), to repurchase at any time the Fund's holdings of its currency that are subject to periodic charges under Article V, Section 8(*b*). In this way, a member can be certain that it will be able at any time to terminate its obligation to pay charges. This right may be exercised in respect of holdings of a member's currency that result from purchases or from any other operation or transaction.

(ii) Under subsection (*b*), a member that has made a purchase will be expected normally to repurchase the Fund's holdings that result from the purchase and are subject to charges under Article V, Section 8 as its balance of payments and reserve position improves. The repurchase should keep pace with the improvement and should not await total recovery from the problem for which the purchase was made. The word "normally" indicates that there may be exceptional circumstances that the Fund will recognize as justification for not repurchasing according to the criterion of improvement in the balance of payments and reserve position. That criterion is a combined one that can be satisfied if the improvement in one element compensates for a slower improvement in the other. The expectation that repurchase will be made according to the criterion is not an obligation, but observance of it would be relevant to the member's relations with the Fund. If, in the opinion of the Fund, the member has failed to repurchase in accordance with the criterion, the Fund, after consultation with the member, may represent to the member that it should repurchase, whereupon the member will be under an obligation to make the repurchase. The representation would be made in accordance with general policies adopted by the Fund with respect to repurchase.

(iii) In addition to the expectation and obligation with respect to repurchase as a member's balance of payments and reserve position improves, the member has an obligation under subsection (*c*) to repurchase not later than five years from the date of a purchase the Fund's holdings of its currency that result from the purchase and are subject to charges under Article V, Section 8. This period for repurchase is the one that the Fund has regarded as basic for many years. The Fund may prescribe that repurchase shall be made in installments beginning three years, and ending five years, after the purchase. A member must discharge its obligation under subsection (*c*) even if its balance of payments and reserve position has not improved. The Fund, by an eighty-five percent majority of the total voting power, may change the maximum period for repurchase by all members under subsection (*c*), either by lengthening or by shortening it. The Fund may decide, by the same high majority, that all members shall repurchase by installments beginning sooner, or later, than three years after a purchase. The Fund may determine the installments in which repurchase shall be made during the period of three to five years, or within a different period substituted for this period, by a majority of the votes cast. The Fund may adopt general policies on the spacing of installments within the general periods. These policies may permit different schedules of installments for

different circumstances, including the different circumstances of particular members, as is the present practice.

(iv) Subsection (*c*) applies to the Fund's policies on the use of its resources in the credit tranches. Under subsection (*d*), the Fund may decide, by an eighty-five percent majority of the total voting power, that the periods for repurchase under special policies on the use of its resources shall be other than the three to five years, or the periods substituted for them, that apply to the credit tranche policies. The periods may differ as among special policies, but they must be the same for all members under any one policy. Examples of special policies on the use of the Fund's resources are the oil facility and the extended Fund facility, for which repurchase periods different from those that apply to the credit tranche policies that are already in effect.

(v) Article V, Section 7 does not prescribe a period for the repurchase by members of the Fund's holdings of their currencies that are not acquired as a result of purchases (e.g., as a result of the payment of charges) and are subject to charges under Article V, Section 8(*b*)(ii). Instead, the Fund is required by subsection (*e*) to adopt policies on the repurchase of these holdings. These policies can be adopted by a seventy percent majority of the total voting power. The policies need not be the same for all the ways in which currency is acquired, but the policies adopted for any particular kind of acquisition will be applicable in the same way to all members.

(vi) Subsection (*f*) provides that if the Fund prescribes a period for repurchase in respect of the use of its resources under its credit tranche policies that is shorter than the period in effect under subsection (*c*), the new period can be applied only to holdings obtained by the Fund under the policies after the effective date of the decision adopting the new period. If the period is longer, the Fund may apply it to holdings already acquired under the policies. These principles apply whether the change is made in the date at which the first installment is payable or in the period by which repurchase must be completed. The same principles apply to changes in periods for repurchase in effect under subsection (*d*) in respect of purchases under special policies. Subsection (*f*) protects members against the application of more stringent repurchase obligations to purchases already made, but the Fund is authorized to give members the benefit of more lenient repurchase obligations by applying them to outstanding purchases.

(vii) Under subsection (*g*) the Fund is authorized to postpone, on the request of a member, the date for the discharge by the member of a repurchase obligation or any installment that is due. Under this authority, the Fund, by a majority of the votes cast, can extend the period for the discharge of a member's repurchase obligation incurred in respect of a purchase, but not beyond the maximum period for repurchase in respect of the purchase under subsection (*c*) or (*d*), as the case may be, or under the Fund's policies for the repurchase of balances not acquired by purchase (subsection (*e*)). The Fund can postpone the date of the discharge of a repurchase obligation with respect to purchases beyond the maximum period under the applicable subsection only if the Fund determines that discharge on the due date would result in exceptional hardship for the member and if the longer period for repurchase would be consistent with the temporary use of the general resources of the Fund. A decision to postpone in these circumstances requires a seventy percent majority of the total voting power.

(viii) The Fund may adopt policies supplementing those adopted under Article V, Section 3(*d*) for the sale of those holdings of a member's currency that have not been repurchased in accordance with the member's obligation (subsection (*h*)). The Fund must consult with the member before any such sale in order to enable the member to explain the delay and possibly arrange a new date for the repurchase that is overdue. The member cannot veto the sale of the member's currency if the Fund decides to sell it more promptly than would be justified according to the criteria in Article V, Section 3(*d*). The sale is without prejudice to other actions that are available to the Fund because of the member's failure to perform its repurchase obligation. These actions include the imposition under Article V, Section 8(*c*) of higher charges on the holdings that should have been repurchased and a declaration, under Article V, Section 5 or Article XXVI, Section 2(*a*), of ineligibility to use the Fund's general resources.

(ix) Subsection (*i*) provides that repurchases must be made with special drawing rights or with the currencies of other members specified by the Fund. The selection of currencies to be used in repurchase will be based on policies and procedures that the Fund will have to adopt. The policies and procedures must take account of the principles governing the selection of currencies to be used in purchases under Article V, Section 3(*d*). These principles take into account, in consultation with members, the balance of payments and reserve position of members and developments in the exchange markets, as well as the desirability of promoting over time balanced positions among members in the Fund. No distinction will be made between the currencies of members that have accepted the obligations of Article VIII, Sections 2, 3, and 4 and the currencies of members that have not yet done so. The Fund's holdings of the currency of a member that is used in repurchase may not be increased by repurchase above the level at which they would be subject to charges under Article V, Section 8(*b*)(ii).

(x) Under subsection (*j*), which parallels the provisions of Article V, Section 3(*e*) on the exchange of currencies purchased from the Fund, the issuer of a currency that has been specified by the Fund for use in a repurchase and is not a freely usable currency has the obligation to ensure that the repurchasing member can obtain the necessary amounts of the currency in exchange for a freely usable currency selected by the issuer of the currency at a rate of exchange between the currencies that is consistent with Article XIX, Section 7(*a*). This obligation applies only if the repurchasing member requests the exchange at the time of the repurchase. A repurchasing member wishing to obtain the currency of a member that is not freely usable for use in repurchase must obtain it from the issuer of that currency, unless the two members agree on some other arrangement. If the currency to be used in repurchase is freely usable, the repurchasing member must obtain it from the issuing member only if requested to do so by the issuing member. The exchange will be made at a rate of exchange that is consistent with Article XIX, Section 7(*a*). The Fund will adopt regulations to determine which currency should be made available by a repurchasing member in exchange for a freely usable currency to be used in repurchase. It may be expected that the regulations will provide that the two members involved would be able to agree on the currency to be made available by the repurchasing member and that the Fund would be called upon for a determination only if the two members could not agree. All exchanges that are requested pursuant to Article V, Section 7(*j*) must be carried out

promptly, as explained in Chapter D, section 11. In addition to the obligation as described above, each member whose currency has been specified by the Fund for use in a repurchase by another member, whether the currency is freely usable or not, must collaborate with the Fund and other members to enable the repurchasing member to obtain, at the time of repurchase, the necessary amounts of the specified currency in exchange for the freely usable currencies of other members.

(xi) Members are not permitted to repurchase with gold unless the Fund, by an eighty-five percent majority of the total voting power, decides to accept gold in repurchases (Article V, Section 12(*d*)). Any such payment would have to be at a price agreed for each transaction on the basis of prices in the market.

Transitional Provisions on Repurchase

3. The transitional provisions of paragraphs 1 to 5 of Schedule B deal with the repurchase of currency acquired by the Fund under the present Articles and held by it on the date of the second amendment. Repurchase obligations that have accrued under Article V (Section 7(*b*)) of the present Articles before the date on which the second amendment takes effect, but remain undischarged at the date, must be discharged not later than the dates that apply to them under the provisions of the present Articles that gave rise to these obligations. Currency held by the Fund in excess of seventy-five percent of quota on the date of the second amendment resulting from purchases made before that date but not subject to accrued obligations under Article V, Section 7(*b*) of the present Articles must be repurchased in accordance with the policy under which the purchase was made. Other holdings in excess of that level and not subject to accrued obligations, such as holdings that result from the payment of charges by a member in its own currency, must be repurchased not later than four years after the date of the second amendment. The provisions with respect to the calculation of repurchase obligations under the present Articles will not apply to currency held at the date of the amendment that are not the subject of accrued obligations at that date. The transitional arrangements are designed to deal equitably among all members in connection with the repurchase of holdings subject to repurchase under the present Articles.

4. With respect to the assets to be used in making the repurchases referred to in 3 above, it is provided that repurchase obligations that accrued in gold shall be discharged with special drawing rights, but the Fund may prescribe that payment can be made, in whole or in part, in the currencies of other members specified by it on the basis of SDR 35 per ounce of fine gold and the value of currencies in terms of the special drawing right at the date of discharge. A nonparticipant in the Special Drawing Rights Department may discharge a repurchase obligation that accrued in gold with the currencies of other members specified by the Fund. Other repurchases must be made in the assets acceptable to the Fund in repurchase under the amended Articles.

F. Charges (Article V, Section 8)

1. Article V, Section 8 of the present Articles makes express provision for three types of charges: a service charge on the purchase by a member of currencies of other members in exchange for its own currency, a handling charge that may be levied on purchases of gold from, or sales of gold to, the Fund, and periodic charges on a member's currency held by the Fund in excess of quota. In addition, the Fund levies, under decisions it has adopted, a commitment charge in respect of stand-by arrangements and extended arrangements, which, however, is credited against service charges on purchases under these arrangements. Under Article XXV, Section 7(*g*) of the present Articles the

Fund has authority to impose reasonable charges uniform for all participants on operations and transactions in special drawing rights conducted through the General Resources Account, but the Fund has not levied charges under this provision. Under Article XXV, Section 7(*f*) of the present Articles the Fund, by agreement with a participant, may use special drawing rights held in the General Resources Account in any operations or transactions authorized by the Articles. This provision enables the Fund to sell special drawing rights to a participant when the Fund can sell the currency of another member to the participant under Article V, Section 3(*a*). In these transactions, the Fund has levied a service charge under Article V, Section 8(*a*).

2. Under the present Articles, a member buying the currency of another member from the Fund in exchange for its own currency is required to pay, in addition to the parity price, a service charge of not less than one-half of one percent and not more than one percent as the Fund may determine. The present service charge is one-half of one percent. The Fund has the power to reduce the service charge to a level below one-half of one percent, including the level of zero, on gold tranche purchases. Under a decision adopted in 1969, the Fund has reduced the service charge to zero on these purchases.

3. Under Article V, Section 8(*a*)(i) of the amended Articles a service charge is levied at a uniform rate on the purchase by members of special drawing rights as well as on the purchase of another member's currency held in the General Resources Account in exchange for the purchaser's own currency. This provision corresponds in effect to the practice under the present Articles, but is simpler in relation to sales of special drawing rights because these sales do not rest on the assumption that the transaction is substituted for a sale of currency. The Fund has no authority under the amended Articles to levy charges on other operations or transactions of the Fund involving special drawing rights.

4. The Fund has authority to determine the rate of the service charge subject only to one limitation: the charge on reserve tranche purchases may not exceed one-half of one percent. The Fund continues to be able to levy a service charge on reserve tranche purchases that is lower than the charge on other purchases or to dispense altogether with a service charge on reserve tranche purchases. The service charge on purchases of special drawing rights in return for the purchasing member's currency must be the same as that levied on purchases of currencies.

5. Under Article V, Section 8(*a*)(ii), the Fund is expressly authorized to levy a charge for stand-by and similar arrangements. The levy of such a charge is discretionary. In addition, it is left to the Fund's discretion to offset this charge against the service charge levied on purchases under the arrangement.

6. There is no provision in the amended Articles authorizing the Fund to levy a handling charge on purchases of gold from it or on sales of gold to it, because any transactions in gold that the Fund may undertake pursuant to Article V, Section 12(*c*) or (*d*) will be at prices agreed for each transaction on the basis of prices in the market. A handling charge, therefore, can be incorporated in the price.

7. The provisions of the amended Articles dealing with the charges that the Fund must levy on its average daily balances of members' currencies held in the General Resources Account in excess of a certain level differ from the corresponding provisions of the present Articles. Under the present Article V, Section 8(*c*), the Fund is required to levy periodic charges on the average daily balances of a member's currency in excess of quota. The rates are those set forth in the Articles or prescribed by the Fund under a decision taken by a seventy-five percent majority of the total voting power. Under Article V, Section 8(*b*) of the amended Articles, the Fund is required to levy charges on its average daily balances of a member's currency in the General Resources Account, but this provision does not apply to holdings of currency in the Special Disbursement Ac-

count or in the Investment Account. Charges must be levied on holdings in the General Resources Account to the extent that these balances (i) have been acquired under a special policy on the use of the Fund's resources that has been the subject of a decision under Article XXX(*c*), i.e., holdings that are excluded when determining whether a purchase is a reserve tranche purchase, or (ii) exceed the member's quota after deducting holdings acquired by the Fund under a policy that has been the subject of a decision under Article XXX(*c*). In other words, charges must be levied on holdings acquired as a result of the special policies that are referred to in Article XXX(*c*) and on other holdings to the extent that they are in excess of a member's quota. Article XXX(*c*) allows the Fund to take decisions to exclude holdings resulting from purchases under the compensatory financing or buffer stock financing facilities, as well as holdings resulting from purchases under the policies that the Fund decides, by an eighty-five percent majority of the total voting power, to treat in the same way.

8. One consequence of the provisions referred to in 7 above is that charges will be payable on balances of a member's currency acquired by the Fund as a result of purchases under a policy that is the subject of an exclusion under Article XXX(*c*) even though the Fund's total holdings in the General Resources Account are less than the member's quota. A deduction for an amount equal to the balances subject to exclusion will be made, however, from the currency held above the member's quota when determining the balances above quota that are subject to charges under Article V, Section 8(*b*)(ii).

9. Article V, Section 8 requires that "normally" the rates of charge on balances of currency should rise during the period in which the balances are held. The word "normally" indicates that the Fund can determine, in some circumstances, rates of charge that would not progress over time. That is to say, it is not mandatory that there shall be a progression of the periodic rates over time, as is required under the present provisions, although it is assumed that a progression will be the normal practice. There is no requirement that the rates of charge must progress according to the proportion by which the Fund's holdings of a member's currency exceed its quota. This progression was a feature of the Fund's practice for many years, but it was eliminated in 1974. It continues to be a requirement of the Articles that the rates of charge must be uniform for all members under a policy on the use of the Fund's resources. A seventy percent majority of the total voting power is necessary for the determination of rates of charge, instead of the seventy-five percent majority required by the present Articles.

10. Under Article V, Section 8(*c*), if a member fails to make a repurchase in accordance with its obligations, the Fund may decide, by a seventy percent majority of the total voting power, to impose such charges as it deems appropriate on its holdings of the member's currency that should have been repurchased. Before imposing such charges, the Fund must consult with the member on the reduction of the Fund's holdings of its currency. Any charges that the Fund may impose under this provision are not subject to the requirement of uniformity. This provision of the amended Articles represents a simplification of the rules of the present Articles with regard to the charges that the Fund may apply if a member makes an unjustifiably protracted use of the Fund's resources. Under the present Articles, the Fund may apply such charges as it deems appropriate, which normally means charges at levels that provide an incentive for the member to repurchase only when, through progression over time, the rates of charge have reached certain levels. Under the amended Articles, the power to apply charges that will encourage a member to repurchase is tied not to any rate of charge but to a failure to repurchase at the proper time. The power enables the Fund to provide an incentive for repurchase by means of higher charges.

11. The Fund has no power to levy charges on transactions in which it agrees under Article V, Section 6 to buy or sell special drawing rights in transactions with a member in

return for the currency of another member. These transactions involve no element of "credit" for the member engaging in the transaction.

12. All charges must be paid in special drawing rights, but in exceptional circumstances the Fund can permit a member to pay in the currencies of other members specified by the Fund after consultation with them, or in the member's own currency. The concurrence of other members is not required, because it is necessary to be sure that charges can and will be paid with reserve assets. Examples of exceptional circumstances may be the inability of a member to pay in special drawing rights because it is not a participant or a prescribed other holder, or because it has an insufficient amount of special drawing rights. The Fund may not accept payment of charges by a member in the currency of another member in an amount that would increase the Fund's holdings of that currency above the level at which the other member would have to pay charges. Gold is eliminated as an obligatory medium for the payment of charges, but under Article V, Section 12(*d*) the Fund may decide, by an eighty-five percent majority of the total voting power, to accept gold instead of special drawing rights or currency in payment of charges if a member wishes to pay in gold. The payments made in gold would be made at a price agreed for each operation on the basis of prices in the market.

13. The provisions of the amended Articles with regard to charges apply to all balances of currency held by the Fund after the effective date of the amendment that fall within the two categories subject to charges under Article V, Section 8(*b*), whether these balances were acquired as a result of transactions that took place before or after the effective date of the amendment. Therefore, a member will have to pay charges on balances of its currency acquired by the Fund before the effective date of the amendment as a result of purchases in respect of which an exclusion is made under Article XXX(*c*) even if the total amount of the Fund's holdings of that currency in the General Resources Account is less than the member's quota. It also follows that a member will no longer be subject to charges on balances of its currency acquired by the Fund as a result of reserve tranche purchases made before the amendment, whether or not the Fund's holdings exceed the member's quota. Charges are payable at the rates in effect on the date of the amendment until they are changed by decisions taken under the amended Articles (Schedule B, paragraph 6). The Fund will have to take prompt action to determine rates of charge on holdings that have been acquired under a policy that is the subject of an exclusion under Article XXX(*c*) but have not been subject to charges under the present Articles because the Fund's total holdings of a member's currency have not exceeded its quota.

G. Remuneration (Article V, Section 9)

1. There are important differences between the provisions on remuneration in the present Articles and those in the amended Articles. Under the existing provisions, remuneration is paid on the amount by which seventy-five percent of a member's quota exceeds the average daily balances of the member's currency held by the Fund. The rate is set in the present Articles at one and one-half percent per annum, but the Fund is able to increase or reduce this rate, subject to the condition that an increase above or a decrease below specified limits requires a three-fourths majority of the total voting power. Remuneration is payable in gold or in a member's own currency, as determined by the Fund, but the Fund and a participant may agree that payment may be made in special drawing rights.

2. Under the provisions of Article V, Section 9 of the amended Articles, remuneration is payable on the amount by which a specified percentage of a member's quota, which could be between seventy-five and one hundred percent of quota, exceeds the average daily balances of the member's currency held in the General Resources Account of the

Fund, other than balances of that currency acquired under a policy that has been the subject of a decision on exclusion under Article XXX(*c*).

3. Balances of a currency acquired as a result of "excluded" purchases under Article XXX(*c*) do not enter the calculation of holdings on which remuneration is paid in order to prevent the inequitable treatment of the member that would result from the requirement, under the amended Articles, that it must pay charges on balances acquired by the Fund as a result of "excluded" purchases even though the Fund's total holdings of the member's currency in the General Resources Account are less than the member's quota. If the exclusion from holdings were not made for the purpose of the calculation under Article V, Section 9, the member would receive a reduced amount of remuneration because of the balances resulting from these purchases, while at the same time it would be paying charges on these balances.

4. Under Article V, Section 9(*b*) remuneration will be payable to a member if the average daily balances of the member's currency held in the General Resources Account (other than those that are excluded) are below a percentage of the member's quota determined as follows:

(*a*) For each member that joined the Fund before the amendment, the applicable percentage will correspond to

(i) seventy-five percent of its quota on the date of the amendment; plus
(ii) the amounts that the member has paid to the Fund in its own or another currency or in special drawing rights as subscriptions on increases in its quota under Article III, Section 3(*a*) after the amendment; and minus
(iii) any amounts that it has received from the Fund in its own or another currency or in special drawing rights in connection with a reduction in its quota under Article III, Section 3(*c*) after the amendment.

(*b*) For a member that joined the Fund after the date of the amendment, the determination will be made on the same basis as for other members, with the exception that the seventy-five percent of quota referred to in (*a*)(i) above will be replaced by a percentage based on a weighted average of the percentages of quotas that are applicable to the other members on the date on which the member joined the Fund.

5. The Fund, acting by a seventy percent majority of the total voting power, can raise the latest percentage of quota that is being applied for the purpose of computing remuneration to a new level not in excess of one hundred percent of quota. Under this power, the Fund may increase a percentage to a higher percentage for each member according to a formula or principle that may result in different levels among members, provided that these new percentages of quota for individual members are determined on the basis of the same criteria for all members. An example of a criterion for this purpose would be the determination of a higher level by taking into account that portion of the amounts of currency paid by members in exchange for gold sold to them by the Fund under Article V, Section 12(*c*) or (*e*) that represents the capital value of the gold. The Fund may also prescribe one hundred percent of quota as the applicable percentage of quota for all members. The power of the Fund to raise, but not to lower, the applicable percentage of quota and also to set it irreversibly at the quota level for all members suggests the possibility that eventually the same level as is applicable for other purposes under the amended Articles may apply to the calculation of remuneration. The reason why the level of quota is not adopted at once is that such a solution would impose too heavy a financial burden on the Fund for an indeterminate period ahead.

6. The rate of remuneration must be the same for all members and on all portions of a member's reserve tranche position on which remuneration is paid. The rate may not be more than the rate of interest on holdings of special drawing rights, nor less than four-

fifths of that rate. In determining the rate of remuneration, the Fund is required to take into account the rates of periodic charge on the Fund's holdings of currencies, but there is no fixed relationship between the rate of remuneration and the rates of charge. Remuneration is payable in special drawing rights, but either the Fund or the member may decide on payment in the member's own currency. Gold may not be used to pay remuneration, and the Fund has no discretionary authority in this respect, because Article V, Section 12(*d*) enables the Fund to accept payments in gold by an eighty-five percent majority of the total voting power, but not to make payments in gold.

7. Under paragraph 6 of the transitional provisions of Schedule B, the rate of remuneration at the time of the amendment will remain in effect until modified by a decision taken under the amended Articles. The calculations for determining whether and in what amounts remuneration will be payable will be made, however, on the basis of the percentages of quota specified by or under Article V, Section 9(*b*) or (*c*) of the amended Articles and on the basis of the average daily balances of currency in the General Resources Account to be taken into account pursuant to Article V, Section 9(*a*).

H. Rates for Computations and Maintenance of Value (Article V, Sections 10 and 11)

1. Under Article IV, Section 1 of the present Articles, all computations involving the currencies of members for the purpose of applying the provisions of the Articles must be made on the basis of par values, i.e., the values of currencies in terms of gold. This rule applies to all calculations under the present Articles, including those relating to exchange rates and margins around parity for exchange transactions, as well as those relating to the operations and transactions of the Fund. If the par value of any currency is not being maintained, the Fund determines the gold value of the currency in accordance with Article IV, Section 8 for the purpose of applying the provisions of the Articles. This value is the rate at which the Fund accounts for its holdings of the currency and makes all calculations for conducting its operations and transactions in that currency. In the last few years, the rates applicable under Article IV, Section 8 have been based on the gold value of the special drawing right as specified by Article XXI, Section 2 (i.e., 0.888 671 gram of fine gold per special drawing right) and the rate of each currency in terms of the special drawing right on the basis of Rule O-3 of the Rules and Regulations. This way of determining gold value for the purpose of applying the provisions of the Articles was adopted by the Fund when members ceased to maintain effective par values for their currencies and there was no longer any member that bought and sold gold freely for the settlement of international transactions.

2. The provision on computations in the amended Articles (Article V, Section 10) is different in two respects: First, it declares expressly that computations must be made in terms of the special drawing right on the basis of the rates for each currency determined for the purposes of transactions in special drawing rights. This aspect of the rule is in conformity with the objective of reducing the role of gold and making the special drawing right the principal reserve asset in the international monetary system. Second, the provision does not apply to computations relating to exchange rates and margins for exchange transactions under Article IV and Schedule C. One reason for this exception is that under the provisions relating to par values the common denominator need not be the special drawing right. The basic rule in the provision applies, however, to all other computations under the Articles, such as those relating to quotas, subscriptions, operations and transactions of the Fund, and maintenance of the value of the currencies of members held in the General Resources Account.

3. In line with the role of the special drawing right and its use for computations under the amended Articles, Section 10(*a*) of Article V provides that the value of the assets

of the Fund in the General Department must be expressed in terms of the special drawing right. This provision means that all assets that have a monetary value, including gold, must be accounted for by the Fund in terms of special drawing rights.

4. Article V, Section 11(*a*) provides that the value of the currencies of members held in the General Resources Account, i.e., all currencies held in the General Department except those held in the Special Disbursement Account and in the Investment Account, must be maintained in terms of the special drawing right in accordance with rates under Article XIX, Section 7(*a*). This requirement creates an obligation of adjustment for members when a currency depreciates, and for the Fund when a currency appreciates, in terms of the special drawing right. The members will pay more of their currency to the Fund on a depreciation, and the Fund will return some of their currency on an appreciation. The requirement of maintenance of value will continue to apply to (a) securities that have been substituted for currency in the General Resources Account under Article III, Section 4, and (b) accounts receivable or payable by the Fund in connection with its General Resources Account, i.e., amounts in currency that are due and payable, which will be deemed to be currency held in the General Resources Account for the purposes of maintenance of value.

5. The calculations for determining whether an adjustment is necessary in order to maintain the value of the Fund's holdings of a currency in the General Resources Account will be made on the basis of the exchange rates for that currency in terms of the special drawing right as determined in accordance with Article XIX, Section 7(*a*) for the purposes of transactions. If any such calculation shows that the value of the Fund's holdings of a currency has decreased or increased, the obligation of adjustment referred to in 4 above will have to be discharged by the payment of currency to or by the Fund.

6. Under Section 11(*b*) an adjustment in the Fund's holdings of a member's currency in the General Resources Account will have to be made immediately on the occasion of the use of the currency in an operation or transaction between the Fund and another member (e.g., a sale of the currency or its use in repurchase). The Fund is authorized to decide on adjustments on other occasions, for example when it repays a loan to a nonmember with a member's currency, and adjustments will be made at any time at the member's request. The adjustment is made with respect to all of the Fund's holdings of that currency in the General Resources Account. The purpose of this requirement is to ensure that the Fund's holdings of a member's currency are valued at a realistic rate when that currency is used in an operation or transaction involving another member, and in order to ensure that the Fund does not suffer an exchange loss or make an exchange profit with respect to its holdings of currencies in the General Resources Account.

7. Adjustment of the rate at which the Fund accounts for a currency in accordance with Section 11 will establish a claim of the Fund for additional currency or a claim of a member for the return of currency, and will have to be followed by settlement within a reasonable period. What constitutes a reasonable period will be determined by the Fund.

8. The amended Articles do not contain a provision similar to Article IV, Section 8(*d*) of the present Articles, under which the Fund can decide not to call for additional amounts of currency or not to return amounts of currency on the occasion of uniform proportionate changes in the par values of all currencies. A provision of this kind is no longer necessary because, under the amended Articles, maintenance of the value of the Fund's holdings of currencies in the General Resources Account will be determined on the basis of the exchange rates used for transactions involving special drawing rights. Furthermore, the Fund may make uniform proportionate changes in all par values under Schedule C, paragraph 11 if the special drawing right is the common denominator and the changes do not affect the value of the special drawing right (Chapter C, section 13).

I. Gold (Article V, Sections 11 and 12; Article VIII, Section 7; Schedule B, Paragraphs 2, 3, and 7; Schedule C, Paragraph 1; Schedule K, Paragraphs 1 and 2)

1. The role of gold in the international monetary system has been both central and pervasive under the present Articles of Agreement. The amendment makes numerous changes and contains a comprehensive set of new provisions that in combination are designed to achieve the objective of the gradual reduction of the role of gold in the system. The most important changes in the Articles, which are discussed in detail below, are:

(*a*) the elimination of the function of gold as the common denominator of the par value system and as the unit of value of the special drawing right;

(*b*) the abolition of the official price of gold;

(*c*) the abrogation of obligatory payments in gold by members to the Fund and by the Fund to members, and the necessity for decisions taken with a high majority of the total voting power to enable the Fund to accept gold in payments;

(*d*) the requirement that the Fund complete the disposition of fifty million ounces of gold;

(*e*) the authorization of the Fund to dispose of the remainder of its gold holdings and to place the "profits" in a special account;

(*f*) the requirement that the Fund, in its dealings in gold, avoid the management of the price, or the establishment of a fixed price, in the gold market; and

(*g*) the undertaking of members to collaborate with the Fund and with other members with respect to reserve assets so that better international surveillance of international liquidity and the role of the special drawing right as the principal reserve asset in the international monetary system will be promoted.

In addition, consequential or related changes are made in various other provisions.

2. Under Article IV, Section 1(*a*) of the present Articles, gold is the common denominator in terms of which the par values of the currencies of members must be expressed. Under the amended Articles there will be no par values unless the Fund determines in accordance with Article IV, Section 4 that international economic conditions permit the introduction of a widespread system of exchange arrangements based on stable but adjustable par values. When the Fund takes that decision, par values will be expressed in terms of the special drawing right or such other common denominator as the Fund may prescribe, but neither gold nor a currency can be prescribed as the common denominator (Schedule C, paragraph 1). Similarly, the definition of the unit of value of the special drawing right in terms of gold in the present Articles has been eliminated. The Fund is authorized to adopt decisions on the method of valuation of the special drawing right (Article XV, Section 2).

3. The amended Articles, unlike the present Articles, do not prescribe the price at which members may deal in gold, and therefore the limitations in Article IV, Section 2 and Article V, Section 6 of the present Articles on the freedom of members to enter into gold transactions among themselves or in the market are abrogated. Both the Fund and members are subject, however, to requirements reflecting continued international concern with official dealings in gold, as described in 8 below. The objective set forth in Article V, Section 12(*a*) of avoiding the establishment of a fixed price for gold is recognized in the last sentences of Article V, Section 12(*c*) and (*d*), under which sales of gold by the Fund to a member, or the acceptance by the Fund of payments in gold by a member, would be voluntary on both sides, and would have to take place at a price agreed for

each operation or transaction on the basis of prices in the market. The reference to "price . . . on the basis of prices in the market" in these provisions, and the requirement under Article V, Section 12(*a*) that the Fund be guided by the objective of avoiding the management of the price of gold, impose on the Fund the duty, when entering into operations or transactions in gold, to seek to follow and not to set a direction for prices in the gold market.

4. Obligatory payments of gold by members to the Fund, and by the Fund to members, are abrogated, with the exception that the Fund is required to sell a specified quantity of gold to members at the present official price under the transitional arrangements described in 6 below and with the exception of the distribution of gold under the provisions on the liquidation of the Fund. The abrogation is achieved by the deletion of references to gold from all other provisions of the existing Articles in which such obligations appear, and by the transitional provisions set forth in Schedule B, paragraphs 2 and 3 under which accrued obligations to pay gold to the Fund must be discharged with special drawing rights, or in the currencies of other members if the Fund prescribes them for this purpose. The computation for determining the amount of special drawing rights or currencies to be paid is to be made on the basis of the gold value of the special drawing right under the present Articles, i.e., one special drawing right equals 0.888 671 gram of fine gold, and the value of the currencies in terms of the special drawing right on the date of payment.

5. In accordance with the understandings reached in the Interim Committee of the Board of Governors on the International Monetary System (paragraph 6(3) of the Press Communiqué issued by the Committee on August 31, 1975 and paragraph 4 of the Communiqué of June 12, 1975), the Fund is expected to make arrangements, before the effective date of the amendment, that is, on the basis of the present Articles, for the disposal of fifty million ounces of its gold, as follows: (a) one half of this amount will be transferred against payment at the present official price to all members that were members on August 31, 1975 in proportion to their quotas on that date; and (b) the other half of this amount will be sold for the benefit of developing members that were members on that date.

6. If the disposal of the fifty million ounces of the Fund's gold referred to in 5 above is not completed by the effective date of the amendment, the Fund is required by a provision of the amended Articles to complete the disposition of the balance. The Fund is bound to make arrangements for this purpose, and a further decision will not be necessary. The provision referred to is Schedule B, paragraph 7, which directs the Fund to dispose of any balance by

(*a*) selling up to twenty-five million ounces, at the present official price, to those members that were members on August 31, 1975, in proportion to their quotas on that date and in exchange for their currencies, and

(*b*) selling up to another twenty-five million ounces at a price based on prices in the market and using the proceeds in excess of the capital value (i.e., the balance over the official price of 0.888 671 gram of fine gold per special drawing right under the present Articles) for the benefit of developing members that were members on August 31, 1975. The Fund must transfer directly to developing members a part of the profits or surplus value of the gold that represents the proportion of a developing member's quota on August 31, 1975 to all quotas on that date. The reference to profits or surplus value will enable the Fund to make the transfers required by this provision in an appropriate manner. The profits from the sale of this second twenty-five million ounces that have not been transferred directly to developing members are to be used to provide balance of payments

assistance on concessionary terms to developing members with low per capita income.

7. It is expected that the assistance on concessionary terms to be provided to the developing members with low per capita income from the profits of the sale of a part of the Fund's gold (see last sentence of 6(*b*) above) will be channeled through temporary arrangements adopted before amendment, such as a Trust Fund administered by the Fund. If, upon termination of these arrangements and the satisfaction of all debts and liabilities of the Trust Fund, any assets remain that could be disposed of by the Fund, these assets will be transferred to the Special Disbursement Account that is described in 8 and 13 below.

8. Under Article V, Section 12(*c*), (*d*), (*e*), (*f*), and (*g*), the Fund is given a range of powers with respect to gold that it can exercise by an eighty-five percent majority of the total voting power (except for the power in (*b*)(i) below). The powers include those set forth below.

(*a*) The Fund will be able to sell at the present official price any part of the balance of the gold held on the date of the amendment, that is, the gold left after the disposition of the fifty million ounces referred to in 5 and 6 above, to those members that were members on August 31, 1975, in proportion to their quotas on that date and in exchange for their currencies (Section 12(*e*)). Sales under subsection (*e*) and distributions under subsection (*f*)(iii) to a member would be suspended while the member was ineligible under Article V, Section 5 to use the resources in the General Resources Account, unless the Fund decided otherwise.

(*b*) The Fund will be able to sell any part of the balance of the gold held on the date of the amendment to members or to others at a price based on prices in the market (Section 12(*c*)), to transfer a part of the proceeds in excess of the capital value to the Investment Account (Section 12(*g*)) for investment in accordance with the provisions of Article XII, Section 6(*f*), and to place the remainder of the proceeds in excess of the capital value in a Special Disbursement Account until used for any or all of the following purposes:

(i) to make transfers to the General Resources Account for use in the operations and transactions authorized by the other provisions of the Articles, but these transfers must be for immediate use in order that they will not affect the positions of members as calculated for various purposes under the Articles (Section 12(*f*)(i));

(ii) for the benefit of members in need, on a uniform basis, by using the assets in the Special Disbursement Account in operations and transactions other than those authorized by other provisions, provided that the operations and transactions are consistent with the Fund's purposes and are for balance of payments assistance. The Fund may make assistance available, however, on special terms to developing members in difficult circumstances. When making this latter assistance available, the Fund will have to take into account the level of the per capita income of developing members, and may take into account other appropriate criteria as well (Section 12(*f*)(ii)). Balance of payments assistance on concessionary terms can include, for example, subsidies for the payment of charges levied in connection with the use of the resources in the General Resources Account;

(iii) if the Fund intends to use any of the assets in the Special Disbursement Account in accordance with (ii) above, it may decide to distribute directly to developing members a portion of the assets that the Fund intends to devote to

the purpose under (ii) above, on the basis of the relationship that the quota of a developing member bears to the quotas of all members on August 31, 1975 (Section 12(*f*)(iii)).

(*c*) Instead of making a distribution to developing members of currency in the Special Disbursement Account in accordance with Section 12(*f*)(iii), the Fund will have the power under Article V, Section 12(*e*) to sell to these members, at the present official price, a part of the gold held on the effective date of the amendment that, if sold at a price based on market prices, would produce the same amount of profits as would be distributable to these members under Section 12(*f*)(iii). The Fund will be able to sell the gold to developing members under Section 12(*e*) only if the Fund has decided that a sale of gold under Section 12(*c*) is for the purpose of raising proceeds to be utilized under Section 12(*f*)(ii). If sales have been made under Section 12(*c*) without the specific intention of raising proceeds for the purpose of Section 12(*f*)(ii), but the Fund decides later to devote the proceeds to purposes authorized by Section 12(*f*)(ii), the Fund will be able to transfer currency to developing members under Section 12(*f*)(iii) but not gold.

(*d*) The Fund will have the power to accept payments from a member in gold (Section 12(*d*)), and to sell the gold so acquired at a price based on prices in the market (Section 12(*c*)). This gold would not be gold held by the Fund on the date of the amendment. Any profits or losses on sales of this gold would be taken into account in determining the Fund's annual income.

Decisions of the Fund to use the profits from the sales of gold held on the date of the amendment for the regular operations and transactions of the Fund will require a seventy percent majority of the total voting power, while decisions to use the profits for any of the other purposes described in (*b*) above will be subject to an eighty-five percent majority of the total voting power (see last sentence of Article V, Section 12(*f*) and subsection (*g*)).

9. Before the Fund sells gold under Article V, Section 12(*c*), it must consult the member for whose currency the gold is sold. If the sale would increase the holdings of the member's currency in the General Resources Account above the level at which they would be subject to charges under Article V, Section 8(*b*)(ii), the member's concurrence must be obtained before the sale can take place. The member may concur in the retention of its currency in excess of that level in the General Resources Account, or it may require the Fund to exchange for the currency of another member such part of the currency received in the sale as would prevent the increase above the level at which charges would be payable. Any such exchange may be made only after consultation with the member whose currency would be obtained in the exchange (Section 12(*c*)) and only if the exchange would not increase the holdings of that currency in the General Resources Account above the level at which charges would be payable under Article V, Section 8(*b*)(ii). The Fund's choice of currency for an exchange would take into account the principles under Article V, Section 7(*i*) for the selection of currencies to be received in repurchase.

10. Under Article V, Section 12(*a*), the Fund must be guided in all its policies and decisions regarding its operations and transactions in gold by the objectives of:

(*a*) promoting better international surveillance of international liquidity,

(*b*) making the special drawing right the principal reserve asset in the international monetary system, and

(*c*) avoiding the management of the price, or the establishment of a fixed price, in the gold market.

Members undertake on their part, pursuant to Article VIII, Section 7, to collaborate with the Fund and with other members in order to ensure that their policies with respect to reserve assets (including gold, special drawing rights, and currencies held in monetary reserves) will be consistent with the objectives set out in (*a*) and (*b*) above.

11. Under Article V, Section 11, the value of the currencies held by the Fund in its General Resources Account must be maintained in terms of the special drawing right. Under the present Article IV, Section 8, that value must be maintained in terms of gold.

12. Gold held by the Fund at the time of liquidation would continue to be used as an asset of the Fund for meeting the Fund's liabilities at a value based on prices in the market (Schedule K, paragraph 1). After the discharge of the Fund's liabilities, the Fund would distribute its holdings of gold as follows:

(*a*) An amount of gold corresponding to any unrealized appreciation on any gold remaining of the Fund's holdings on August 31, 1975 would be distributed to those members that were members on that date in proportion to their quotas on that date (Schedule K, paragraph 2(*a*)(i)). The appreciation would be calculated by comparing the value of the gold at the present official price and its value on the date of liquidation. Any such distribution would be separate from, and would not affect, any other distribution in respect of amounts due to members (Schedule K, paragraph 2(*d*)(i)).

(*b*) The remaining gold holdings of the Fund would be distributed to members whose currencies in the General Resources Account and in the Investment Account (Article XII, Section 6(*f*)(vii)) were held by the Fund in total amounts less than their quotas, in proportion to, but not in excess of, the amounts by which their quotas exceed the Fund's holdings of their currencies in the two accounts (Schedule K, paragraph 2(*b*) and Article XII, Section 6(*f*)(vii)). Assets other than currency held in the Investment Account would be treated as currency according to rules adopted by the Fund under Article XII, Section 6(*f*)(vi).

(*c*) If there should remain any gold holdings of the Fund after these distributions, they would be divided, together with the remainder of the Fund's currency holdings, among all members in proportion to, but not in excess of, the amounts due to them (Schedule K, paragraph 2(*d*)(i)). If there should remain any gold in the hands of the Fund after all these steps had been completed, the assets (including gold) would be distributed to all members in proportion to their quotas (Schedule K, paragraph 2(*d*)(ii)).

For the purposes of all the distributions referred to above, gold would be valued in accordance with a price determined by the Fund on the basis of prices in the market (Schedule K, paragraph 9).

13. Under Article V, Section 12(*f*), a Special Disbursement Account will be established as the financial framework for the disposition of the gain realized upon the sale of gold under Article V, Section 12(*c*). This Account will be operated as follows:

(*a*) Any gain realized upon the sale of any part of the gold held by the Fund on August 31, 1975 will be placed in the Special Disbursement Account, with the exception of any amounts that the Fund may decide to transfer to the Investment Account pursuant to Article V, Section 12(*g*). The realized gain will be the difference between the book value of the gold in terms of the special drawing right under the present Articles (i.e., one special drawing right per 0.888 671 gram of fine gold) and its realized value at the time of sale. The Special Disbursement Account will be established in the General Department, and, therefore, the institutional provisions of the Articles that apply to the Fund in gen-

eral, and to the General Department in particular, will apply to it. The assets in the Special Disbursement Account, however, will be kept separate from the other assets of the General Department, so that the assets in the Special Disbursement Account will not affect computations for the purpose of determining the levels of the Fund's holdings of currencies under the provisions based on those levels (Article V, Section 10). Furthermore, there will be no obligation under Article V, Section 11 to maintain the value of the assets in the Special Disbursement Account in terms of the special drawing right. Members will not be entitled to substitute non-negotiable, non-interest bearing notes under Article III, Section 4 for currency held in the Account.

(*b*) When currency held in the Special Disbursement Account is used in accordance with Article V, Section 12(*f*)(i), that is, for transfer to the General Resources Account for immediate use in the regular operations and transactions of the Fund, the transfer will not affect the level of that currency held in the General Resources Account because of the pre-arranged immediate use. The transfer, however, will provide a basis for capitalization by means of increases in the quotas of members pursuant to Article III, Section 2(*b*).

(*c*) When the assets in the Special Disbursement Account are used in accordance with Article V, Section 12(*f*)(ii), that is, for special operations and transactions, any resulting loan claims will be included in the resources of the Special Disbursement Account, and will produce a flow of repayments and payments of interest to that Account that can be used by the Fund in accordance with the provisions regulating the use of the resources held in the Account.

(*d*) Pending use of the assets held in the Special Disbursement Account, the Fund may invest them in accordance with Article V, Section 12(*h*). The investment can be made in income-producing and marketable obligations of members or of international financial organizations. No investment can be made without the concurrence of the member whose currency is used to make the investment. The obligations must be denominated in special drawing rights or in the currency used to make the investment. The purpose of the investment will be to secure a reasonable return, to be placed in the Special Disbursement Account, and not to give financial assistance to members or to international financial organizations, or, unlike the purpose of the Investment Account, to produce income to meet possible deficits in the operation of the General Resources Account. The income of investment could be used, as in (*c*) above, in accordance with the provisions regulating the use of the resources held in the Special Disbursement Account.

(*e*) Expenses of administration of the Special Disbursement Account will be paid normally from the General Resources Account, which will be reimbursed from time to time by transfer from the Special Disbursement Account on the basis of a reasonable estimate of such expenses. This technique is comparable to the rules for reimbursement that apply under Article XVI, Section 2 with respect to the expenses of the Special Drawing Rights Department.

(*f*) The Special Disbursement Account can be terminated at any time by a decision taken by a seventy percent majority of the total voting power, and it would be terminated necessarily on the liquidation of the Fund. If the Special Disbursement Account were terminated on the liquidation of the Fund, the assets held in it at that time would be distributed to those members of the Fund that were members on August 31, 1975, in proportion to their quotas on that date. The distribution of each type of asset would be made in proportion to the quotas of those members on that date (Schedule K, paragraph 2(*a*)(ii)). If the Special Disbursement Account is terminated while the Fund continues in operation, the assets in the account will be added gradually to the General Resources Account for immedidate use, as under (*b*) above. The Special Disbursement Account would be kept in existence solely in order to permit transfers to be made to the General Resources Ac-

count. The Special Disbursement Account would be closed when no assets remained in it. If the Investment Account is terminated or the amount of the investment is reduced prior to the termination of the Special Disbursement Account and the liquidation of the Fund, a portion of the assets available for disposition, in the proportion that the cumulative transfers of funds to the Investment Account under Article V, Section 12(*g*) bears to the total assets transferred to the Investment Account, will be placed in the Special Disbursement Account.

J. Replenishment (Article VII, Section 1)

The provisions of the amended Articles on replenishment of the Fund's holdings of currencies in the General Resources Account differ from the provisions of the existing Articles in a number of respects.

1. In order to make it clear that the criterion for replenishment is not the "scarcity" of the currency to be replenished in the sense of the other provisions of Article VII but the Fund's need to obtain additional amounts of a currency for use in present or prospective transactions, the order of Sections 1 and 2 of the present Article VII has been reversed, and the word "scarce" has been omitted from the heading of Section 1 of the new Article VII. In addition, the heading of Article VII has been changed to "Replenishment and Scarce Currencies."

2. The text of what is now Section 1(ii) reflects the change in the roles of gold and the special drawing right under the Articles. The Fund will no longer have the authority to use gold for replenishment. It will have only the power to require a participant to sell to the Fund its currency in exchange for special drawing rights held in the General Resources Account, a power that it has under Article XXV, Section 7(*d*) of the present Articles. The Fund's authority under the new provision is less extensive than the Fund's power under the present Article VII, Section 2(ii) in various respects:

(*a*) Only a participant can be required to sell its currency to the Fund in replenishment. The Fund will not be able to require a nonparticipant to make its currency available in replenishment when that currency is needed in connection with the transactions of the Fund.

(*b*) A participant's obligation to sell its currency for replenishment is subject to the acceptance limit in Article XIX, Section 4, which requires a participant to accept special drawing rights only up to the point at which its holdings are three times its net cumulative allocation or up to such higher point as may be agreed between the participant and the Fund. Although a participant cannot be required to do so, it is able, if it wishes, to accept special drawing rights, and provide currency, in excess of either limit.

(*c*) The Fund is required to pay due regard to the principles of designation in or under Article XIX, Section 5 and Schedule F. This does not mean, however, that the Fund is legally precluded from replenishing the currency of a participant that could not be designated at the time of replenishment.

3. The Fund will not have to consult with a participant on alternative ways of replenishment, which is mandatory under the present Article XXV, Section 7(*d*), before requiring the participant to sell its currency for special drawing rights.

4. The Fund will continue to be able to borrow currency for replenishment under Article VII, Section 1(i).

K. Immunities and Privileges (Article IX, Section 8)

1. Article IX, Section 8 is revised in the light of developments involving international organizations since the present provision became effective. In connection with im-

munities and privileges, the general tendency has been to cover most or all of the persons involved in the substantial business of an international organization. The provision also takes into account the existence of Committees of the Board of Governors and the provisions authorizing the establishment of the Council. The change consists of broadening the categories of persons who have the benefit of immunities and privileges under the Articles, but without any change in the content of the immunities and privileges.

2. The new categories of persons to whom Article IX, Section 8 applies are members of committees of the Fund, representatives appointed by members under Article XII, Section 3(*j*), their advisors, and the advisors of Governors, Executive Directors, and Alternates. The rationale of the change is to provide the same immunities and privileges in relation to the Fund's functions for all persons whose attendance at meetings of the Fund is required for the effective operation of the Fund. If the Council is established, Schedule D, paragraph 5(*d*) would add Councillors, their Alternates and Associates, and any other persons that would have the right to attend a meeting of the Council. They would be entitled to immunities and privileges without the need for further decision by the Fund.

L. Distribution of Net Income, Reserves, and Investment (Article XII, Section 6)

1. Article XII, Section 6 of the amended Articles deals with the disposition of the net income of the General Resources Account, the establishment and uses of the general reserve and the special reserve, and the investment of certain assets by the Fund.

2. The present Articles require the Board of Governors to determine annually what part of the Fund's income shall be placed to reserve and what part, if any, shall be distributed to members. If the Fund distributes the net income of any year, it must first distribute to members eligible to receive remuneration for that year an amount by which two percent per annum exceeded any remuneration paid for that year. Any further distribution of net income for the year must be made to all members in proportion of their quotas at the end of the year in which the net income was earned. Payments to each member are made in its currency or, at the option of a participant, in special drawing rights under a decision adopted by the Fund under the authority of Article XXV, Section 7(*f*) of the present Articles, which allows the Fund and a participant to agree on the use of special drawing rights by the Fund in operations and transactions with a participant conducted through the General Resources Account.

3. Under Article XII, Section 6(*a*) of the amended Articles, the Fund must make a determination with respect to the net income earned during each year following the end of that year, as is required under the present provisions. The reference in the existing Article XII, Section 6(*a*) to "reserve" has been replaced by a reference to "general reserve or special reserve" in order to make it clear that net income may be placed to either the general reserve or the special reserve. As is explained in 11 below, a major difference between the two reserves is that the general reserve can be distributed to members but the special reserve can not.

4. As the rate of remuneration has been raised in practice to more than two percent per annum and it seemed unlikely that it would be reduced below that rate, the provision for the preferential distribution of net income to bring the total of remuneration and distribution up to two percent is not retained. Only the principle of the distribution to all members in proportion to their quotas has been preserved. Under Article XII, Section 6(*a*) and (*d*), the Fund is able to make distributions to members not only of the net income of the immediately preceding year, but also of the general reserve, which consists of the accumulation of the Fund's undistributed net income of the General Resources Account earned in earlier years. The general reserve is available for meeting operational or administrative losses or expenses, as well as for making distributions.

5. Under the present Articles, members that had had positions in a past year that would have entitled them to a preferential distribution of net income but for the fact that the Fund did not make a preferential distribution or a full preferential distribution for that year, retained the right to the preferential distribution if the Fund were to decide at a later date to distribute the net income of the earlier year. This preferential right is not retained under the amended Articles, so that it becomes unnecessary to determine what remains of the undistributed net income of each of the preceding years. This determination would have been difficult if it had ever been necessary, because various amounts have been charged against the general reserve without allocating the resulting reductions in the reserve against the net income of specific years.

6. Any distribution of net income or of the general reserve will be made on the basis of quotas at the time of distribution. The assets in which distributions must be made are governed by Section 6(*e*). The payments to each member under a distribution must be made in special drawing rights, but a member or the Fund may decide that the payment to the member will be made in its currency. This power would enable the Fund to make a distribution in currency to a member that is not a participant, or to all members, if, for example, the Fund considered that the amount of special drawing rights it held in the General Resources Account should not be depleted.

7. Decisions regarding the disposition of the Fund's net income or the distribution of the general reserve are no longer reserved to the Board of Governors, as they are under the existing Articles. The decisions can be taken by the Executive Board. Decisions to make distributions from the general reserve require a seventy percent majority of the total voting power (Section 6(*d*)). Decisions to place net income to either reserve or to distribute net income that has not yet been placed to reserve may be taken by a majority of the votes cast.

8. The special reserve is available for all but one of the uses that can be made of the general reserve, e.g., to meet administrative or operational expenses of the Fund, including the expenses involved in the payment of remuneration. The exception is distribution to members (Section 6(*b*)).

9. In 1956, faced with a continuous excess of the Fund's expenditure over income, the Fund initiated an investment program under a decision of the Executive Board based on an interpretation of the Articles under the present Article XVIII. According to this interpretation, the Fund had an implied power to sell part of its gold and invest the proceeds in United States Government securities in order to make good the impairment of capital that had resulted from an accumulation of administrative deficits. Gold was used for the purpose of the investment because this use would not change the Fund's holdings of currencies and therefore would not affect the rights and obligations of members that are determined by the levels of the Fund's holdings. Certain legal difficulties arising under the present Articles impeded the investment of the Fund's holdings of currencies. Investment of the proceeds of the sale of gold was subject to certain conditions, such as the necessity for the Fund to retain the right to reacquire the gold.

10. After the elimination of the deficit, the Executive Board amplified the original decision on investment in order to provide a reserve against possible future deficits of the same character. Under the new decision, the income of the investment was placed to a special reserve. Any administrative deficit for any fiscal year of the Fund was to be written off first against this reserve. Although the amount of income was placed to a special reserve, the United States dollars received as income of the investment were not kept separate from the Fund's other holdings of dollars, and therefore they affected the position of the United States in the Fund under various provisions.

11. Under the decisions governing the investment, the income was credited directly to the special reserve and did not enter into the calculation of the Fund's "net income."

As a result, it could not be distributed under Article XII, Section 6(*b*) of the present Articles.

12. Article XII, Section 6(*f*) of the amended Articles, in creating express authority for the Fund to undertake investment, avoids the difficulties occasioned by the legal limitations of the present Articles. Investment under the provision is distinct from the investment of currencies held in the Special Disbursement Account, which the Fund may undertake pursuant to Article V, Section 12(*h*).

13. Article XII, Section 6(*f*)(i) authorizes the Fund to establish an Investment Account in the General Department. The decision to establish this Account can be taken by a majority of the votes cast. The assets in the Investment Account must be held separately from the General Resources Account. Therefore, the assets of the Investment Account will not be usable in any of the operations and transactions of the Fund, except those provided for in Section 6(*f*), and their value will not be covered by the provision on maintenance of value in terms of the special drawing right (Article V, Section 11). Under Article III, Section 4, members will not be entitled to substitute non-negotiable, non-interest-bearing notes or similar obligations for the currency in the Investment Account that, in the judgment of the Fund, is not needed for the purpose of investment or for use in meeting the expenses of conducting the business of the Fund in accordance with Section 6(*f*)(iv). It is improbable, however, that there would be substantial amounts of currency that would not be needed for investment or expenses for more than a brief period, although, as noted below, investment cannot be made without the concurrence of the member whose currency is to be used for investment (Article XII, Section 6(*f*)(iii)). The assets held in the Investment Account, together with all other assets of the Fund, will be covered by the provisions on the immunities and privileges of the Fund in relation to its property and assets.

14. Under Section 6(*f*)(ii) and (iv), the assets that can be used for investment can be derived from the following sources:

(*a*) the portion of the profits from the sale of the Fund's gold that the Fund may decide to transfer to the Investment Account in accordance with Article V, Section 12(*g*) by an eighty-five percent majority of the total voting power;

(*b*) currencies held in its General Resources Account that the Fund may decide, by a seventy percent majority of the total voting power, to transfer to the Investment Account for immediate investment;

(*c*) the income of investment; and

(*d*) the proceeds of matured or liquidated investments.

15. No transfer from the profits of gold sales or from the General Resources Account can be made if at the time of the decision to make the transfer the total amounts already transferred from these two sources exceed the total amount of the general reserve and the special reserve. The income of the investment is not taken into account in applying this limit. If the total amount of the investment has been reduced and any of the proceeds returned to the source from which they were obtained originally, as is possible under Section 6(*f*)(vi), a deduction must be made for the sums returned when establishing how much may be transferred to the Investment Account at any given time. A reduction in the total value of the general and special reserves after the date of transfer does not require a corresponding reduction in the amount of the investment. If, however, the amount of the investment had been reduced at an earlier date, and it was decided at a later date to increase it, the total of the reserves at that later date would determine the maximum amount that could be transferred to the Investment Account.

16. Investments may be made only in income-producing and marketable obligations of international financial organizations, such as the World Bank or the regional development

banks, or of the members whose currencies are used for the investment, including the obligations of their central banks and official agencies. Whether an obligation is marketable is a determination to be made by the Fund. Obligations acquired with a currency must be denominated in that currency or in special drawing rights. As noted already, no investment may be made without the consent of the member whose currency is invested. Investments may be renewed or sold before maturity, however, without the consent of the issuer of a currency.

17. Income from investment may be invested, held in the Investment Account, or used to meet currency expenses of the Fund, including both operational and administrative expenses. To enable the Fund to use the income to meet expenses, Section 6(*f*)(v) authorizes the exchange of the currencies held in the Account for the currencies needed for this purpose. The use of the income in this way would reduce or prevent any deficits that the Fund might otherwise incur, or would increase the net income of the Fund and, therefore, the amounts available as net income for distribution to all members on the basis of quotas under Article XII, Section 6(*a*).

18. Article XII, Section 6(*f*)(vi), (vii), (viii), and (ix) govern the disposition of the assets in the Investment Account if the amount of the investment is reduced or the Investment Account is terminated. Under Section 6(*f*)(vi), the Fund, by a seventy percent majority of the total voting power, may decide to reduce the amount of the investment or terminate the Investment Account, and by the same majority it may adopt rules and regulations to supplement the basic principles of disposition described below. The Investment Account must be terminated on the liquidation of the Fund, in which event the provisions of Schedule K apply. For the purposes of these provisions, a portion of the assets of the Investment Account corresponding to the proportion of the assets previously transferred to it from the profits on the sale of the Fund's gold to the total assets transferred to the Investment Account will be distributable in accordance with paragraph 2(*a*)(ii) of Schedule K, as if they were assets of the Special Disbursement Account, to members that were members on August 31, 1975, in proportion to their quotas on that date. Distribution of this portion of the assets will be made to these members in accordance with Schedule K, paragraph 2(*a*)(ii) even if the Special Disbursement Account had been terminated. Upon an earlier termination of the Investment Account or reduction in the amount of the investment, the amount available for disposition will be apportioned. The portion that corresponds to the proportion of the amounts transferred to the Account under Article V, Section 12(*g*) to the total of the assets transferred to the Account will be placed in the Special Disbursement Account if it has not been terminated, or, if the Special Disbursement Account has been terminated, will be treated as part of the residue referred to in the next sentence. The residue will go gradually to the General Resources Account for immediate use in operations and transactions. The Fund will adopt rules and regulations for the administration of the Investment Account by a seventy percent majority of the total voting power.

M. Distribution and Delegation of Powers in the Fund (Article XII and Schedule D)

1. Two major changes are made in the amended Articles in connection with the distribution and delegation of powers in the Fund. The first is the clarification of the distribution and delegability of powers under the Articles. They can be classified as follows:

(*a*) Powers expressed as directly conferred on

(i) the Board of Governors

(ii) the Council if established

(iii) the Executive Board (so renamed in order to eliminate confusion between the organ and the individual Executive Directors)

(iv) the Managing Director

(*b*) Powers not expressed as directly conferred on any organ but expressed as powers of the Fund.

The consequences of this classification are as follows:

(*a*)(i) Powers directly conferred on the Board of Governors are exercisable solely by the Board of Governors and cannot be delegated to any other organ of the Fund.

(*a*)(ii), (iii), (iv) Powers directly conferred on these organs cannot be delegated by them to some other organ of the Fund. Because the powers are not delegated by the Board of Governors, the powers cannot be withdrawn by the Board of Governors.

(*b*) Powers not expressly conferred on any organ are vested in the Board of Governors so that it can decide whether and to which organs to delegate them. The Board of Governors can delegate any of these powers to the Executive Board exclusively or to the Council exclusively or to the two concurrently. The Board of Governors can change a delegation of powers whenever it sees fit. Delegations are made by a majority of the votes cast.

2. The second major change is based on the Fund's experience in connection with the exercise of powers and the desirability of maximum operating efficiency. Therefore, the powers exercisable exclusively by the Board of Governors are confined to those that have a special institutional importance in the Fund. As a result, most of the powers under the amended Articles are subject to delegation. The nondelegable powers of the Board of Governors that are subject to special majorities are shown in the last column of the Annex to the Commentary in Part II of this Report. The following powers of the Board of Governors are not subject to special majorities but are also directly conferred on the Board of Governors:

(*a*) admission of new members and determination of the conditions of their admission (Article II, Section 2);

(*b*) liquidation of the Special Drawing Rights Department (Article XXV(*a*));

(*c*) liquidation of the Fund (Article XXVII, Section 2(*b*));

(*d*) approval of proposed amendments (Article XXVIII(*a*)); and

(*e*) delegation of authority to the Council (Schedule D, paragraph 3(*a*)) or to the Executive Board (Article XII, Section 2(*b*)).

In addition, the Board of Governors will have certain directly conferred organizational powers (see Article XII, Section 2(*a*), (*c*), (*f*), (*g*), (*i*), and (*j*); and Article XXIX(*b*)).

N. Special Majorities for Adoption of Decisions and for Amendment

Decisions

1. The basic rule in the present Articles that decisions of the Fund are taken by a majority of the votes cast remains unchanged (Article XII, Section 5(*c*)). In accordance with this provision, votes not cast because of abstention or because, in the Executive Board, no Executive Director is entitled to cast the number of votes allotted to a member continue to be excluded from the calculation and are not treated as negative votes.

2. A special majority, i.e., a majority other than a majority of the votes cast, is necessary only when expressly required by a provision. The categories of special majority in the present Articles have been reduced. Subject to one exception and one qualification, only

two special majorities are required: seventy percent and eighty-five percent of the total voting power. The tendency has been to confine the smaller majority to operational decisions that are not routine but are nevertheless not of the same importance as the decisions for which the larger majority is required. This distinction has not been applied with mechanical precision because of the necessity for compromise on certain provisions, and in any event opinions may differ in some instances about the application of the distinction. The exception referred to is the requirement of an absolute majority (that is, a majority of the total voting power) under Article XXVII, Section 1(*c*) (termination of the suspension of the operation of certain provisions). The qualification is the requirement not only of an eighty-five percent majority of the total voting power but also a majority of the Governors for the compulsory withdrawal of a member under Article XXVI, Section 2(*b*). In the present Articles, the special majorities, although confined to fewer categories of decision, are absolute majority, two-thirds, three-fourths, four-fifths, and eighty-five percent, of the total voting power, and a unanimous vote under two provisions. In these two provisions in the amended Articles, Article XXIII, Section 1 and Article XXVII, Section 1(*a*), eighty-five percent of the total voting power has been substituted for the requirement of a unanimous vote. No change has been made in the principle that when a decision pertains exclusively to the Special Drawing Rights Department, only the voting power of participants is taken into account.

3. The special majorities under the amended Articles are tabulated in the Annex to the Commentary in Part II of this Report.

Amendment

4. The acceptance of proposed amendments is not covered by the provisions described in 2 and 3 above, because it is an action of members and not of an organ of the Fund. The requirements for amendment, however, involve the acceptance of proposals by members having certain proportions of the total voting power as well as acceptance by a certain proportion of members. For proposals to amend all but three provisions, acceptance by three-fifths of the members, having eighty-five percent of the total voting power, is necessary under Article XXVIII(*a*). The requirement of eighty-five percent of the total voting power represents an increase over the eighty percent of the present Article XVII(*a*). The change has been made to correlate the majority based on voting power with the special majority for certain decisions of organs of the Fund. For proposals to amend the three exceptional provisions specified in the present Article XVII(*b*), acceptance by all members continues to be necessary under Article XXVIII(*b*) of the amended Articles.

O. Organizational Matters (Article XII and Schedules D and E)

1. Certain changes have been incorporated in the Articles with respect to organizational aspects of the Fund. The following changes affect the Board of Governors:

(*a*) Each Governor and each Alternate will serve until a new appointment is made (Article XII, Section 2(*a*)). The present Article XII, Section 2(*a*) provides for a term of five years subject to the pleasure of the member appointing the Governor or the Alternate, and the possibility of reappointment. The provision is changed because the stipulation of a specific term of office has been found unnecessary and sometimes inconvenient.

(*b*) Under the present Articles the Board of Governors must hold annual meetings and may provide for other meetings. In addition, the Executive Board may call meetings of the Board of Governors. The Council, also, if established under the amended Articles, would be able to call meetings of the Board of Governors under Schedule D, paragraph 5(*a*). It is expected that the Board of Governors will continue the established practice of holding annual meetings, but it will no longer be required to hold them.

(*c*) Meetings of the Board of Governors must be called under the amended Articles whenever requested by fifteen members of the Fund or by members having one quarter of the total voting power. Five members suffice for this purpose under the present Articles. The change recognizes the great increase in the Fund's membership since the original Articles became effective.

(*d*) The Fund will no longer be required under Article XII, Section 2(*h*) to pay Governors and Alternates reasonable expenses incurred in attending meetings of the Board of Governors, but the Fund will be authorized to continue these payments. The change is designed to make the provision more flexible.

2. Various changes have been made in the provisions with respect to the Executive Board.

(*a*) The present Article XII, Section 3(*b*) prescribes that the number of Executive Directors shall be not fewer than twelve, of whom five must be appointed by the five members having the largest quotas, two must be elected by the American Republics not entitled to appoint Executive Directors, and five must be elected by the other members not entitled to appoint Executive Directors. Under the last sentence of the provision, the Fund, acting by a four-fifths majority of the total voting power, may increase the numbers of Executive Directors to be elected by the American Republics and by the other members beyond the numbers stated in the provision when members not listed in Schedule A enter the Fund. Under Article XII, Section 3(*d*) of the present Articles, the Fund must issue regulations changing the proportion of votes required to elect Executive Directors when the numbers are increased beyond those in the Articles.

In exercising its powers under the provisions referred to above, the Fund has been guided by the objectives of ensuring that the size of the Executive Board will contribute to the effective despatch of its business, that a desirable balance will be maintained in the composition of the Executive Board, that the size of constituencies will not place undue burdens on Executive Directors and hinder the efficient conduct of the business of the Executive Board, that members will be as free as possible within the provisions of the Articles and the regulations for the elections to form the constituencies of their choice, and that a relative equilibrium will be achieved in the voting power of the constituencies electing Executive Directors. Some of these objectives and considerations were made explicit in the Report of the Executive Board to the Board of Governors of July 24, 1972 entitled *Size and Structure of the Executive Board*, which was noted by the Board of Governors, with particular reference to paragraphs 2 and 6, in Resolution No. 27-12 of the Board of Governors, adopted August 31, 1972. For the future, the objectives and considerations referred to will be relevant not only for the composition of the Executive Board but also for the Interim Committee and the Council on its establishment.

The Executive Board has agreed that the objectives and considerations referred to above should continue to guide the Fund. The Executive Board has concluded that the present number of elective Executive Directors, i.e., fifteen, gives effect to these objectives and considerations under present circumstances, and has agreed that this number of elective Executive Directors should be incorporated in the amended Articles in order to reflect the existing balance of areas and interests in the Executive Board.

Under the amended Article XII, Section 3(*b*) all members eligible to elect Executive Directors will participate in one election of all fifteen elective Executive Directors because the distinction made between the elections under Section 3(*b*)(iii) and (iv) of Article XII of the present Articles has been eliminated. The Board of Governors may increase or decrease the number of fifteen elective Executive Directors by an eighty-five percent majority of the total voting power. The exercise of this power is not limited by any criteria,

such as the entry of new members into the Fund, in view of the broad objectives and considerations described above, by which the Fund would continue to be guided.

(*b*) The provisions of the present Articles require the appointment of one or two additional Executive Directors in certain circumstances. The five members having the largest quotas in the Fund are required to appoint Executive Directors, but if these members do not include the two members that have made available the largest absolute amounts of resources utilized by the Fund, on the average over the two years preceding a regular election of Executive Directors, these two members also are required to appoint Executive Directors. The obligation of a member to appoint an additional Executive Director if it qualifies can create inconvenience for the member and for other members because the consequence may be the disbandment of a constituency for the next biennial period or the necessity for the other members to refrain from participating in the election so as not to have to join another constituency with which they may have no community of interest. The present Articles do not permit an appointed Executive Director to cast the number of votes allotted to any member other than the member appointing him. The new text of Article XII, Section 3(*c*), while preserving the existing privilege of a member to appoint an additional Executive Director if it qualifies, will grant the member the option of not appointing an Executive Director and of participating instead in the election of Executive Directors. If the member participates in the election, the Executive Director elected by the constituency to which the member belongs will cast the number of votes allotted to all members in that constituency. If the member decides to appoint an Executive Director, however, it will be possible under the amended provisions for the member to agree with individual members in the constituency to have the appointed Executive Director cast the number of votes allotted to these other members. The five members having the largest quotas will continue to have the duty to appoint Executive Directors.

(*c*) Under Article XII, Section 3(*b*), when one or two Executive Directors are appointed under Article XII, Section 3(*c*), the total number of Executive Directors will be maintained by reducing by one or two, as the case may be, the number of Executive Directors to be elected. In order to avert, however, the impact that such a reduction might have on other members in the constituency to which the appointing member formerly belonged, or on other members, Article XII, Section 3(*b*) authorizes the Board of Governors to prevent a reduction if the Board concludes that the reduction would hinder the effective discharge of the functions of the Executive Board or of Executive Directors or would threaten to upset a desirable balance in the Executive Board. The decision of the Board of Governors would require an eighty-five percent majority of the total voting power.

(*d*) In view of the objectives and considerations referred to in (*a*) above, and the authority referred to in (*c*) above, the Executive Board has agreed that if one or two additional Executive Directors were appointed under Article XII, Section 3(*c*) for the period of two years between any two regular elections, and the appointment were to threaten to upset a desirable balance in the Executive Board or to expand unduly the size of constituencies, it would recommend action under Article XII, Section 3(*b*) to prevent a reduction in the number of elective Executive Directors during the two-year period.

(*e*) Schedule E (which replaces the present Schedule C) has been revised to accord with the change of the number of elective Executive Directors in Article XII, Section 3(*b*). The percentages of the eligible votes for the purposes of election, i.e., four and nine, are based on the present situation with respect to the fifteen elective Executive Directors. These percentages can be changed, however, by the Board of Governors by a majority of the votes cast for the purpose of any regular election of Executive Directors.

(*f*) Article XII, Section 3(*c*) of the present Articles has given rise to the need for a number of interpretations and conventions with respect to the calculation that determines whether a member has achieved the right to appoint an additional Executive Director. The problems result from the complexity of the Fund's operations and transactions. It is intended that existing interpretations and conventions would continue to apply.

(*g*) In the light of the changes in nomenclature that have been made in order to convey more clearly the structure of the Fund (Chapter A, section 1), a reference to the General Resources Account has been included in Article XII, Section 3(*c*).

3. The present Articles refer only to the authority of the Executive Board to appoint committees. The amended Articles make it explicit that the Board of Governors, the Council if established, and the Executive Board have this authority (Article XII, Section 2(*j*)).

P. The Council (Article XII, Section 1 and Schedule D)

1. The Board of Governors will be authorized by Article XII, Section 1 to establish the Council by a decision, taken by an eighty-five percent majority of the total voting power, declaring that the provisions of Schedule D shall begin to be applied. This decision can be taken at any time. The establishment of the Council will, in effect, continue the Interim Committee of the Board of Governors on the International Monetary System, which is an advisory body, in the form of a permanent organ of the Fund composed of persons of ministerial or comparable rank with decision-making authority under powers almost all of which would be delegated to it by the Board of Governors.

2. The Council will be composed of the same number of Councillors as there are Executive Directors, because each member that appoints and each group of members that elects an Executive Director will appoint one Councillor under Schedule D, paragraph 1(*a*). A Councillor must be a Governor of the Fund, Minister in the government of a member, or person of comparable rank, such as the head of a member's central bank. In addition, each member or group of members that appoints a Councillor can appoint up to seven Associates, and must appoint an Alternate, who will have full power to act for the Councillor when the Councillor is not present (Schedule D, paragraph 1(*b*)). A Councillor and an Associate serve until a new appointment is made or until the next regular election of Executive Directors, whichever is sooner. The next election is chosen as the terminal date because the composition of the groups of members electing Executive Directors may change. A Councillor, however, may be reappointed. The number of Associates who may be appointed can be increased or decreased at any time by the Board of Governors by an eighty-five percent majority of the total voting power. Executive Directors, or, if they are not present in that capacity, their Alternates will be entitled to attend meetings of the Council, except when the Council decides to hold a restricted session.

3. The Council will be able to exercise two categories of powers: powers directly conferred on it by Schedule D, paragraph 2 and paragraph 5(*a*) and (*c*); and powers delegated to it by the Board of Governors under Schedule D, paragraph 3(*a*). Paragraph 2(*a*) defines the general functions of the Council as the supervision and adaptation of the international monetary system, including the continuing operation of the adjustment process and developments in global liquidity; and in this connection the Council must review developments in the transfer of real resources to developing countries. The reference to adjustment, which appears also in Article IV, Sections 1 and 4 and in Article XVIII, Section 1(*b*), makes it explicit that effective balance of payments adjustment is an important objective of the Fund. Similarly, the reference to developing members makes it apparent that their interests are of special concern. Schedule D, paragraph 2(*b*) provides that

a function of the Council will be the consideration of proposals for amendment of the Articles.

4. The Executive Board would propose to the Board of Governors a revision of the present Section 15 of the By-Laws dealing with the delegation of authority in order to provide for the delegation of appropriate powers to the Council when the establishment of the Council by the Board of Governors was in view. Any powers of the Board of Governors that are not directly conferred on it could be delegated to the Council. Powers could be delegated exclusively to the Council or concurrently to both the Council and the Executive Board. The exercise of powers by the Council is governed by the scope of its competence as defined in Schedule D, paragraph 2(*a*). Delegations of authority by the Board of Governors could be changed from time to time. The Council will not be able to delegate any powers to the Executive Board, but the Executive Board would prepare the work of the Council in the same way that it prepares the work of the Board of Governors. Schedule D, paragraph 3(*c*) regulates the concurrent exercise of authority by organs of the Fund by providing that the Council must not take any action pursuant to delegated powers that is inconsistent with any action taken by the Board of Governors, and by providing further that the Executive Board must not take any action pursuant to powers delegated by the Board of Governors that is inconsistent with any action taken by either the Board of Governors or the Council.

5. Decisions of the Council will be taken by the procedure of weighted voting according to which each Councillor is entitled to cast the number of votes allotted under Article XII, Section 5 to the member or group of members appointing him. On matters pertaining exclusively to the Special Drawing Rights Department, a Councillor will be able to cast the number of votes allotted to the participants in his constituency. A Councillor appointed by a single member must cast the number of votes allotted to the member as a single block, but a Councillor appointed by a group of members may cast separately the number of votes allotted to each member in the group (Schedule D, paragraph 3(*b*)). This is a departure from the principle that applies to the Executive Board. The rationale of "split voting" by a Councillor appointed by a group of members is that the Council is conceived of as an organ composed of persons with political responsibility. It is closer in character, therefore, to the Board of Governors, in which Governors vote individually. For this reason it has been concluded that the voting procedure in the Council should approximate the procedure in the Board of Governors.

6. Schedule D, paragraph 3(*b*) enables a member whose votes did not count toward the election of an Executive Director to agree on arrangements with a Councillor for casting the number of votes allotted to the member. This principle also differs from the principle applicable to the Executive Board. A member whose votes did not count toward the election of an Executive Director may request an Executive Director to represent its interests, but that Executive Director cannot cast the number of votes allotted to the member. In this respect also, the intention is to make the situation in the Council resemble the situation in the Board of Governors, in which all Governors may vote even though the member appointing a Governor does not have the number of votes allotted to it cast by an Executive Director in the Executive Board. The Council will adopt regulations to provide for the orderly conduct of its business. It is assumed that the regulations will take account of the fact that a Councillor may need to be in contact with members that are not in its constituency if the Councillor casts the number of votes allotted to these members. It is assumed, further, that the arrangements for these contacts would not be allowed to impede the Council in the exercise of its functions.

7. The Council is authorized by Schedule D, paragraph 5(*c*) to establish a procedure for voting on a specific question without meeting when in the judgment of the Executive

Board an action must be taken by the Council that should not be postponed until the next meeting of the Council and that does not warrant the summoning of a special meeting. The Executive Board is authorized to call meetings of the Council, and the Council itself may establish additional rules according to which a meeting of the Council may be called. It is apparent that the normal business of the Council must be conducted in session and that decisions without meeting should not become routine. The procedure for voting without meeting will be similar to the established practice under Section 13 of the By-Laws, which provides for voting by the Board of Governors without meeting. A Councillor appointed by a group of members will be free to make his own arrangements to canvass the views of the group before any such voting.

8. The Council may adopt the regulations that it deems necessary or appropriate for the performance of its functions and may determine any aspect of its procedure. It must select a chairman, who must be a Councillor. He will not have a deciding vote in case of an equal division of votes, as has the Managing Director as chairman of the Executive Board (see Article XII, Section 4(*a*)).

Q. Special Drawing Rights (Articles XV, XVII, XIX, XX, XXI, and XXII)

1. In the amended Articles, the unit of value of the special drawing right is no longer defined in terms of gold. The Fund is empowered to determine the method of valuation. It may do so by the double majority of seventy percent of the total voting power of both members and participants, but a double eighty-five percent majority is required for a change in the principle of valuation or a fundamental change in the application of the principle in effect at the time of the change (Article XV, Section 2 and Article XXI(*a*)(iii)). A special majority is not prescribed for deciding whether a proposed change requires the lower or the higher majority, and therefore the decision can be taken by a majority of the votes cast. With this rule, there is virtual assurance that a decision on classification can always be taken. The method of valuation in effect at the date of the amendment will continue in effect unless it is decided at some time thereafter to change it (Schedule B, paragraph 6). The amended Articles require the value of the Fund's assets to be expressed (Article V, Section 10(*a*)), and the currency holdings in the General Resources Account to be maintained, in terms of the special drawing right (Article V, Section 11). Most computations involving currencies must be made at rates at which the Fund accounts for them in relation to the special drawing right (Article V, Section 10(*b*)).

2. The general obligation of participants to collaborate with the Fund and with each other to facilitate the operation of the Special Drawing Rights Department and the proper use of special drawing rights has been broadened by adding the objective of making the special drawing right the principal reserve asset of the international monetary system (Article VIII, Section 7; Article XXII). The principles for the allocation and cancellation of special drawing rights remain unchanged, but a number of changes have been made in the characteristics and usability of special drawing rights:

(i) The Fund is able under the amended Articles to engage in operations and transactions through the General Resources Account with prescribed other holders of special drawing rights, whereas under the present Articles it can do so only with participants (Article XVII, Section 2).

(ii) The categories of possible other holders that the Fund can prescribe have been enlarged by the addition of the general class of official entities (Article XVII, Section 3(i)). A majority of eighty-five percent of the total voting power is still necessary for the prescription of other holders.

(iii) The Fund may permit prescribed holders to enter into operations and transactions with other prescribed holders, as well as with participants, whereas

under the present Articles other holders can be permitted to enter into operations and transactions only with participants (Article XVII, Section 3(ii) and (iii)).

(iv) The majority for the prescription of terms and conditions on which prescribed holders may engage in operations and transactions in special drawing rights and on which the Fund and participants may enter into operations and transactions with them has been reduced from eighty-five percent of the total voting power to a majority of the votes cast (Article XVII, Section 3(ii) and (iii)).

(v) Under the present Articles, a participant can enter into a transaction in special drawing rights by agreement with another participant, i.e., without designation, only if the transferor of special drawing rights is exchanging them for its own currency held by the transferee or if the Fund authorizes the transaction. The Fund can authorize other transactions by agreement by a majority of the votes cast if they fall into certain limited categories, and by an eighty-five percent majority of the total voting power if they fall outside these categories. One of the most important extensions in the use of special drawing rights under the amended Articles is the freedom of participants to enter into transactions by agreement in all circumstances without the necessity for authorization by the Fund (Article XIX, Section 2(*b*)).

(vi) The transactions referred to in (v) above must be conducted at rates of exchange compatible with the principle of equal value in Article XIX, Section 7(*a*). The Fund is authorized, however, to adopt policies, by a majority of eighty-five percent of the total voting power, under which in exceptional circumstances it can permit transactions by agreement at other exchange rates. The Fund can apply these policies to specific transactions by a majority of seventy percent of the total voting power (Article XIX, Section 7(*b*)).

(vii) The Fund can decide by a majority of seventy percent of the total voting power to prescribe operations in special drawing rights entered into by agreement between participants that are not otherwise expressly authorized by the Articles. Only "operations" (i.e., dealings that do not involve the exchange of special drawing rights for currency) can be prescribed. "Transactions," which involve such an exchange (see Article XXX(*i*)), are not included because they may be entered into freely by agreement. Participants entering into these operations must observe any terms and conditions that the Fund adopts in prescribing the operations. The Fund may make representations to a participant that enters into any of these operations (or into the transactions by agreement referred to in (v) above) if the effect may be prejudicial to the process of designation or inconsistent with the effective functioning of the Special Drawing Rights Department. If the participant persists in entering into such operations (or transactions by agreement), the Fund may suspend the participant's right to use the special drawing rights that it acquires after the Fund's decision on suspension (Article XIX, Section 2(*c*) and (*d*); Article XXIII, Section 2(*b*)).

(viii) A participant using special drawing rights in a transaction by agreement with another participant ((v) above) is not subject to the expectation that it will comply with the requirement of need in Article XIX, Section 3(*a*) when using its special drawing rights in these transactions. This provision considerably enhances the freedom of participants to engage in transactions by agreement, because they are subject to neither the necessity for designation

by the Fund nor the requirement of need. They remain subject, however, to the general obligations of collaboration under Article XXII.

(ix) The formualtion of the requirement of need in Article XIX, Section 3(*a*) has been simplified without changing its substance.

(x) The provisions of the present Articles on the Fund's power to waive the requirement of need are substantially unchanged, but the limited scope of the power is less constricting because of the broad power of participants to enter into transactions by agreement without being subject to the requirement of need. In transactions in which the Fund designates the transferee of special drawing rights, the transferor is still expected to observe the requirement of need, but the Fund may waive the expectation that the requirement will be observed in a limited number of categories of transactions that contribute in a particular way to the more effective functioning of the Special Drawing Rights Department. In the light of experience, the amended Articles (Article XIX, Section 3(*c*)) do not refer to one category mentioned in the present Articles (Article XXV, Section 3(*c*)).

(xi) Under the present Articles, in transactions involving designation, the designated transferee of special drawing rights is required to supply "currency convertible in fact," and the issuer of the currency supplied might be required in certain circumstances to convert the currency into another currency desired by the transferor of the special drawing rights. The definition of currency convertible in fact is complex. Moreover, the system of conversion contemplated by the Articles has not been operating in recent years. The provision with respect to the currency to be supplied (Article XIX, Section 4) has been simplified by the adoption of a new concept, "freely usable currency" (Article XXX(*f*)), in place of the present definition of currency convertible in fact. The new concept applies in both the General Department and the Special Drawing Rights Department, whereas under the present Articles "currency convertible in fact" applies only in the Special Drawing Rights Department. Article V, Section 3(*e*) and Section 7(*j*) deal with the exchange of freely usable currencies in connection with the transactions of members with the Fund through the General Resources Account. It is hoped that participants in the Special Drawing Rights Department will collaborate regarding the exchange of freely usable currencies provided in transactions with designation, as would be normal practice pursuant to Article XXII.

(xii) The Fund may review and change the rules for designation at any time, and not solely at the end of each basic period (Article XIX, Section 5(*c*)).

(xiii) The Fund may review the rules for the reconstitution of participants' holdings of special drawing rights and may adopt, modify, or abrogate rules as a result of the review at any time, and not solely at the end of a basic period. Decisions with respect to the rules for reconstitution can be taken by a seventy percent, instead of an eighty-five percent, majority of the total voting power (Article XIX, Section 6(*b*)).

(xiv) The rate of remuneration no longer limits the rate of interest and charges on special drawing rights, which the Fund may now determine by a majority of seventy percent of the total voting power (Article XX, Section 3), but the rate of interest now controls the rate of remuneration (Article V, Section 9).

3. Certain changes in the usability of special drawing rights in operations and transactions conducted through the General Resources Account have been mentioned in 2

above. In addition, certain changes, including the uses listed below, have been referred to elsewhere in this Report. Under the amendment, special drawing rights may be used:

(*a*) by participants to pay part of the subscriptions payable upon increases in quota (Article III, Section 3(*a*));

(*b*) by the Fund to make payments to participants on decreases in quotas (Article III, Section 3(*c*));

(*c*) by the Fund in sales to participants for the currencies of other members (Article V, Section 6(*b*));

(*d*) by participants in purchasing the currencies of other members from the Fund (Article V, Section 6(*a*));

(*e*) by the Fund to replenish its holdings of needed currency, without any implication that other forms of replenishment under the Articles should be canvassed first (Article VII, Section 1(ii)); and

(*f*) by the Fund in distributions of net income or of the general reserve, even without the agreement of the recipient, unless the recipient decides that the payment to it shall be made in its own currency (Article XII, Section 6(*e*)).

Some of these uses are new; others involve modifications of uses that could be made under the present provisions.

R. Temporary Suspension of Operation of Provisions (Articles XXIII and XXVII)

1. Experience with the provisions on suspension of the operation of certain provisions has shown the possible usefulness of suspension but also the desirability of making it somewhat easier to bring about a suspension of one or more of the provisions subject to suspension if there is an emergency or the development of unforeseen circumstances threatening the activities of the Fund or of the Special Drawing Rights Department. Under the present Articles, a unanimous vote of the Executive Board is required for an initial decision to suspend. This requirement has been reduced to a majority of eighty-five percent of the total voting power in the amended Articles. A suspension by the Executive Board can be extended under the present Articles by a subsequent decision taken by the Board of Governors by an eighty percent majority of the total voting power. This majority has been increased to eighty-five percent in order to limit the number of different special majorities required for various decisions.

2. A possible purpose of the suspension of the operation of a provision is to give time to consider the desirability of the amendment of the provision. Therefore, the periods for suspension have been modified because experience has shown that the total period of three hundred and sixty days under the present Articles may be inadequate to enable agreement to be reached on an amendment of the Articles and to make it effective. The maximum period of one hundred and twenty days for which the Executive Board may suspend the operation of a provision has been extended to one year. The maximum period of prolongation by the Board of Governors has been extended from two hundred and forty days to two years.

3. Under the present Articles, when the Executive Board decides to suspend the operation of a provision, it must simultaneously call a meeting of the Board of Governors at the earliest practicable date. This requirement has been eliminated because the Executive Board will now be able to decide on a suspension for as long as one year, during which, according to present practice, the Board of Governors would hold its annual meeting.

4. No substantive change has been made in the scope of the provisions that are subject to suspension, although some have been renumbered in accordance with the sequence of provisions in the amended Articles. The insertion of the words "operations and transactions" in Section 1 of Article XXIII is intended to make it explicit that suspension of the operation of provisions relating to special drawing rights is possible only in respect of those provisions that deal with operations and transactions in special drawing rights and not in respect of other provisions that relate to them.

5. Article XXVII, Section 1(*d*) makes it explicit that the Fund has authority to adopt substitute rules on the subject matter of a provision while its operation is suspended. This authority has been derived by implication under the present Articles.

6. No change has been made in the provision of the present Articles according to which the Executive Board can terminate a suspension by a majority of the total voting power whether it is in effect under a decision of the Board of Governors or of the Executive Board (Article XXVII, Section 1(*c*)).

S. Transitional Provisions (Schedule B)

Transitional provisions are set forth in Schedule B with respect to repurchase, payment of additional subscriptions, gold, and certain operational matters. These provisions are necessary because there are certain substantive differences between the provisions of the present and the amended Articles relating to these matters.

1. Repurchase (Paragraphs 1–5).

(i) The transitional provisions of paragraphs 1 to 5 of Schedule B deal with the repurchase of currency acquired by the Fund under the present Articles and held by it on the date of the second amendment. Under these provisions of Schedule B, repurchase obligations that have accrued under Article V, Section 7(*b*) of the present Articles before the date on which the amendment takes effect, but that remain undischarged at that date, must be discharged not later than the dates at which they must be discharged under the present Articles. Currency held by the Fund in excess of seventy-five percent of quota on the date of the amendment as the result of purchases, but not subject to accrued obligations under Article V, Section 7(*b*) of the present Articles, must be repurchased in accordance with the policy under which the purchase was made. Other holdings in excess of that level and not subject to accrued obligations, such as holdings that result from the payment of charges by a member in its own currency, must be repurchased not later than four years after the date of the amendment. These transitional arrangements are designed to deal equitably among members in connection with the Fund's holdings of all currencies that are subject to repurchase under the present Articles.

(ii) It is provided by paragraph 2 of Schedule B that repurchase obligations that have accrued in gold must be discharged with special drawing rights, but the Fund may prescribe that payment may be made, in whole or in part, in the currencies of other members specified by it, on the basis of 0.888 671 gram of fine gold per special drawing right and the value of currencies in terms of the special drawing right at the date of discharge. A nonparticipant would discharge any such obligation in the currencies of other members. Other repurchases must be made in assets acceptable to the Fund in repurchase in accordance with the amended Articles.

2. Rates of charge, remuneration, and interest (Paragraph 6).

(i) Under Schedule B, paragraph 6, charges on balances of currency held by the Fund remain payable at the rates in effect on the date of the amendment until they are changed in accordance with the provisions of the amended Articles.

(ii) The provisions of the amended Articles with regard to the imposition of charges on the Fund's holdings of currency apply, however, to all balances held by the Fund after the date of the amendment that fall into the two categories subject to charges under Article V, Section 8(*b*). That provision applies, therefore, to balances acquired as a result of operations and transactions that take place before the date of the amendment. Some of these balances are not subject to periodic charges under the present Articles, and for this reason there are no rates in existence. It will be necessary, therefore, to take decisions on the rates of charge on these balances that will begin to apply as from the effective date of the amendment.

(iii) The rates of the service charge for transactions conducted through the General Resources Account and of the commitment charge for stand-by arrangements and arrangements under the extended Fund facility will also continue in effect until they are changed in accordance with the provisions of the amended Articles. Under a decision in effect at the present time, a service charge is not levied on what are now called gold tranche purchases but will be called reserve tranche purchases under the amended Articles. The transactions that qualify as reserve tranche purchases will be determined, however, on the basis of the amended Articles. The effect may be to increase the reserve tranche if a purchase has been made under a facility that becomes the subject of an exclusion under Article XXX(*c*) of the amended Articles. For example, a purchase under the buffer stock facility reduces a gold tranche under the present Articles, but because these purchases may be excluded from the calculation of the reserve tranche under Article XXX(*c*), a reserve tranche may be created or enlarged by a decision to exclude them under the amended Articles if such a purchase is outstanding.

(iv) The rate of remuneration at the time of the amendment remains in effect until modified in accordance with the amended Articles. The calculations for determining whether and in what amounts remuneration will be payable will be made, however, on the basis of the percentages of quota specified by or under Article V, Section 9(*b*) or (*c*) of the amended Articles and on the basis of the average daily balances of currency to be taken into account pursuant to Section 9(*a*) of that Article.

(v) The rate of interest and charge on the special drawing right in effect on the date of the amendment will continue in effect until it is changed in accordance with the new provisions.

3. Rules and regulations and decisions (Paragraph 6).

Under paragraph 6 of Schedule B all rules and regulations and all decisions adopted under the present Articles that are not inconsistent with the new Articles will remain in effect on the date of the second amendment until they are changed in accordance with the amended Articles. The rules and regulations and decisions with respect to the method of valuation of the special drawing right are among those to which this provision will apply.

4. Gold (Paragraph 7).

(i) In accordance with the understandings reached in the Interim Committee of the Board of Governors on the International Monetary System, the Fund is expected to make arrangements, on the basis of the present Articles, for the disposal of fifty million ounces of its gold (paragraph 6(3) of the Press Communiqué issued by the Committee on August 31, 1975 and paragraph 4 of the Communiqué of June 12, 1975). To the extent that the disposition of the two amounts of twenty-five million ounces that constitute this total is not completed at the date of the amendment, the Fund is required by the amended Articles to take action to dispose of the balance. In view of this requirement in the Articles, a further decision by the Fund in order to proceed with the disposition will not be necessary.

(ii) Paragraph 7 of Schedule B requires the Fund to complete the disposition of twenty-five million ounces by selling the balance of that amount at the present official price to those members that were members on August 31, 1975 and agree to buy it, in proportion to their quotas on that date. The Fund must complete the disposition of another twenty-five million ounces by selling the balance of that amount at a price based on prices in the market and must use the proceeds in excess of the capital value (i.e., the balance over the official price of 0.888 671 gram of fine gold per special drawing right under the present Articles) for the benefit of developing members that were members on August 31, 1975. The Fund is required, however, to transfer directly to developing members a part of the profits or surplus value of the gold that is to be disposed of for the benefit of developing members corresponding to the proportion of their quotas to all quotas. The reference in Schedule B, paragraph 7(*b*) to "profits or surplus value" will enable the Fund to make the transfers required by this provision in an appropriate way. The profits from the sale of the remaining part of the second twenty-five million ounces are to be used to provide balance of payments assistance on concessionary terms to developing members with low per capita income.

T. Settlement of Accounts with Members Withdrawing (Schedule J)

1. Schedule J, paragraph 1 has been revised, in view of the fact that under the amended Articles there would be three Accounts in the Fund's General Department. Schedule J continues to be the code for settlement with a withdrawing member that applies if agreement between it and the Fund is not reached promptly. Settlement with respect to the General Resources Account, if made under Schedule J, would be made according to the rules in paragraphs 1 to 6 of that Schedule. For the purpose of payments that the Fund is obligated to make to the withdrawing member in a settlement with respect to this Account, the Fund could transfer to the General Resources Account holdings of the member's currency in the other two Accounts in exchange for an equivalent amount of the currencies of other members in the General Resources Account selected by the Fund with the concurrence of these other members.

2. Settlement with respect to the Special Disbursement Account would be based on the principle that a member's indebtedness to the Fund as the result of transactions conducted through that Account must be discharged in accordance with the terms of the indebtedness (Schedule J, paragraph 7). Therefore, withdrawal would not accelerate the maturity of indebtedness unless the terms of the indebtedness provided for acceleration.

3. The Fund is authorized by Schedule J, paragraph 8 to sell in an orderly manner in any market the holdings of the withdrawing member's currency in the Special Disbursement Account that remain after the transfer described in 1 above. The sales may be made for the currencies of other members. The same procedure applies with respect to holdings of the withdrawing member's currency in the Investment Account.

4. The Fund is authorized by Schedule J, paragraph 9 to continue to hold until the date of maturity any investments in a withdrawing member's obligations that the Fund may hold either in the Special Disbursement Account or in the Investment Account, or to dispose of them sooner. The authority to hold such investments until the date of maturity enables the Fund to avoid the loss that might be incurred by disposition of them before maturity.

Annex to Commentary on Proposed Amendment

Special Majorities

The special majorities and participation required for the adoption of decisions by the Board of Governors, the Council when established, and the Executive Board under the

amended Articles are summarized below. The majorities are shown according to the order in which they appear in the Articles. All other decisions are taken by a majority of the votes cast.

Article	Section	Subject	Special Majorities (Proportion of Total Voting Power)	Directly Conferred on
III	2(*c*)	Adjustment of quotas	85 percent	Board of Governors (except Article III, Section 2(*b*))
III	3(*a*), (*d*)	Prescription of medium of payment for additional subscription	70 percent	Board of Governors
IV	2(*c*)	Provision for general exchange arrangements	85 percent	
IV	4	Introduction of system of exchange arrangements based on par values	85 percent	
V	7(*c*)	Changes in period for repurchase	85 percent	
V	7(*d*)	Adoption of periods for repurchase of holdings acquired under special policy on use of Fund's general resources	85 percent	
V	7(*e*)	Adoption of policies on repurchase of holdings not acquired as a result of purchases	70 percent	
V	7(*g*)	Postponement of repurchase beyond maximum period	70 percent	
V	8(*a*), (*d*)	Determination of service charge for purchases	70 percent	
V	8(*b*), (*d*)	Determination of rates of charge on holdings of currencies	70 percent	
V	8(*c*), (*d*)	Imposition of charges deemed appropriate on failure to repurchase	70 percent	
V	9(*a*)	Determination of rate of remuneration	70 percent	
V	9(*c*)	Increase in percentage of quota as level for remuneration	70 percent	

Article	Section	Subject	Special Majorities (Proportion of Total Voting Power)	Directly Conferred on
V	12(*b*), (*c*)	Sale of gold	85 percent	
V	12(*b*), (*d*)	Acceptance of gold instead of special drawing rights or currency in payments to Fund	85 percent	
V	12(*b*), (*e*)	Sale of gold at present official price	85 percent	
V	12(*f*), (i)	Transfer of assets of Special Disbursement Account to General Resources Account	70 percent	
V	12(*f*), (ii), (iii)	Use of assets of Special Disbursement Account for operations and transactions not authorized by other provisions and for distribution to developing members	85 percent	
V	12(*g*)	Transfer of proceeds of sale of gold to Investment Account	85 percent	
V	12(*j*)	Termination of Special Disbursement Account prior to liquidation of Fund	70 percent	
		Adoption of rules and regulations for administration of Special Disbursement Account	70 percent	
XII	1	Application of Schedule D	85 percent	Board of Governors
XII	3(*b*)	Increase or decrease in number of elective Executive Directors	85 percent	Board of Governors
		Maintenance of number of elective Executive Directors	85 percent	Board of Governors
XII	6(*d*)	Distribution from general reserve	70 percent	
XII	6(*f*), (ii)	Transfer to Investment Account of currencies held in General Resources Account for immediate investment	70 percent	

Article	Section	Subject	Special Majorities (Proportion of Total Voting Power)	Directly Conferred on
XII	6(*f*), (vi)	Termination of Investment Account or reduction of amount of investment prior to liquidation of Fund	70 percent	
		Adoption of rules and regulations regarding administration of Investment Account	70 percent	
XII	8	Publication of report on member's monetary or economic conditions and developments	70 percent	
XV	2	Determination of method of valuation of special drawing right other than a change in principle or a fundamental change in application of principle in effect	70 percent	
		Change in principle of valuation or fundamental change in application of principle in effect	85 percent	
XVII	3(i)	Prescription of other holders of special drawing rights	85 percent	
XVIII	2(*a*), 4(*a*), (*d*)	Allocation or cancellation of special drawing rights	85 percent	Board of Governors
XVIII	2(*b*), 4(*a*), (*d*)	Determination of rates at which allocation and cancellation are to be made	85 percent	Board of Governors
XVIII	2(*c*), 4(*a*), (*d*)	Determination of duration of basic period, intervals for allocations or cancellations, and dates as of which quotas and net cumulative allocations are to be basis for allocations or cancellations	85 percent	Board of Governors

Article	Section	Subject	Special Majorities (Proportion of Total Voting Power)	Directly Conferred on
XVIII	3, 4(*a*), (*d*)	Change in rates or intervals of allocation or cancellation or in length of basic period, or starting new basic period	85 percent (except decrease in rates of allocation)	Board of Governors
XIX	2(*c*)	Prescription of operations in which participant may engage in agreement with another participant	70 percent	
XIX	6(*b*)	Adoption, modification, or abrogation of rules for reconstitution	70 percent	
XIX	7(*b*)	Adoption of policies to authorize participants to agree on exchange rates other than those applicable under Article XIX, Section 7(*a*)	85 percent	
		Authorization of individual participants, under these policies, to agree on exchange rates other than those applicable under Article XIX, Section 7(*a*)	70 percent	
XX	3	Determination of rate of interest on special drawing rights	70 percent	
XXIII	1	Temporary suspension of operation of certain provisions relating to special drawing rights for not more than one year	85 percent	Executive Board (Council)
XXVI	2(*b*)	Compulsory withdrawal of member	Majority of Governors having 85 percent	Board of Governors
XXVII	1(*a*)	Temporary suspension of operation of certain provisions for not more than one year	85 percent	Executive Board (Council)
XXVII	1(*b*)	Extension of temporary suspension of operation of provisions	85 percent	Board of Governors

Article	Section	Subject	Special Majorities (Proportion of Total Voting Power)	Directly Conferred on
XXVII	1(*c*)	Termination of suspension under Article XXIII, Section 1 or Article XXVII, Section 1(*a*)	Absolute majority	Executive Board
XXIX	(*b*)	Overrule of decision of Committee on Interpretation	85 percent	Board of Governors
XXX	(*c*)(iii)	Exclusion of purchases and holdings under policies on use of Fund's general resources for purpose of calculating a member's reserve tranche	85 percent	
Schedule	*Paragraph*			
C	5	Adoption of margin or margins for spot exchange transactions	85 percent	
C	8	Objection to termination of par value by member	85 percent	
C	11	Uniform proportionate changes in par values	70 percent	
D	1(*a*)	Change in number of Associates in Council	85 percent	Board of Governors

[The appendix, "Comparison of Present and Amended Articles of Agreement," has not been included here. See *Proposed Second Amendment to the Articles of Agreement of the International Monetary Fund: A Report by the Executive Directors to the Board of Governors* (Washington: International Monetary Fund, 1976).]

PART III: PROCEDURE

1. Applicable Legal Provisions

The procedure for the adoption of modifications in the Articles of Agreement is set forth in Article XVII of the present Articles, which reads as follows:

"(*a*) Any proposal to introduce modifications in this Agreement, whether emanating from a member, a governor or the Executive Directors, shall be communicated to the chairman of the Board of Governors who shall bring the proposal before the Board. If the proposed amendment is approved by the Board the Fund shall, by circular letter or telegram, ask all members whether they accept the proposed amendment. When three-fifths of the members, having four-fifths of the total voting power, have accepted the proposed amendment, the Fund shall certify the fact by a formal communication addressed to all members.

"(*b*) Notwithstanding (*a*) above, acceptance by all members is required in the case of any amendment modifying

(i) the right to withdraw from the Fund (Article XV, Section 1);

(ii) the provision that no change in a member's quota shall be made without its consent (Article III, Section 2);

(iii) the provision that no change may be made in the par value of a member's currency except on the proposal of that member (Article IV, Section 5(*b*)).

"(*c*) Amendments shall enter into force for all members three months after the date of the formal communication unless a shorter period is specified in the circular letter or telegram."

2. Resolution of Board of Governors

Part IV of this Report contains the text of a Resolution, to which is attached a Proposed Amendment to the Articles of Agreement. The Chairman of the Board of Governors has requested that on his behalf the Secretary of the Fund bring the Resolution and Proposed Amendment before the Board of Governors for its approval. Pursuant to this request the Secretary is transmitting them to the Board with this Report.

In the judgment of the Executive Directors the action requested of the Board of Governors should not be postponed until the next regular meeting of the Board and does not warrant the calling of a special meeting of the Board. For this reason, the Executive Directors, pursuant to Section 13 of the By-Laws, request Governors to vote without meeting. In accordance with established practice, the Executive Directors have also decided to waive the requirement that no Governor shall vote until seven days after the dispatch of the motion. To be valid, votes must be received at the seat of the Fund on or before April 30, 1976.

The Resolution will be adopted if replies are received from a majority of the Governors exercising two-thirds of the total voting power and if a majority of the votes is cast in favor of the Resolution. The Resolution must be voted on as a whole.

3. Acceptance of Proposed Amendment by Members

By adopting the annexed Resolution, the Board of Governors will grant its approval to the Proposed Amendment of the Articles of Agreement. Members will then be asked, by circular letter or telegram, to notify the Fund whether they accept the Proposed Amendment. The Proposed Amendment can be accepted only in its entirety. That is to say, members will not be able to accept part only of the Proposed Amendment.

In accordance with Article XVII(*a*) of the present Articles, the Proposed Amendment must be accepted by three-fifths of the members, having four-fifths of the total voting power, before it can enter into force.

4. Entry into Force of Proposed Amendment

When the Proposed Amendment has been accepted by the necessary majority, the Fund will certify the fact by a formal communication to be sent by the Secretary of the Fund to all members. Pursuant to Article XVII(*c*) of the present Articles, the Executive Directors recommend that the Proposed Amendment should enter into force on the date of the formal communication instead of three months after that date. In accordance with that provision and paragraph 3 of the Resolution, the circular letter or telegram by which members will be asked whether they accept the Proposed Amendment will specify the

date of the formal communication referred to above as the date of the entry into force of the Proposed Amendment.

The Proposed Amendment will enter into force for all members on the date of the formal communication, whether they have accepted the Amendment or not. It is assumed that members accepting the Proposed Amendment will have taken any legislative and other action that may be necessary to enable them to carry out their obligations under the Articles of Agreement as amended. Other members that have not accepted the Proposed Amendment will need to consider what action is necessary in order to enable them to carry out their obligations under the Articles of Agreement as amended.

5. Notification to Depositary of Articles of Agreement

Upon certification of the entry into force of the Proposed Amendment it is intended to notify that fact to the Government of the United States, which is the depositary of the Articles of Agreement of the Fund, so that it may record the Amendment. It is also intended to ask the Government of the United States to register the Amendment with the Secretary-General of the United Nations, pursuant to Article 102 of the United Nations Charter.

6. Domestic Legal Steps

In view of the important and extensive changes in the Articles that will be introduced by the Amendment, members may find it necessary to review both the financial and nonfinancial aspects of their domestic legislation relating to the Articles of Agreement. The provisions relating to quotas and subscriptions, exchange arrangements, and the special drawing right may be of particular importance in connection with domestic legislation. In connection with exchange arrangements, members may wish to examine any legislation, whether relating directly to the Fund or not, that refers to par values established under the Articles.

PART IV: RESOLUTION †

WHEREAS the Board of Governors, in Resolution No. 29-10 adopted at its 1974 Annual Meeting, has requested the Executive Directors to consider and prepare for the approval of the Board possible modifications in the Articles of Agreement of the International Monetary Fund on the basis of the recommendations in Part II of the *Outline of Reform* attached to the Report to the Board by its ad hoc Committee on Reform of the International Monetary System and Related Issues (Committee of Twenty), dated June 14, 1974; and

WHEREAS the Interim Committee of the Board of Governors on the Reform of the International Monetary System has requested the Executive Directors to complete their work on amendment in the light of the guidance given by the Committee; and

WHEREAS the Executive Directors have completed their work relating to possible modifications in the Articles of Agreement of the International Monetary Fund pursuant to Resolution No. 29-10 and the guidance given by the Interim Committee; and

WHEREAS the Executive Directors have prepared a Report on the Second Amendment setting forth proposals for modifications in the Articles of Agreement of the International Monetary Fund; and

† Resolution No. 31-4, adopted by the Board of Governors effective April 30, 1976.

WHEREAS the Chairman of the Board of Governors has requested the Secretary of the Fund to bring the proposals of the Executive Directors before the Board of Governors; and

WHEREAS the Report of the Executive Directors setting forth their proposals has been submitted to the Board of Governors by the Secretary of the Fund; and

WHEREAS the Executive Directors have requested the Board of Governors to vote on the following Resolution 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 proposals for modifications (Proposed Second Amendment) that are included in the attachment to this Resolution and are to be incorporated in the Articles of Agreement of the International Monetary Fund are approved.

2. The Secretary of the Fund is directed to ask, by letter or telegram, all members of the Fund whether they accept, in accordance with the provisions of Article XVII of the present Articles, the Proposed Second Amendment.

3. The circular letter or telegram to be sent to all members in accordance with 2 above shall specify that the Proposed Second Amendment shall enter into force for all members as of the date on which the Fund certifies, by formal communication addressed to all members, that three-fifths of the members, having four-fifths of the total voting power, have accepted the modifications.

[The Proposed Second Amendment that was attached to the resolution and the Index to the Proposed Second Amendment are not included here. The proposed amendments were approved and appear below, pp. 379–445.]

PART SEVEN

Basic Documents

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Articles of Agreement

The Articles of Agreement of the International Monetary Fund were adopted at the United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire, on July 22, 1944 and entered into force on December 27, 1945. They were amended effective July 28, 1969 by the modifications approved by the Board of Governors in Resolution No. 23-5, adopted May 31, 1968. On April 30, 1976, the Board of Governors approved the Proposed Second Amendment by adopting Resolution No. 31-4, and, after acceptance by the required number of members having the required voting power, the Articles as amended entered into force on April 1, 1978.

Articles of Agreement of the International Monetary Fund (April 1, 1978)

The Governments on whose behalf the present Agreement is signed agree as follows:

Introductory Article

(i) The International Monetary Fund is established and shall operate in accordance with the provisions of this Agreement as originally adopted and subsequently amended.

(ii) To enable the Fund to conduct its operations and transactions, the Fund shall maintain a General Department and a Special Drawing Rights Department. Membership in the Fund shall give the right to participation in the Special Drawing Rights Department.

(iii) Operations and transactions authorized by this Agreement shall be conducted through the General Department, consisting in accordance with the provisions of this Agreement of the General Resources Account, the Special Disbursement Account, and the Investment Account; except that operations and transactions involving special drawing rights shall be conducted through the Special Drawing Rights Department.

Article I
Purposes

The purposes of the International Monetary Fund are:

(i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employ-

ment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

(v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The Fund shall be guided in all its policies and decisions by the purposes set forth in this Article.

Article II
Membership

Section 1. *Original members*

The original members of the Fund shall be those of the countires represented at the United Nations Monetary and Financial Conference whose governments accept membership before December 31, 1945.

Section 2. *Other members*

Membership shall be open to other countries at such times and in accordance with such terms as may be prescribed by the Board of Governors. These terms, including the terms for subscriptions, shall be based on principles consistent with those applied to other countries that are already members.

Article III
Quotas and Subscriptions

Section 1. *Quotas and payment of subscriptions*

Each member shall be assigned a quota expressed in special drawing rights. The quotas of the members represented at the United Nations Monetary and Financial Conference which accept membership before December 31, 1945 shall be those set forth in Schedule A. The quotas of other members shall be determined by the Board of Governors. The subscription of each member shall be equal to its quota and shall be paid in full to the Fund at the appropriate depository.

Section 2. *Adjustment of quotas*

(*a*) 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.

(*b*) The Fund may at any time propose an increase in the quotas of those members of the Fund that were members on August 31, 1975 in proportion to their quotas on that date in a cumulative amount not in excess of amounts transferred under Article V, Sec-

tion 12(*f*)(i) and (*j*) from the Special Disbursement Account to the General Resources Account.

(*c*) An eighty-five percent majority of the total voting power shall be required for any change in quotas.

(*d*) The quota of a member shall not be changed until the member has consented and until payment has been made unless payment is deemed to have been made in accordance with Section 3(*b*) of this Article.

Section 3. *Payments when quotas are changed*

(*a*) Each member which consents to an increase in its quota under Section 2(*a*) of this Article shall, within a period determined by the Fund, pay to the Fund twenty-five percent 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. A non-participant shall pay in the currencies of other members specified by the Fund, with their concurrence, a proportion of the increase corresponding to the proportion to be paid in special drawing rights by participants. The balance of the increase shall be paid by the member in its own currency. The Fund's holdings of a member's currency shall not be increased above the level at which they would be subject to charges under Article V, Section 8(b)(ii), as a result of payments by other members under this provision.

(*b*) Each member which consents to an increase in its quota under Section 2(b) of this Article shall be deemed to have paid to the Fund an amount of subscription equal to such increase.

(*c*) If a member consents to a reduction in its quota, the Fund shall, within sixty days, pay to the member an amount equal to the reduction. The payment shall be made in the member's currency and in such amount of special drawing rights or the currencies of other members specified, with their concurrence, by the Fund as is necessary to prevent the reduction of the Fund's holdings of the currency below the new quota, provided that in exceptional circumstances the Fund may reduce its holdings of the currency below the new quota by payment to the member in its own currency.

(*d*) A seventy percent majority of the total voting power shall be required for any decision under (*a*) above, except for the determination of a period and the specification of currencies under that provision.

Section 4. *Substitution of securities for currency*

The Fund shall accept from any member, in place of any part of the member's currency in the General Resources Account which in the judgment of the Fund is not needed for its operations and transactions, notes or similar obligations issued by the member or the depository designated by the member under Article XIII, Section 2, which shall be non-negotiable, non-interest bearing and payable at their face value on demand by crediting the account of the Fund in the designated depository. This Section shall apply not only to currency subscribed by members but also to any currency otherwise due to, or acquired by, the Fund and to be placed in the General Resources Account.

Article IV

Obligations Regarding Exchange Arrangements

Section 1. *General obligations of members*

Recognizing that the essential purpose of the international monetary system is to provide a framework that facilitates the exchange of goods, services, and capital among

countries, and that sustains sound economic growth, and that a principal objective is the continuning development of the orderly underlying conditions that are necessary for financial and economic stability, each member undertakes to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates. In particular, each member shall:

(i) endeavor to direct its economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability, with due regard to its circumstances;

(ii) seek to promote stability by fostering orderly underlying economic and financial conditions and a monetary system that does not tend to produce erratic disruptions;

(iii) avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members; and

(iv) follow exchange policies compatible with the undertakings under this Section.

Section 2. *General exchange arrangements*

(*a*) Each member shall notify the Fund, within thirty days after the date of the second amendment of this Agreement, of the exchange arrangements it intends to apply in fulfillment of its obligations under Section 1 of this Article, and shall notify the Fund promptly of any changes in its exchange arrangements.

(*b*) Under an international monetary system of the kind prevailing on January 1, 1976, exchange arrangements may include (i) the maintenance by a member of a value for its currency in terms of the special drawing right or another denominator, other than gold, selected by the member, or (ii) cooperative arrangements by which members maintain the value of their currencies in relation to the value of the currency or currencies of other members, or (iii) other exchange arrangements of a member's choice.

(*c*) To accord with the development of the international monetary system, the Fund, by an eighty-five percent majority of the total voting power, may make provision for general exchange arrangements without limiting the right of members to have exchange arrangements of their choice consistent with the purposes of the Fund and the obligations under Section 1 of this Article.

Section 3. *Surveillance over exchange arrangements*

(*a*) The Fund shall oversee the international monetary system in order to ensure its effective operation, and shall oversee the compliance of each member with its obligations under Section 1 of this Article.

(*b*) In order to fulfill its functions under (*a*) above, the Fund shall exercise firm surveillance over the exchange rate policies of members, and shall adopt specific principles for the guidance of all members with respect to those policies. Each member shall provide the Fund with the information necessary for such surveillance, and, when requested by the Fund, shall consult with it on the member's exchange rate policies. The principles adopted by the Fund shall be consistent with cooperative arrangements by which members maintain the value of their currencies in relation to the value of the currency or currencies of other members, as well as with other exchange arrangements of a member's choice consistent with the purposes of the Fund and Section 1 of this Article. These principles shall respect the domestic social and political policies of members, and in applying these principles the Fund shall pay due regard to the circumstances of members.

Section 4. *Par values*

The Fund may determine, by an eighty-five percent majority of the total voting power, that international economic conditions permit the introduction of a widespread system of exchange arrangements based on stable but adjustable par values. The Fund shall make the determination on the basis of the underlying stability of the world economy, and for this purpose shall take into account price movements and rates of expansion in the economies of members. The determination shall be made in light of the evolution of the international monetary system, with particular reference to sources of liquidity, and, in order to ensure the effective operation of a system of par values, to arrangements under which both members in surplus and members in deficit in their balances of payments take prompt, effective, and symmetrical action to achieve adjustment, as well as to arrangements for intervention and the treatment of imbalances. Upon making such determination, the Fund shall notify members that the provisions of Schedule C apply.

Section 5. *Separate currencies within a member's territories*

(*a*) Action by a member with respect to its currency under this Article shall be deemed to apply to the separate currencies of all territories in respect of which the member has accepted this Agreement under Article XXXI, Section 2(*g*) unless the member declares that its action relates either to the metropolitan currency alone, or only to one or more specified separate currencies, or to the metropolitan currency and one or more specified separate currencies.

(*b*) Action by the Fund under this Article shall be deemed to relate to all currencies of a member referred to in (*a*) above unless the Fund declares otherwise.

Article V
Operations and Transactions of the Fund

Section 1. *Agencies dealing with the Fund*

Each member shall deal with the Fund only through its Treasury, central bank, stabilization fund, or other similar fiscal agency, and the Fund shall deal only with or through the same agencies.

Section 2. *Limitation on the Fund's operations and transactions*

(*a*) Except as otherwise provided in this Agreement, transactions on the account of the Fund shall be limited to transactions for the purpose of supplying a member, on the initiative of such member, with special drawing rights or the currencies of other members from the general resources of the Fund, which shall be held in the General Resources Account, in exchange for the currency of the member desiring to make the purchase.

(*b*) If requested, the Fund may decide to perform financial and technical services, including the administration of resources contributed by members, that are consistent with the purposes of the Fund. Operations involved in the performance of such financial services shall not be on the account of the Fund. Services under this subsection shall not impose any obligation on a member without its consent.

Section 3. *Conditions governing the use of the Fund's general resources*

(*a*) The Fund shall adopt policies on the use of its general resources, including policies on stand-by or similar arrangements, and may adopt policies for special balance of payments problems, that will assist members to solve their balance of payments problems in a manner consistent with the provisions of this Agreement and that will establish adequate safeguards for the temporary use of the general resources of the Fund.

(*b*) A member shall be entitled to purchase the currencies of other members from the Fund in exchange for an equivalent amount of its own currency subject to the following conditions:

(i) the member's use of the general resources of the Fund would be in accordance with the provisions of this Agreement and the policies adopted under them;

(ii) the member represents that it has a need to make the purchase because of its balance of payments or its reserve position or developments in its reserves;

(iii) the proposed purchase would be a reserve tranche purchase, or would not cause the Fund's holdings of the purchasing member's currency to exceed two hundred percent of its quota;

(iv) the Fund has not previously declared under Section 5 of this Article, Article VI, Section 1, or Article XXVI, Section 2(*a*) that the member desiring to purchase is ineligible to use the general resources of the Fund.

(*c*) The Fund shall examine a request for a purchase to determine whether the proposed purchase would be consistent with the provisions of this Agreement and for policies adopted under them, provided that requests for reserve tranche purchases shall not be subject to challenge.

(*d*) The Fund shall adopt policies and procedures on the section of currencies to be sold that take into account, in consultation with members, the balance of payments and reserve position of members and developments in the exchange markets, as well as the desirability of promoting over time balanced positions in the Fund, provided that if a member represents that it is proposing to purchase the currency of another member because the purchasing member wishes to obtain an equivalent amount of its own currency offered by the other member, it shall be entitled to purchase the currency of the other member unless the Fund has given notice under Article VII, Section 3 that its holdings of the currency have become scarce.

(*e*) (i) Each member shall ensure that balances of its currency purchased from the Fund are balances of a freely usable currency or can be exchanged at the time of purchase for a freely usable currency of its choice at an exchange rate between the two currencies equivalent to the exchange rate between them on the basis of Article XIX, Section 7(*a*).

(ii) Each member whose currency is purchased from the Fund or is obtained in exchange for currency purchased from the Fund shall collaborate with the Fund and other members to enable such balances of its currency to be exchanged, at the time of purchase, for the freely usable currencies of other members.

(iii) An exchange under (i) above of currency that is not freely usable shall be made by the member whose currency is purchased unless that member and the purchasing member agree on another procedure.

(iv) A member purchasing from the Fund the freely usable currency of another member and wishing to exchange it at the time of purchase for another freely usable currency shall make the exchange with the other member if requested by that member. The exchange shall be made for a freely usable currency selected by the other member at the rate of exchange referred to in (i) above.

(*f*) Under policies and procedures which it shall adopt, the Fund may agree to provide a participant making a purchase in accordance with this Section with special drawing rights instead of the currencies of other members.

Section 4. *Waiver of conditions*

The Fund may in its descretion, and on terms which safeguard its interests, waive any of the conditions prescribed in Section 3(*b*)(iii) and (iv) of this Article, especially in the case of members with a record of avoiding large or continuous use of the Fund's general resources. In making a waiver it shall take into consideration periodic or exceptional requirements of the member requesting the waiver. The Fund shall also take into consideration a member's willingness to pledge as collateral security acceptable assets having a value sufficient in the opinion of the Fund to protect its interest and may require as a condition of waiver the pledge of such collateral security.

Section 5. *Ineligibility to use the Fund's general resources*

Whenever the Fund is of the opinion that any member is using the general resources of the Fund in a manner contrary to the purposes of the Fund, it shall present to the member a report setting forth the views of the Fund and prescribing a suitable time for reply. After presenting such a report to a member, the Fund may limit the use of its general resources by the member. If no reply to the report is received from the member within the prescribed time, or if the reply received is unsatisfactory, the Fund may continue to limit the member's use of the general resources of the Fund or may, after giving reasonable notice to the member, declare it ineligible to use the general resources of the Fund.

Section 6. *Other purchases and sales of special drawing rights by the Fund*

(*a*) The Fund may accept special drawing rights offered by a participant in exchange for an equivalent amount of the currencies of other members.

(*b*) The Fund may provide a participant, at its request, with special drawing rights for an equivalent amount of the currencies of other members. The Fund's holdings of a member's currency shall not be increased as a result of these transactions above the level at which the holdings would be subject to charges under Section 8(*b*)(ii) of this Article.

(*c*) The currencies provided or accepted by the Fund under this Section shall be selected in accordance with policies that take into account the principles of Section 3(*d*) or 7(*i*) of this Article. The Fund may enter into transactions under this Section only if a member whose currency is provided or accepted by the Fund concurs in that use of its currency.

Section 7. *Repurchase by a member of its currency held by the Fund*

(*a*) A member shall be entitled to repurchase at any time the Fund's holdings of its currency that are subject to charges under Section 8(*b*) of this Article.

(*b*) A member that has made a purchase under Section 3 of this Article will be expected normally, as its balance of payments and reserve position improves, to repurchase the Fund's holdings of its currency that result from the purchase and are subject to charges under Section 8(*b*) of this Article. A member shall repurchase these holdings if, in accordance with policies on repurchase that the Fund shall adopt and after consultation with the member, the Fund represents to the member that it should repurchase because of an improvement in its balance of payments and reserve position.

(*c*) A member that has made a purchase under Section 3 of this Article shall repurchase the Fund's holdings of its currency that result from the purchase and are subject to charges under Section 8(*b*) of this Article not later than five years after the date on which the purchase was made. The Fund may prescribe that repurchase shall be made by a member in installments during the period beginning three years and ending five years after the date of a purchase. The Fund, by an eighty-five percent majority of the total voting power, may change the periods for repurchase under this subsection, and any period so adopted shall apply to all members.

(*d*) The Fund, by an eighty-five percent majority of the total voting power, may adopt periods other than those that apply in accordance with (*c*) above, which shall be the same for all members, for the repurchase of holdings of currency acquired by the Fund pursuant to a special policy on the use of its general resources.

(*e*) A member shall repurchase, in accordance with policies that the Fund shall adopt by a seventy percent majority of the total voting power, the Fund's holdings of its currency that are not acquired as a result of purchases and are subject to charges under Section 8(*b*)(ii) of this Article.

(*f*) A decision prescribing that under a policy on the use of the general resources of the Fund the period for repurchase under (*c*) or (*d*) above shall be shorter than the one in effect under the policy shall apply only to holdings acquired by the Fund subsequent to the effective date of the decision.

(*g*) The Fund, on the request of a member, may postpone the date of discharge of a repurchase obligation, but not beyond the maximum period under (*c*) or (*d*) above or under policies adopted by the Fund under (*e*) above, unless the Fund determines, by a seventy percent majority of the total voting power, that a longer period for repurchase which is consistent with the temporary use of the general resources of the Fund is justified because discharge on the due date would result in exceptional hardship for the member.

(*h*) The Fund's policies under Section 3(*d*) of this Article may be supplemented by policies under which the Fund may decide after consultation with a member to sell under Section 3(*b*) of this Article its holdings of the member's currency that have not been repurchased in accordance with this Section 7, without prejudice to any action that the Fund may be authorized to take under any other provision of this Agreement.

(*i*) All repurchases under this Section shall be made with special drawing rights or with the currencies of other members specified by the Fund. The Fund shall adopt policies and procedures with regard to the currencies to be used by members in making repurchases that take into account the principles in Section 3(*d*) of this Article. The Fund's holdings of a member's currency that is used in repurchase shall not be increased by the repurchase above the level at which they would be subject to charges under Section 8(*b*)(ii) of this Article.

(*j*) (i) If a member's currency specified by the Fund under (*i*) above is not a freely usable currency, the member shall ensure that the repurchasing member can obtain it at the time of the repurchase in exchange for a freely usable currency selected by the member whose currency has been specified. An exchange of currency under this provision shall take place at an exchange rate between the two currencies equivalent to the exchange rate between them on the basis of Article XIX, Section 7(*a*).

(ii) Each member whose currency is specified by the Fund for repurchase shall collaborate with the Fund and other members to enable repurchasing members, at the time of the repurchase, to obtain the specified currency in exchange for the freely usable currencies of other members.

(iii) An exchange under (*j*)(i) above shall be made with the member whose currency is specified unless that member and the repurchasing member agree on another procedure.

(iv) If a repurchasing member wishes to obtain, at the time of the repurchase, the freely usable currency for another member specified by the Fund under (*i*) above, it shall, if requested by the other member, obtain the currency from the other member in exchange for a freely usable currency at the rate of exchange

referred to in (*j*)(i) above. The Fund may adopt regulations on the freely usable currency to be provided in an exchange.

Section 8. *Charges*

(*a*) (i) The Fund shall levy a service charge on the purchase by a member of special drawing rights or the currency of another member held in the General Resources Account in exchange for its own currency, provided that the Fund may levy a lower service charge on reserve tranche purchases than on other purchases. The service charge on reserve tranche purchases shall not exceed one-half of one percent.

(ii) The Fund may levy a charge for stand-by or similar arrangements. The Fund may decide that the charge for an arrangement shall be offset against the service charge levied under (i) above on purchases under the arrangement.

(*b*) The Fund shall levy charges on its average daily balances of a member's currency held in the General Resources Account to the extent that they

(i) have been aquired under a policy that has been the subject of an exclusion under Article XXX(*c*), or

(ii) exceed the amount of the member's quota after excluding any balances referred to in (i) above.

The rates of charge normally shall rise at intervals during the period in which balances are held.

(*c*) If a member fails to make a repurchase required under Section 7 of this Article, the Fund, after consultation with the member on the reduction of the Fund's holdings of its currency, may impose such charges as the Fund deems appropriate on its holdings of the member's currency that should have been repurchased.

(d) A seventy percent majority of the total voting power shall be required for the determination of the rates of charge under (*a*) and (*b*) above, which shall be uniform for all members, and under (*c*) above.

(*e*) A member shall pay all charges in special drawing rights, provided that in exceptional circumstances the Fund may permit a member to pay charges in the currencies of other members specified by the Fund, after consultation with them, or in its own currency. The Fund's holdings of a member's currency shall not be increased as a result of payments by other members under this provision above the level at which they would be subject to charges under (*b*)(ii) above.

Section 9. *Remuneration*

(*a*) The Fund shall pay remuneration on the amount by which the percentage of quota prescribed under (*b*) or (*c*) below exceeds the Fund's average daily balances of a member's currency held in the General Resources Account other than balances acquired under a policy that has been the subject of an exclusion under Article XXX(*c*). The rate of remuneration, which shall be determined by the Fund by a seventy percent majority of the total voting power, shall be the same for all members and shall be not more than, nor less than four-fifths of, the rate of interest under Article XX, Section 3. In establishing the rate of remuneration, the Fund shall take into account the rates of charge under Article V, Section 8(*b*).

(*b*) The percentage of quota applying for the purposes of (*a*) above shall be:

(i) for each member that became a member before the second amendment of this Agreement, a percentage of quota corresponding to seventy-five percent of its

quota on the date of the second amendment of this Agreement, and for each member that became a member after the date of the second amendment of this Agreement, a percentage of quota calculated by dividing the total of the amounts corresponding to the percentages of quota that apply to the other members on the date on which the member became a member by the total of the quotas of the other members on the same date; plus

(ii) the amounts it has paid to the Fund in currency or special drawing rights under Article III, Section 3(*a*) since the date applicable under (*b*)(i) above; and minus

(iii) the amounts it has received from the Fund in currency or special drawing rights under Article III, Section 3(*c*) since the date applicable under (*b*)(i) above.

(*c*) The Fund, by a seventy percent majority of the total voting power, may raise the latest percentage of quota applying for the purposes of (*a*) above to each member to:

(i) a percentage, not in excess of one hundred percent, that shall be determined for each member on the basis of the same criteria for all members, or

(ii) one hundred percent for all members.

(*d*) Remuneration shall be paid in special drawing rights, provided that either the Fund or the member may decide that the payment to the member shall be made in its own currency.

Section 10. *Computations*

(*a*) The value of the Fund's assets held in the accounts of the General Department shall be expressed in terms of the special drawing right.

(*b*) All computations relating to currencies of members for the purpose of applying the provisions of this Agreement, except Article IV and Schedule C, shall be at the rates at which the Fund accounts for these currencies in accordance with Section 11 of this Article.

(*c*) Computations for the determination of amounts of currency in relation to quota for the purpose of applying the provisions of this Agreement shall not include currency held in the Special Disbursement Account or in the Investment Account.

Section 11. *Maintenance of value*

(*a*) The value of the currencies of members held in the General Resources Account shall be maintained in terms of the special drawing right in accordance with exchange rates under Article XIX, Section 7(*a*).

(*b*) An adjustment in the Fund's holdings of a member's currency pursuant to this Section shall be made on the occasion of the use of that currency in an operation or transaction between the Fund and another member and at such other times as the Fund may decide or the member may request. Payments to or by the Fund in respect of an adjustment shall be made within a reasonable time, as determined by the Fund, after the date of adjustment, and at any other time requested by the member.

Section 12. *Other operations and transactions*

(*a*) The Fund shall be guided in all its policies and decisions under this Section by the objectives set forth in Article VIII, Section 7 and by the objective of avoiding the management of the price, or the establishment of a fixed price, in the gold market.

(*b*) Decisions of the Fund to engage in operations or transactions under (*c*), (*d*), and (*e*) below shall be made by an eighty-five percent majority of the total voting power.

(*c*) The Fund may sell gold for the currency of any member after consulting the member for whose currency the gold is sold, provided that the Fund's holdings of a member's currency held in the General Resources Account shall not be increased by the sale above the level at which they would be subject to charges under Section 8(*b*)(ii) of this Article without the concurrence of the member, and provided that, at the request of the member, the Fund at the time of sale shall exchange for the currency of another member such part of the currency received as would prevent such an increase. The exchange of a currency for the currency of another member shall be made after consultation with that member, and shall not increase the Fund's holdings of that member's currency above the level at which they would be subject to charges under Section 8(*b*)(ii) of this Article. The Fund shall adopt policies and procedures with regard to exchanges that take into account the principles applied under Section 7(*i*) of this Article. Sales under this provision to a member shall be at a price agreed for each transaction on the basis of prices in the market.

(*d*) The Fund may accept payments from a member in gold instead of special drawing rights or currency in any operations or transactions under this Agreement. Payments to the Fund under this provision shall be at a price agreed for each operation or transaction on the basis of prices in the market.

(*e*) The Fund may sell gold held by it on the date of the second amendment of this Agreement to those members that were members on August 31, 1975 and that agree to buy it, in proportion to their quotas on that date. If the Fund intends to sell gold under (*c*) above for the purpose of (*f*)(ii) below, it may sell to each developing member that agrees to buy it that portion of the gold which, if sold under (*c*) above, would have produced the excess that could have been distributed to it under (*f*)(iii) below. The gold that would be sold under this provision to a member that has been declared ineligible to use the general resources of the Fund under Section 5 of this Article shall be sold to it when the ineligibility ceases, unless the Fund decides to make the sale sooner. The sale of gold to a member under this subsection (*e*) shall be made in exchange for its currency and at a price equivalent at the time of sale to one special drawing right per 0.888 671 gram of fine gold.

(*f*) Whenever under (*c*) above the Fund sells gold held by it on the date of the second amendment of this Agreement, an amount of the proceeds equivalent at the time of sale to one special drawing right per 0.888 671 gram of fine gold shall be placed in the General Resources Account and, except as the Fund may decide otherwise under (*g*) below, any excess shall be held in the Special Disbursement Account. The assets held in the Special Disbursement Account shall be held separately from the other accounts of the General Department, and may be used at any time:

(i) to make transfers to the General Resources Account for immediate use in operations and transactions authorized by provisions of this Agreement other than this Section;

(ii) for operations and transactions that are not authorized by other provisions of this Agreement but are consistent with the purposes of the Fund. Under this subsection (*f*)(ii) balance of payments assistance may be made available on special terms to developing members in difficult circumstances, and for this purpose the Fund shall take into account the level of per capita income;

(iii) for distribution to those developing members that were members on August 31, 1975, in proportion to their quotas on that date, of such part of the assets that the Fund decides to use for the purposes of (ii) above as corresponds to the proportion of the quotas of these members on the date of distribution to the total of the quotas of all members on the same date, provided that the distribution under this provision to a member that has been declared ineligible to use the general resources of the Fund

under Section 5 of this Article shall be made when the ineligibility ceases, unless the Fund decides to make the distribution sooner.

Decisions to use assets pursuant to (i) above shall be taken by a seventy percent majority of the total voting power, and decisions pursuant to (ii) and (iii) above shall be taken by an eighty-five percent majority of the total voting power.

(*g*) The Fund may decide, by an eighty-five percent majority of the total voting power, to transfer a part of the excess referred to in (*f*) above to the Investment Account for use pursuant to the provisions of Article XII, Section 6(*f*).

(*h*) Pending uses specified under (*f*) above, the Fund may invest a member's currency held in the Special Disbursement Account in marketable obligations of that member or in marketable obligations of international financial organizations. The income of investment and interest received under (*f*)(ii) above shall be placed in the Special Disbursement Account. No investment shall be made without the concurrence of the member whose currency is used to make the investment. The Fund shall invest only in obligations denominated in special drawing rights or in the currency used for investment.

(*i*) The General Resources Account shall be reimbursed from time to time in respect of the expenses of administration of the Special Disbursement Account paid from the General Resources Account by transfers from the Special Disbursement Account on the basis of a reasonable estimate of such expenses.

(*j*) The Special Disbursement Account shall be terminated in the event of the liquidation of the Fund and may be terminated prior to liquidation of the Fund by a seventy percent majority of the total voting power. Upon termination of the account because of the liquidation of the Fund, any assets in this account shall be distributed in accordance with the provisions of Schedule K. Upon termination prior to liquidation of the Fund, any assets in this account shall be transferred to the General Resources Account for immediate use in operations and transactions. The Fund, by a seventy percent majority of the total voting power, shall adopt rules and regulations for the administration of the Special Disbursement Account.

Article VI
Capital Transfers

Section 1. *Use of the Fund's general resources for capital transfers*

(*a*) A member may not use the Fund's general resources to meet a large or sustained outflow of capital except as provided in Section 2 of this Article, and the Fund may request a member to exercise controls to prevent such use of the general resources of the Fund. If, after receiving such a request, a member fails to exercise appropriate controls, the Fund may declare the member ineligible to use the general resources of the Fund.

(*b*) Nothing in this Section shall be deemed:

(i) to prevent the use of the general resources of the Fund for capital transactions of reasonable amount required for the expansion of exports or in the ordinary course of trade, banking, or other business; or

(ii) to affect capital movements which are met out of a member's own resources, but members undertake that such capital movements will be in accordance with the purposes of the Fund.

Section 2. *Special provisions for capital transfers*

A member shall be entitled to make reserve tranche purchases to meet capital transfers.

Section 3. *Controls of capital transfers*

Members may exercise such controls as are necessary to regulate international capital movements, but no member may exercise these controls in a manner which will restrict payments for current transactions or which will unduly delay transfers of funds in settlement of commitments, except as provided in Article VII, Section 3(*b*) and in Article XIV, Section 2.

Article VII
Replenishment and Scarce Currencies

Section 1. *Measures to replenish the Fund's holdings of currencies*

The Fund may, if it deems such action appropriate to replenish its holdings of any member's currency in the General Resources Account needed in connection with its transactions, take either or both of the following steps:

(i) propose to the member that, on terms and conditions agreed between the Fund and the member, the latter lend its currency to the Fund or that, with the concurrence of the member, the Fund borrow such currency from some other source either within or outside the territories of the member, but no member shall be under any obligation to make such loans to the Fund or to concur in the borrowing of its currency by the Fund from any other source;

(ii) require the member, if it is a participant, to sell its currency to the Fund for special drawing rights held in the General Resources Account, subject to Article XIX, Section 4. In replenishing with special drawing rights, the Fund shall pay due regard to the principles of designation under Article XIX, Section 5.

Section 2. *General scarcity of currency*

If the Fund finds that a general scarcity of a particular currency is developing, the Fund may so inform members and may issue a report setting forth the causes of the scarcity and containing recommendations designed to bring it to an end. A representative of the member whose currency is involved shall participate in the preparation of the report.

Section 3. *Scarcity of the Fund's holdings*

(*a*) If it becomes evident to the Fund that the demand for a member's currency seriously threatens the Fund's ability to supply that currency, the Fund, whether or not it has issued a report under Section 2 of this Article, shall formally declare such currency scarce and shall thenceforth apportion its existing and accruing supply of the scarce currency with due regard to the relative needs of members, the general international economic situation, and any other pertinent considerations. The Fund shall also issue a report concerning its action.

(*b*) A formal declaration under (*a*) above shall operate as an authorization to any member, after consultation with the Fund, temporarily to impose limitations on the freedom of exchange operations in the scarce currency. Subject to the provisions of Article IV and Schedule C, the member shall have complete jurisdiction in determining the nature of such limitations, but they shall be no more restrictive than is necessary to limit the demand for the scarce currency to the supply held by, or accruing to, the member in question, and they shall be relaxed and removed as rapidly as conditions permit.

(*c*) The authorization under (*b*) above shall expire whenever the Fund formally declares the currency in question to be no longer scarce.

Section 4. *Administration of restrictions*

Any member imposing restrictions in respect of the currency of any other member pursuant to the provisions of Section 3(*b*) of this Article shall give sympathetic consideration to any representations by the other member regarding the administration of such restrictions.

Section 5. *Effect of other international agreements on restrictions*

Members agree not to invoke the obligations of any engagements entered into with other members prior to this Agreement in such a manner as will prevent the operation of the provisions of this Article.

Article VIII
General Obligations of Members

Section 1. *Introduction*

In addition to the obligations assumed under other articles of this Agreement, each member undertakes the obligations set out in this Article.

Section 2. *Avoidance of restrictions on current payments*

(*a*) Subject to the provisions of Article VII, Section 3(*b*) and Article XIV, Section 2, no member shall, without the approval of the Fund, impose restrictions on the making of payments and transfers for current international transactions.

(*b*) Exchange contracts which involve the currency of any member and which are contrary to the exchange control regulations of that member maintained or imposed consistently with this Agreement shall be unenforceable in the territories of any member. In addition, members may, by mutual accord, cooperate in measures for the purpose of making the exchange control regulations of either member more effective, provided that such measures and regulations are consistent with this Agreement.

Section 3. *Avoidance of discriminatory currency practices*

No member shall engage in, or permit any of its fiscal agencies referred to in Article V, Section 1 to engage in, any discriminatory currency arrangements or multiple currency practices, whether within or outside margins under Article IV or prescribed by or under Schedule C, except as authorized under this Agreement or approved by the Fund. If such arrangements and practices are engaged in at the date when this Agreement enters into force, the member concerned shall consult with the Fund as to their progressive removal unless they are maintained or imposed under Article XIV, Section 2, in which case the provisions of Section 3 of that Article shall apply.

Section 4. *Convertibility of foreign-held balances*

(*a*) Each member shall buy balances of its currency held by another member if the latter, in requesting the purchase, represents:

(i) that the balances to be bought have been recently acquired as a result of current transactions; or

(ii) that their conversion is needed for making payments for current transactions.

The buying member shall have the option to pay either in special drawing rights, subject to Article XIX, Section 4, or in the currency of the member making the request.

(*b*) The obligation in (*a*) above shall not apply when:

(i) the convertibility of the balances has been restricted consistently with Section 2 of this Article or Article VI, Section 3;

(ii) the balances have accumulated as a result of transactions effected before the removal by a member of restrictions maintained or imposed under Article XIV, Section 2;

(iii) the balances have been acquired contrary to the exchange regulations of the member which is asked to buy them;

(iv) the currency of the member requesting the purchase has been declared scarce under Article VII, Section 3(*a*); or

(v) the member requested to make the purchase is for any reason not entitled to buy currencies of other members from the Fund for its own currency.

Section 5. *Furnishing of information*

(*a*) The Fund may require members to furnish it with such information as it deems necessary for its activities, including, as the minimum necessary for the effective discharge of the Fund's duties, national data on the following matters:

(i) official holdings at home and abroad of (1) gold, (2) foreign exchange;

(ii) holdings at home and abroad by banking and financial agencies, other than official agencies, of (1) gold, (2) foreign exchange;

(iii) production of gold;

(iv) gold exports and imports according to countries of destination and origin;

(v) total exports and imports of merchandise, in terms of local currency values, according to countries of destination and origin;

(vi) international balance of payments, including (1) trade in goods and services, (2) gold transactions, (3) known capital transactions, and (4) other items;

(vii) international investment position, i.e., investments within the territories of the member owned abroad and investments abroad owned by persons in its territories so far as it is possible to furnish this information.

(viii) national income;

(ix) price indices, i.e., indices of commodity prices in wholesale and retail markets and of export and import prices;

(x) buying and selling rates for foreign currencies;

(xi) exchange controls, i.e., a comprehensive statement of exchange controls in effect at the time of assuming membership in the Fund and details of subsequent changes as they occur; and

(xii) where official clearing arrangements exist, details of amounts awaiting clearance in respect of commercial and financial transactions, and of the length of time during which such arrears have been outstanding.

(*b*) In requesting information the Fund shall take into consideration the varying ability of members to furnish the data requested. Members shall be under no obligation to furnish information in such detail that the affairs of individuals or corporations are disclosed. Members undertake, however, to furnish the desired information in as detailed and accurate a manner as is practicable and, so far as possible, to avoid mere estimates.

(*c*) The Fund may arrange to obtain further information by agreement with members. It shall act as a centre for the collection and exchange of information on monetary and financial problems, thus facilitating the preparation of studies designed to assist members in developing policies which further the purposes of the Fund.

Section 6. *Consultation between members regarding existing international agreements*

Where under this Agreement a member is authorized in the special or temporary circumstances specified in the Agreement to maintain or establish restrictions on exchange transactions, and there are other engagements between members entered into prior to this Agreement which conflict with the application of such restrictions, the parties to such engagements shall consult with one another with a view to making such mutually acceptable adjustments as may be necessary. The provisions of this Article shall be without prejudice to the operation of Article VII, Section 5.

Section 7. *Obligation to collaborate regarding policies on reserve assets*

Each member undertakes to collaborate with the Fund and with other members in order to ensure that the policies of the member with respect to reserve assets shall be consistent with the objectives of promoting better international surveillance of international liquidity and making the special drawing right the principal reserve asset in the international monetary system.

Article IX
Status, Immunities, and Privileges

Section 1. *Purposes of Article*

To enable the Fund to fulfill the functions with which it is entrusted, the status, immunities, and privileges set forth in this Article shall be accorded to the Fund in the territories of each member.

Section 2. *Status of the Fund*

The Fund shall possess full juridical personality, and in particular, the capacity:

(i) to contract;

(ii) to acquire and dispose of immovable and movable property; and

(iii) to institute legal proceedings.

Section 3. *Immunity from judicial process*

The Fund, its property and its assets, wherever located and by whomsoever held, shall enjoy immunity from every form of judicial process except to the extent that it expressly waives its immunity for the purpose of any proceedings or by the terms of any contract.

Section 4. *Immunity from other action*

Property and assets of the Fund, wherever located and by whomsoever held, shall be immune from search, requisition, confiscation, expropriation, or any other form of seizure by executive or legislative action.

Section 5. *Immunity of archives*

The archives of the Fund shall be inviolable.

Section 6. *Freedom of assets from restrictions*

To the extent necessary to carry out the activities provided for in this Agreement, all property and assets of the Fund shall be free from restrictions, regulations, controls, and moratoria of any nature.

Section 7. *Privilege for communications*

The official communications of the Fund shall be accorded by members the same treatment as the official communications of other members.

Section 8. *Immunities and privileges of officers and employees*

All Governors, Executive Directors, Alternates, members of committees, representatives appointed under Article XII, Section 3(*j*), advisors of any of the foregoing persons, officers, and employees of the Fund:

(i) shall be immune from legal process with respect to acts performed by them in their official capacity except when the Fund waives this immunity;

(ii) not being local nationals, shall be granted the same immunities from immigration restrictions, alien registration requirements, and national service obligations and the same facilities as regards exchange restrictions as are accorded by members to the representatives, officials, and employees of comparable rank of other members; and

(iii) shall be granted the same treatment in respect of traveling facilities as is accorded by members to representatives, officials, and employees of comparable rank of other members.

Section 9. *Immunities from taxation*

(*a*) The Fund, its assets, property, income, and its operations and transactions authorized by this Agreement shall be immune from all taxation and from all customs duties. The Fund shall also be immune from liability for the collection or payment of any tax or duty.

(*b*) No tax shall be levied on or in respect of salaries and emoluments paid by the Fund to Executive Directors, Alternates, officers, or employees of the Fund who are not local citizens, local subjects, or other local nationals.

(*c*) No taxation of any kind shall be levied on any obligation or security issued by the Fund, including any dividend or interest thereon, by whomsoever held:

(i) which discriminates against such obligation or security solely because of its origin; or

(ii) if the sole jurisdictional basis for such taxation is the place or currency in which it is issued, made payable or paid, or the location of any office or place of business maintained by the Fund.

Section 10. *Application of Article*

Each member shall take such action as is necessary in its own territories for the purpose of making effective in terms of its own law the principles set forth in this Article and shall inform the Fund of the detailed action which it has taken.

Article X
Relations with Other International Organizations

The Fund shall cooperate within the terms of this Agreement with any general international organization and with public international organizations having specialized responsibilities in related fields. Any arrangements for such cooperation which would involve a modification of any provision of this Agreement may be effected only after amendment to this Agreement under Article XXVIII.

Article XI

Relations with Non-Member Countries

Section 1. *Undertakings regarding relations with non-member countries*

Each member undertakes:

(i) not to engage in, nor to permit any of its fiscal agencies referred to in Article V, Section 1 to engage in, any transactions with a non-member or with persons in a non-member's territories which would be contrary to the provisions of this Agreement or the purposes of the Fund;

(ii) not to cooperate with a non-member or with persons in a non-member's territories in practices which would be contrary to the provisions of this Agreement or the purposes of the Fund; and

(iii) to cooperate with the Fund with a view to the application in its territories of appropriate measures to prevent transactions with non-members or with persons in their territories which would be contrary to the provisions of this Agreement or the purposes of the Fund.

Section 2. *Restrictions on transactions with non-member countries*

Nothing in this Agreement shall affect the right of any member to impose restrictions on exchange transactions with non-members or with persons in their territories unless the Fund finds that such restrictions prejudice the interests of members and are contrary to the purposes of the Fund.

Article XII

Organization and Management

Section 1. *Structure of the Fund*

The Fund shall have a Board of Governors, an Executive Board, a Managing Director, and a staff, and a Council if the Board of Governors decides, by an eighty-five percent majority of the total voting power, that the provisions of Schedule D shall be applied.

Section 2. *Board of Governors*

(*a*) All powers under this Agreement not conferred directly on the Board of Governors, the Executive Board, or the Managing Director shall be vested in the Board of Governors. The Board of Governors shall consist of one Governor and one Alternate appointed by each member in such manner as it may determine. Each Governor and each Alternate shall serve until a new appointment is made. No Alternate may vote except in the absence of his principal. The Board of Governors shall select one of the Governors as chairman.

(*b*) The Board of Governors may delegate to the Executive Board authority to exercise any powers of the Board of Governors, except the powers conferred directly by this Agreement on the Board of Governors.

(*c*) The Board of Governors shall hold such meetings as may be provided for by the Board of Governors or called by the Executive Board. Meetings of the Board of Governors shall be called whenever requested by fifteen members or by members having one-quarter of the total voting power.

(*d*) A quorum for any meeting of the Board of Governors shall be a majority of the Governors having not less than two-thirds of the total voting power.

(*e*) Each Governor shall be entitled to cast the number of votes allotted under Section 5 of this Article to the member appointing him.

(*f*) The Board of Governors may by regulation establish a procedure whereby the Executive Board, when it deems such action to be in the best interests of the Fund, may obtain a vote of the Governors on a specific question without calling a meeting of the Board of Governors.

(*g*) The Board of Governors, and the Executive Board to the extent authorized, may adopt such rules and regulations as may be necessary or appropriate to conduct the business of the Fund.

(*h*) Governors and Alternates shall serve as such without compensation from the Fund, but the Fund may pay them reasonable expenses incurred in attending meetings.

(*i*) The Board of Governors shall determine the remuneration to be paid to the Executive Directors and their Alternates and the salary and terms of the contract of service of the Managing Director.

(*j*) The Board of Governors and the Executive Board may appoint such committees as they deem advisable. Membership of committees need not be limited to Governors or Executive Directors or their Alternates.

Section 3. *Executive Board*

(*a*) The Executive Board shall be responsible for conducting the business of the Fund, and for this purpose shall exercise all the powers delegated to it by the Board of Governors.

(*b*) The Executive Board shall consist of Executive Directors with the Managing Director as chairman. Of the Executive Directors:

(i) five shall be appointed by the five members having the largest quotas; and

(ii) fifteen shall be elected by the other members.

For the purpose of each regular election of Executive Directors, the Board of Governors, by an eighty-five percent majority of the total voting power, may increase or decrease the number of Executive Directors in (ii) above. The number of Executive Directors in (ii) above shall be reduced by one or two, as the case may be, if Executive Directors are appointed under (*c*) below, unless the Board of Governors decides, by an eighty-five percent majority of the total voting power, that this reduction would hinder the effective discharge of the functions of the Executive Board or of Executive Directors or would threaten to upset a desirable balance in the Executive Board.

(*c*) If, at the second regular election of Executive Directors and thereafter, the members entitled to appoint Executive Directors under (*b*)(i) above do not include the two members, the holdings of whose currencies by the Fund in the General Resources Account have been, on the average over the preceding two years, reduced below their quotas by the largest absolute amounts in terms of the special drawing right, either one or both of such members, as the case may be, may appoint an Executive Director.

(*d*) Elections of elective Executive Directors shall be conducted at intervals of two years in accordance with the provisions of Schedule E, supplemented by such regulations as the Fund deems appropriate. For each regular election of Executive Directors, the Board of Governors may issue regulations making changes in the proportion of votes required to elect Executive Directors under the provisions of Schedule E.

(*e*) Each Executive Director shall appoint an Alternate with full power to act for him when he is not present. When the Executive Directors appointing them are present, Alternates may participate in meetings but may not vote.

(*f*) Executive Directors shall continue in office until their successors are appointed or elected. If the office of an elected Executive Director becomes vacant more than ninety

days before the end of his term, another Executive Director shall be elected for the remainder of the term by the members that elected the former Executive Director. A majority of the votes cast shall be required for election. While the office remains vacant, the Alternate of the former Executive Director shall exercise his powers, except that of appointing an Alternate.

(*g*) The Executive Board shall function in continuous session at the principal office of the Fund and shall meet as often as the business of the Fund may require.

(*h*) A quorum for any meeting of the Executive Board shall be a majority of the Executive Directors having not less than one-half of the total voting power.

(*i*) (i) Each appointed Executive Director shall be entitled to cast the number of votes allotted under Section 5 of this Article to the member appointing him.

(ii) If the votes allotted to a member that appoints an Executive Director under (*c*) above were cast by an Executive Director together with the votes allotted to other members as a result of the last regular election of Executive Directors, the member may agree with each of the other members that the number of votes allotted to it shall be cast by the appointed Executive Director. A member making such an agreement shall not participate in the election of Executive Directors.

(iii) Each elected Executive Director shall be entitled to cast the number of votes which counted towards his election.

(iv) When the provisions of Section 5(*b*) of this Article are applicable, the votes which an Executive Director would otherwise be entitled to cast shall be increased or decreased correspondingly. All the votes which an Executive Director is entitled to cast shall be cast as a unit.

(*j*) The Board of Governors shall adopt regulations under which a member not entitled to appoint an Executive Director under (*b*) above may send a representative to attend any meeting of the Executive Board when a request made by, or a matter particularly affecting, that member is under consideration.

Section 4. *Managing Director and staff*

(*a*) The Executive Board shall select a Managing Director who shall not be a Governor or an Executive Director. The Managing Director shall be chairman of the Executive Board, but shall have no vote except a deciding vote in case of an equal division. He may participate in meetings of the Board of Governors, but shall not vote at such meetings. The Managing Director shall cease to hold office when the Executive Board so decides.

(*b*) The Managing Director shall be chief of the operating staff of the Fund and shall conduct, under the direction of the Executive Board, the ordinary business of the Fund. Subject to the general control of the Executive Board, he shall be responsible for the organization, appointment, and dismissal of the staff of the Fund.

(*c*) The Managing Director and the staff of the Fund, in the discharge of their functions, shall owe their duty entirely to the Fund and to no other authority. Each member of the Fund shall respect the international character of this duty and shall refrain from all attempts to influence any of the staff in the discharge of these functions.

(*d*) In appointing the staff the Managing Director shall, subject to the paramount importance of securing the highest standards of efficiency and of technical competence, pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible.

Section 5. *Voting*

(*a*) Each member shall have two hundred fifty votes plus one additional vote for each part of its quota equivalent to one hundred thousand special drawing rights.

(*b*) Whenever voting is required under Article V, Section 4 or 5, each member shall have the number of votes to which it is entitled under (*a*) above adjusted

(i) by the addition of one vote for the equivalent of each four hundred thousand special drawing rights of net sales of its currency from the general resources of the Fund up to the date when the vote is taken, or

(ii) by the subtraction of one vote for the equivalent of each four hundred thousand special drawing rights of its net purchases under Article V, Section 3(*b*) and (*f*) up to the date when the vote is taken,

provided that neither net purchases nor net sales shall be deemed at any time to exceed an amount equal to the quota of the member involved.

(*c*) Except as otherwise specifically provided, all decisions of the Fund shall be made by a majority of the votes cast.

Section 6. *Reserves, distribution of net income, and investment*

(*a*) The Fund shall determine annually what part of its net income shall be placed to general reserve or special reserve, and what part, if any, shall be distributed.

(*b*) The Fund may use the special reserve for any purpose for which it may use the general reserve, except distribution.

(*c*) If any distribution is made of net income of any year, it shall be made to all members in proportion to their quotas.

(*d*) The Fund, by a seventy percent majority of the total voting power, may decide at any time to distribute any part of the general reserve. Any such distribution shall be made to all members in proportion to their quotas.

(*e*) Payments under (*c*) and (*d*) above shall be made in special drawing rights, provided that either the Fund or the member may decide that the payment to the member shall be made in its own currency.

(*f*) (i) The Fund may establish an Investment Account for the purposes of this subsection (*f*). The assets of the Investment Account shall be held separately from the other accounts of the General Department.

(ii) The Fund may decide to transfer to the Investment Account a part of the proceeds of the sale of gold in accordance with Article V, Section 12(*g*) and, by a seventy percent majority of the total voting power, may decide to transfer to the Investment Account, for immediate investment, currencies held in the General Resources Account. The amount of these transfers shall not exceed the total amount of the general reserve at the time of the decision.

(iii) The Fund may invest a member's currency held in the Investment Account in marketable obligations of that member or in marketable obligations of international financial organizations. No investment shall be made without the concurrence of the member whose currency is used to make the investment. The Fund shall invest only in obligations denominated in special drawing rights or in the currency used for investment.

(iv) The income of investment may be invested in accordance with the provisions of this subsection (*f*). Income not invested shall be held in the Investment Account or may be used for meeting the expenses of conducting the business of the Fund.

(v) The Fund may use a member's currency held in the Investment Account to obtain the currencies needed to meet the expenses of conducting the business of the Fund.

(vi) The Investment Account shall be terminated in the event of liquidation of the Fund and may be terminated, or the amount of the investment may be reduced, prior to liquidation of the Fund by a seventy percent majority of the total voting power. The Fund, by a seventy percent majority of the total voting power, shall adopt rules and regulations regarding administration of the Investment Account, which shall be consistent with (vii), (viii), and (ix) below.

(vii) Upon termination of the Investment Account because of liquidation of the Fund, any assets in this account shall be distributed in accordance with the provisions of Schedule K, provided that a portion of these assets corresponding to the proportion of the assets transferred to this account under Article V, Section 12(*g*) to the total of the assets transferred to this account shall be deemed to be assets held in the Special Disbursement Account and shall be distributed in accordance with Schedule K, paragraph 2(*a*)(ii).

(viii) Upon termination of the Investment Account prior to liquidation of the Fund, a portion of the assets held in this account corresponding to the proportion of the assets transferred to this account under Article V, Section 12(*g*) to the total of the assets transferred to the account shall be transferred to the Special Disbursement Account if it has not been terminated, and the balance of the assets held in the Investment Account shall be transferred to the General Resources Account for immediate use in operations and transactions.

(ix) On a reduction of the amount of the investment by the Fund, a portion of the reduction corresponding to the proportion of the assets transferred to the Investment Account under Article V, Section 12(*g*) to the total of the assets transferred to this account shall be transferred to the Special Disbursement Account if it has not been terminated, and the balance of the reduction shall be transferred to the General Resources Account for immediate use in operations and transactions.

Section 7. *Publication of reports*

(*a*) The Fund shall publish an annual report containing an audited statement of its accounts, and shall issue, at intervals of three months or less, a summary statement of its operations and transactions and its holdings of special drawing rights, gold, and currencies of members.

(*b*) The Fund may publish such other reports as it deems desirable for carrying out its purposes.

Section 8. *Communication of views to members*

The Fund shall at all times have the right to communicate its views informally to any member on any matter arising under this Agreement. The Fund may, by a seventy percent majority of the total voting power, decide to publish a report made to a member regarding its monetary or economic conditions and developments which directly tend to produce a serious disequilibrium in the international balance of payments of members. If the member is not entitled to appoint an Executive Director, it shall be entitled to representation in accordance with Section 3(*j*) of this Article. The Fund shall not publish a report involving changes in the fundamental structure of the economic organization of members.

Article XIII
Offices and Depositories

Section 1. *Location of offices*

The principal office of the Fund shall be located in the territory of the member having the largest quota, and agencies or branch offices may be established in the territories of other members.

Section 2. *Depositories*

(*a*) Each member shall designate its central bank as a depository for all the Fund's holdings of its currency, or if it has no central bank it shall designate such other institution as may be acceptable to the Fund.

(*b*) The Fund may hold other assets, including gold, in the depositories designated by the five members having the largest quotas and in such other designated depositories as the Fund may select. Initially, at least one-half of the holdings of the Fund shall be held in the depository designated by the member in whose territories the Fund has its principal office and at least forty percent shall be held in the depositories designated by the remaining four members referred to above. However, all transfers of gold by the Fund shall be made with due regard to the costs of transport and anticipated requirements of the Fund. In an emergency the Executive Board may transfer all or any part of the Fund's gold holdings to any place where they can be adequately protected.

Section 3. *Guarantee of the Fund's assets*

Each member guarantees all assets of the Fund against loss resulting from failure or default on the part of the depository designated by it.

Article XIV
Transitional Arrangements

Section 1. *Notification to the Fund*

Each member shall notify the fund whether it intends to avail itself of the transitional arrangements in Section 2 of this Article, or whether it is prepared to accept the obligations of Article VIII, Sections 2, 3, and 4. A member availing itself of the transitional arrangements shall notify the Fund as soon thereafter as it is prepared to accept these obligations.

Section 2. *Exchange restrictions*

A member that has notified the Fund that it intends to avail itself of transitional arrangements under this provision may, notwithstanding the provisions of any other articles of this Agreement, maintain and adapt to changing circumstances the restrictions on payments and transfers for current international transactions that were in effect on the date on which it became a member. Members shall, however, have continuous regard in their foreign exchange policies to the purposes of the Fund, and, as soon as conditions permit, they shall take all possible measures to develop such commercial and financial arrangements with other members as will facilitate international payments and the promotion of a stable system of exchange rates. In particular, members shall withdraw restrictions maintained under this Section as soon as they are satisfied that they will be able, in the absence of such restrictions, to settle their balance of payments in a manner which will not unduly encumber their access to the general resources of the Fund.

Section 3. *Action of the Fund relating to restrictions*

The Fund shall make annual reports on the restrictions in force under Section 2 of this Article. Any member retaining any restrictions inconsistent with Article VIII, Sections 2,

3, or 4 shall consult the Fund annually as to their further retention. The Fund may, if it deems such action necessary in exceptional circumstances, make representations to any member that conditions are favorable for the withdrawal of any particular restriction, or for the general abandonment of restrictions, inconsistent with the provisions of any other articles of this Agreement. The member shall be given a suitable time to reply to such representations. If the Fund finds that the member persists in maintaining restrictions which are inconsistent with the purposes of the Fund, the member shall be subject to Article XXVI, Section 2(*a*).

Article XV
Special Drawing Rights

Section 1. *Authority to allocate special drawing rights*

To meet the need, as and when it arises, for a supplement to existing reserve assets, the Fund is authorized to allocate special drawing rights to members that are participants in the Special Drawing Rights Department.

Section 2. *Valuation of the special drawing right*

The method of valuation of the special drawing right shall be determined by the Fund by a seventy percent majority of the total voting power, provided, however, that an eighty-five percent majority of the total voting power shall be required for a change in the principle of valuation or a fundamental change in the application of the principle in effect.

Article XVI
General Department and Special Drawing Rights Department

Section 1. *Separation of operations and transactions*

All operations and transactions involving special drawing rights shall be conducted through the Special Drawing Rights Department. All other operations and transactions on the account of the Fund authorized by or under this Agreement shall be conducted through the General Department. Operations and transactions pursuant to Article XVII, Section 2 shall be conducted through the General Department as well as the Special Drawing Rights Department.

Section 2. *Separation of assets and property*

All assets and property of the Fund, except resources administered under Article V, Section 2(*b*), shall be held in the General Department, provided that assets and property acquired under Article XX, Section 2 and Articles XXIV and XXV and Schedules H and I shall be held in the Special Drawing Rights Department. Any assets or property held in one Department shall not be available to discharge or meet the liabilities, obligations, or losses of the Fund incurred in the conduct of the operations and transactions of the other Department, except that the expenses of conducting the business of the Special Drawing Rights Department shall be paid by the Fund from the General Department which shall be reimbursed in special drawing rights from time to time by assessments under Article XX, Section 4 made on the basis of a reasonable estimate of such expenses.

Section 3. *Recording and information*

All changes in holdings of special drawing rights shall take effect only when recorded by the Fund in the Special Drawing Rights Department. Participants shall notify the Fund of the provisions of this Agreement under which special drawing rights are used. The Fund may require participants to furnish it with such other information as it deems necessary for its functions.

Article XVII

Participants and Other Holders of Special Drawing Rights

Section 1. *Participants*

Each member of the Fund that deposits with the Fund an instrument setting forth that it undertakes all the obligations of a participant in the Special Drawing Rights Department in accordance with its law and that it has taken all steps necessary to enable it to carry out all of these obligations shall become a participant in the Special Drawing Rights Department as of the date the instrument is deposited, except that no member shall become a participant before the provisions of this Agreement pertaining exclusively to the Special Drawing Rights Department have entered into force and instruments have been deposited under this Section by members that have at least seventy-five percent of the total of quotas.

Section 2. *Fund as a holder*

The Fund may hold special drawing rights in the General Resources Account and may accept and use them in operations and transactions conducted through the General Resources Account with participants in accordance with the provisions of this Agreement or with prescribed holders in accordance with the terms and conditions prescribed under Section 3 of this Article.

Section 3. *Other holders*

The Fund may prescribe:

(i) as holders, non-members, members that are non-participants, institutions that perform functions of a central bank for more than one member, and other official entities;

(ii) the terms and conditions on which prescribed holders may be permitted to hold special drawing rights and may accept and use them in operations and transactions with participants and other prescribed holders; and

(iii) the terms and conditions on which participants and the Fund through the General Resources Account may enter into operations and transactions in special drawing rights with prescribed holders.

An eighty-five percent majority of the total voting power shall be required for prescriptions under (i) above. The terms and conditions prescribed by the Fund shall be consistent with the provisions of this Agreement and the effective functioning of the Special Drawing Rights Department.

Article XVIII

Allocation and Cancellation of Special Drawing Rights

Section 1. *Principles and considerations governing allocation and cancellation*

(*a*) In all its decisions with respect to the allocation and cancellation of special drawing rights the Fund shall seek to meet the long-term global need, as and when it arises, to supplement existing reserve assets in such manner as will promote the attainment of its purposes and will avoid economic stagnation and deflation as well as excess demand and inflation in the world.

(*b*) The first decision to allocate special drawing rights shall take into account, as special considerations, a collective judgment that there is a global need to supplement reserves, and the attainment of a better balance of payments equilibrium, as well as the likelihood of a better working of the adjustment process in the future.

Section 2. *Allocation and cancellation*

(*a*) Decisions of the Fund to allocate or cancel special drawing rights shall be made for basic periods which shall run consecutively and shall be five years in duration. The first basic period shall begin on the date of the first decision to allocate special drawing rights or such later date as may be specified in that decision. Any allocations or cancellations shall take place at yearly intervals.

(*b*) The rates at which allocations are to be made shall be expressed as percentages of quotas on the date of each decision to allocate. The rates at which special drawing rights are to be cancelled shall be expressed as percentages of net cumulative allocations of special drawing rights on the date of each decision to cancel. The percentages shall be the same for all participants.

(*c*) In its decision for any basic period the Fund may provide, notwithstanding (*a*) and (*b*) above, that:

(i) the duration of the basic period shall be other than five years; or

(ii) the allocations or cancellations shall take place at other than yearly intervals; or

(iii) the basis for allocations or cancellations shall be the quotas or net cumulative allocations on dates other than the dates of decisions to allocate or cancel.

(*d*) A member that becomes a participant after a basic period starts shall receive allocations beginning with the next basic period in which allocations are made after it becomes a participant unless the Fund decides that the new participant shall start to receive allocations beginning with the next allocation after it becomes a participant. If the Fund decides that a member that becomes a participant during a basic period shall receive allocations during the remainder of that basic period and the participant was not a member on the dates established under (*b*) or (*c*) above, the Fund shall determine the basis on which these allocations to the participant shall be made.

(*e*) A participant shall receive allocations of special drawing rights made pursuant to any decision to allocate unless:

(i) the Governor for the participant did not vote in favor of the decision; and

(ii) the participant has notified the Fund in writing prior to the first allocation of special drawing rights under that decision that it does not wish special drawing rights to be allocated to it under the decision. On the request of a participant, the Fund may decide to terminate the effect of the notice with respect to allocations of special drawing rights subsequent to the termination.

(*f*) If on the effective date of any cancellation the amount of special drawing rights held by a participant is less than its share of the special drawing rights that are to be cancelled, the participant shall eliminate its negative balance as promptly as its gross reserve position permits and shall remain in consultation with the Fund for this purpose. Special drawing rights acquired by the participant after the effective date of the cancellation shall be applied against its negative balance and cancelled.

Section 3. *Unexpected major developments*

The Fund may change the rates or intervals of allocation or cancellation during the rest of a basic period or change the length of a basic period or start a new basic period, if at any time the Fund finds it desirable to do so because of unexpected major developments.

Section 4. *Decisions on allocations and cancellations*

(*a*) Decisions under Section 2(*a*), (*b*), and (*c*) or Section 3 of this Article shall be made by the Board of Governors on the basis of proposals of the Managing Director concurred in by the Executive Board.

(*b*) Before making any proposal, the Managing Director, after having satisfied himself that it will be consistent with the provisions of Section 1(*a*) of this Article, shall conduct such consultations as will enable him to ascertain that there is broad support among participants for the proposal. In addition, before making a proposal for the first allocation, the Managing Director shall satisfy himself that the provisions of Section 1(*b*) of this Article have been met and that there is broad support among participants to begin allocations; he shall make a proposal for the first allocation as soon after the establishment of the Special Drawing Rights Department as he is so satisfied.

(*c*) The Managing Director shall make proposals:

(i) not later than six months before the end of each basic period;

(ii) if no decision has been taken with respect to allocation or cancellation for a basic period, whenever he is satisfied that the provisions of (*b*) above have been met;

(iii) when, in accordance with Section 3 of this Article, he considers that it would be desirable to change the rate or intervals of allocation or cancellation or change the length of a basic period or start a new basic period; or

(iv) within six months of a request by the Board of Governors or the Executive Board;

provided that, if under (i), (iii), or (iv) above the Managing Director ascertains that there is no proposal which he considers to be consistent with the provisions of Section 1 of this Article that has broad support among participants in accordance with (*b*) above, he shall report to the Board of Governors and to the Executive Board.

(*d*) An eighty-five percent majority of the total voting power shall be required for decisions under Section 2(*a*), (*b*), and (*c*) or Section 3 of this Article except for decisions under Section 3 with respect to a decrease in the rates of allocation.

Article XIX

Operations and Transactions in Special Drawing Rights

Section 1. *Use of special drawing rights*

Special drawing rights may be used in the operations and transactions authorized by or under this Agreement.

Section 2. *Operations and transactions between participants*

(*a*) A participant shall be entitled to use its special drawing rights to obtain an equivalent amount of currency from a participant designated under Section 5 of this Article.

(*b*) A participant, in agreement with another participant, may use its special drawing rights to obtain an equivalent amount of currency from the other participant.

(*c*) The Fund, by a seventy percent majority of the total voting power, may prescribe operations in which a participant is authorized to engage in agreement with another participant on such terms and conditions as the Fund deems appropriate. The terms and conditions shall be consistent with the effective functioning of the Special Drawing Rights Department and the proper use of special drawing rights in accordance with this Agreement.

(*d*) The Fund may make representations to a participant that enters into any operation or transaction under (*b*) or (*c*) above that in the judgment of the Fund may be prejudicial to the process of designation according to the principles of Section 5 of this Article or is otherwise inconsistent with Article XXII. A participant that persists in entering into such operations or transactions shall be subject to Article XXIII, Section 2(*b*).

Section 3. *Requirement of need*

(*a*) In transactions under Section 2(*a*) of this Article, except as otherwise provided in (*c*) below, a participant will be expected to use its special drawing rights only if it has a need because of its balance of payments or its reserve position or developments in its reserves, and not for the sole purpose of changing the composition of its reserves.

(*b*) The use of special drawing rights shall not be subject to challenge on the basis of the expectation in (*a*) above, but the Fund may make representations to a participant that fails to fulfill this expectation. A participant that persists in failing to fulfill this expectation shall be subject to Article XXIII, Section 2(*b*).

(*c*) The Fund may waive the expectation in (*a*) above in any transactions in which a participant uses special drawing rights to obtain an equivalent amount of currency from a participant designated under Section 5 of this Article that would promote reconstitution by the other participant under Section 6(*a*) of this Article; prevent or reduce a negative balance of the other participant; or offset the effect of a failure by the other participant to fulfill the expectation in (*a*) above.

Section 4. *Obligation to provide currency*

(*a*) A participant designated by the Fund under Section 5 of this Article shall provide on demand a freely usable currency to a participant using special drawing rights under Section 2(*a*) of this Article. A participant's obligation to provide currency shall not extend beyond the point at which its holdings of special drawing rights in excess of its net cumulative allocation are equal to twice its net cumulative allocation or such higher limit as may be agreed between a participant and the Fund.

(*b*) A participant may provide currency in excess of the obligatory limit or any agreed higher limit.

Section 5. *Designation of participants to provide currency*

(*a*) The Fund shall ensure that a participant will be able to use its special drawing rights by designating participants to provide currency for specified amounts of special drawing rights for the purposes of Sections 2(*a*) and 4 of this Article. Designations shall be made in accordance with the following general principles supplemented by such other principles as the Fund may adopt from time to time:

(i) A participant shall be subject to designation if its balance of payments and gross reserve position is sufficiently strong, but this will not preclude the possibility that a participant with a strong reserve position will be designated even though it has a moderate balance of payments deficit. Participants shall be designated in such manner as will promote over time a balanced distribution of holdings of special drawing rights among them.

(ii) Participants shall be subject to designation in order to promote reconstitution under Section 6(*a*) of this Article, to reduce negative balances in holdings of special drawing rights, or to offset the effect of failures to fulfill the expectation in Section 3(*a*) of this Article.

(iii) In designating participants, the Fund normally shall give priority to those that need to acquire special drawing rights to meet the objectives of designation under (ii) above.

(*b*) In order to promote over time a balanced distribution of holdings of special drawing rights under (*a*)(i) above, the Fund shall apply the rules for designation in Schedule F or such rules as may be adopted under (*c*) below.

(*c*) The rules for designation may be reviewed at any time and new rules shall be adopted if necessary. Unless new rules are adopted, the rules in force at the time of the review shall continue to apply.

Section 6. *Reconstitution*

(*a*) Participants that use their special drawing rights shall reconstitute their holdings of them in accordance with the rules for reconstitution in Schedule G or such rules as may be adopted under (*b*) below.

(*b*) The rules for reconstitution may be reviewed at any time and new rules shall be adopted if necessary. Unless new rules are adopted or a decision is made to abrogate rules for reconstitution, the rules in force at the time of review shall continue to apply. A seventy percent majority of the total voting power shall be required for decisions to adopt, modify, or abrogate the rules for reconstitution.

Section 7. *Exchange rates*

(*a*) Except as otherwise provided in (*b*) below, the exchange rates for transactions between participants under Section 2(*a*) and (*b*) of this Article shall be such that participants using special drawing rights shall receive the same value whatever currencies might be provided and whichever participants provide these currencies, and the Fund shall adopt regulations to give effect to this principle.

(*b*) The fund, by an eighty-five percent majority of the total voting power, may adopt policies under which in exceptional circumstances the Fund, by a seventy percent majority of the total voting power, may authorize participants entering into transactions under Section 2(*b*) of this Article to agree on exchange rates other than those applicable under (*a*) above.

(*c*) The Fund shall consult a participant on the procedure for determining rates of exchange for its currency.

(*d*) For the purpose of this provision the term participant includes a terminating participant.

Article XX

Special Drawing Rights Department Interest and Charges

Section 1. *Interest*

Interest at the same rate for all holders shall be paid by the Fund to each holder on the amount of its holdings of special drawing rights. The Fund shall pay the amount due to each holder whether or not sufficient charges are received to meet the payment of interest.

Section 2. *Charges*

Charges at the same rate for all participants shall be paid to the Fund by each participant on the amount of its net cumulative allocation of special drawing rights plus any negative balance of the participant or unpaid charges.

Section 3. *Rate of interest and charges*

The Fund shall determine the rate of interest by a seventy percent majority of the total voting power. The rate of charges shall be equal to the rate of interest.

Section 4. *Assessments*

When it is decided under Article XVI, Section 2 that reimbursement shall be made, the Fund shall levy assessments for this purpose at the same rate for all participants on their net cumulative allocations.

Section 5. *Payment of interest, charges, and assessments*

Interest, charges, and assessments shall be paid in special drawing rights. A participant that needs special drawing rights to pay any charge or assessment shall be obligated and entitled to obtain them, for currency acceptable to the Fund, in a transaction with the Fund conducted through the General Resources Account. If sufficient special drawing rights cannot be obtained in this way, the participant shall be obligated and entitled to obtain them with a freely usable currency from a participant which the Fund shall specify. Special drawing rights acquired by a participant after the date for payment shall be applied against its unpaid charges and cancelled.

Article XXI

Administration of the General Department and the Special Drawing Rights Department

(*a*) The General Department and the Special Drawing Rights Department shall be administered in accordance with the provisions of Article XII, subject to the following provisions:

(i) For meetings of or decisions by the Board of Governors on matters pertaining exclusively to the Special Drawing Rights Department only requests by, or the presence and the votes of, Governors appointed by members that are participants shall be counted for the purpose of calling meetings and determining whether a quorum exists or whether a decision is made by the required majority.

(ii) For decisions by the Executive Board on matters pertaining exclusively to the Special Drawing Rights Department only Executive Directors appointed or elected by at least one member that is a participant shall be entitled to vote. Each of these Executive Directors shall be entitled to cast the numbers of votes allotted to the member which is a participant that appointed him or to the members that are participants whose votes counted towards his election. Only the presence of Executive Directors appointed or elected by members that are participants and the votes allotted to members that are participants shall be counted for the purpose of determining whether a quorum exists or whether a decision is made by the required majority. For the purposes of this provision, an agreement under Article XII, Section 3(*i*)(ii) by a member that is a participant shall entitle an appointed Executive Director to vote and cast the number of votes allotted to the member.

(iii) Questions of the general administration of the Fund, including reimbursement under Article XVI, Section 2, and any question whether a matter pertains to both Departments or exclusively to the Special Drawing Rights Department shall be decided as if they pertained exclusively to the General Department. Decisions with respect to the method of valuation of the special drawing right, the acceptance and holding of special drawing rights in the General Resources Account of the General Department and the use of them, and other decisions affecting the operations and transactions conducted through both the General Resources Account of the General Department and the Special Drawing Rights Department shall be made by the majorities required for decisions on matters pertaining exclusively to each Department. A decision on a matter pertaining to the Special Drawing Rights Department shall so indicate.

(*b*) In addition to the privileges and immunities that are accorded under Article IX of this Agreement, no tax of any kind shall be levied on special drawing rights or on operations or transactions in special drawing rights.

(*c*) A question of interpretation of the provisions of this Agreement on matters pertaining exclusively to the Special Drawing Rights Department shall be submitted to the Executive Board pursuant to Article XXIX(*a*) only on the request of a participant. In any case where the Executive Board has given a decision on a question of interpretation pertaining exclusively to the Special Drawing Rights Department only a participant may require that the question be referred to the Board of Governors under Article XXIX(*b*). The Board of Governors shall decide whether a Governor appointed by a member that is not a participant shall be entitled to vote in the Committee on Interpretation on questions pertaining exclusively to the Special Drawing Rights Department.

(*d*) Whenever a disagreement arises between the Fund and a participant that has terminated its participation in the Special Drawing Rights Department or between the Fund and any participant during the liquidation of the Special Drawing Rights Department with respect to any matter arising exclusively from participation in the Special Drawing Rights Department, the disagreement shall be submitted to arbitration in accordance with the procedures in Article XXIX(*c*).

Article XXII
General Obligations of Participants

In addition to the obligations assumed with respect to special drawing rights under other articles of this Agreement, each participant undertakes to collaborate with the Fund and with other participants in order to facilitate the effective functioning of the Special Drawing Rights Department and the proper use of special drawing rights in accordance with this Agreement and with the objective of making the special drawing right the principal reserve asset in the international monetary system.

Article XXIII
Suspension of Operations and Transactions in Special Drawing Rights

Section 1. *Emergency provisions*

In the event of an emergency or the development of unforeseen circumstances threatening the activities of the Fund with respect to the Special Drawing Rights Department, the Executive Board, by an eighty-five percent majority of the total voting power, may suspend for a period of not more than one year the operation of any of the provisions relating to operations and transactions in special drawing rights, and the provisions of Article XXVII, Section 1(*b*), (*c*), and (*d*) shall then apply.

Section 2. *Failure to fulfill obligations*

(*a*) If the Fund finds that a participant has failed to fulfill its obligations under Article XIX, Section 4, the right of the participant to use its special drawing rights shall be suspended unless the Fund otherwise decides.

(*b*) If the Fund finds that a participant has failed to fulfill any other obligation with respect to special drawing rights, the Fund may suspend the right of the participant to use special drawing rights it acquires after the suspension.

(*c*) Regulations shall be adopted to ensure that before action is taken against any participant under (*a*) or (*b*) above, the participant shall be informed immediately of the com-

plaint against it and given an adequate opportunity for stating its case, both orally and in writing. Whenever the participant is thus informed of a complaint relating to (*a*) above, it shall not use special drawing rights pending the disposition of the complaint.

(*d*) Suspension under (*a*) or (*b*) above or limitation under (*c*) above shall not affect a participant's obligation to provide currency in accordance with Article XIX, Section 4.

(*e*) The Fund may at any time terminate a suspension under (*a*) or (*b*) above, provided that a suspension imposed on a participant under (*b*) above for failure to fulfill the obligations under Article XIX, Section 6(*a*) shall not be terminated until one hundred eighty days after the end of the first calendar quarter during which the participant complies with the rules for reconstitution.

(*f*) The right of a participant to use its special drawing rights shall not be suspended because it has become ineligible to use the Fund's general resources under Article V, Section 5, Article VI, Section 1, or Article XXVI, Section 2(*a*). Article XXVI, Section 2 shall not apply because a participant has failed to fulfill any obligations with respect to special drawing rights.

Article XXIV
Termination of Participation

Section 1. *Right to terminate participation*

(*a*) Any participant may terminate its participation in the Special Drawing Rights Department at any time by transmitting a notice in writing to the Fund at its principal office. Termination shall become effective on the date the notice is received.

(*b*) A participant that withdraws from membership in the Fund shall be deemed to have simultaneously terminated its participation in the Special Drawing Rights Department.

Section 2. *Settlement on termination*

(*a*) When a participant terminates its participation in the Special Drawing Rights Department, all operations and transactions by the terminating participant in special drawing rights shall cease except as otherwise permitted under an agreement made pursuant to (*c*) below in order to facilitate a settlement or as provided in Sections 3, 5, and 6 of this Article or in Schedule H. Interest and charges that accrued to the date of termination and assessments levied before that date but not paid shall be paid in special drawing rights.

(*b*) The Fund shall be obligated to redeem all special drawing rights held by the terminating participant, and the terminating participant shall be obligated to pay to the Fund an amount equal to its net cumulative allocation and any other amounts that may be due and payable because of its participation in the Special Drawing Rights Department. These obligations shall be set off against each other and the amount of special drawing rights held by the terminating participant that is used in the setoff to extinguish its obligation to the Fund shall be cancelled.

(*c*) A settlement shall be made with reasonable despatch by agreement between the terminating participant and the Fund with respect to any obligation of the terminating participant or the Fund after the setoff in (*b*) above. If agreement on a settlement is not reached promptly the provisions of Schedule H shall apply.

Section 3. *Interest and charges*

After the date of termination the Fund shall pay interest on any outstanding balance of special drawing rights held by a terminating participant and the terminating participant shall pay charges on any outstanding obligation owed to the Fund at the times and rates

prescribed under Article XX. Payment shall be made in special drawing rights. A terminating participant shall be entitled to obtain special drawing rights with a freely usable currency to pay charges or assessments in a transaction with a participant specified by the Fund or by agreement from any other holder, or to dispose of special drawing rights received as interest in a transaction with any participant designated under Article XIX, Section 5 or by agreement with any other holder.

Section 4. *Settlement of obligation to the Fund*

Currency received by the Fund from a terminating participant shall be used by the Fund to redeem special drawing rights held by participants in proportion to the amount by which each participant's holdings of special drawing rights exceed its net cumulative allocation at the time the currency is received by the Fund. Special drawing rights so redeemed and special drawing rights obtained by a terminating participant under the provisions of this Agreement to meet any installment due under an agreement on settlement or under Schedule H and set off against that installment shall be cancelled.

Section 5. *Settlement of obligation to a terminating participant*

Whenever the Fund is required to redeem special drawing rights held by a terminating participant, redemption shall be made with currency provided by participants specified by the Fund. These participants shall be specified in accordance with the principles in Article XIX, Section 5. Each specified participant shall provide at its option the currency of the terminating participant or a freely usable currency to the Fund and shall receive an equivalent amount of special drawing rights. However, a terminating participant may use its special drawing rights to obtain its own currency, a freely usable currency, or any other asset from any holder, if the Fund so permits.

Section 6. *General Resources Account transactions*

In order to facilitate settlement with a terminating participant, the Fund may decide that a terminating participant shall:

(i) use any special drawing rights held by it after the setoff in Section 2(*b*) of this Article, when they are to be redeemed, in a transaction with the Fund conducted through the General Resources Account to obtain its own currency or a freely usable currency at the option of the Fund; or

(ii) obtain special drawing rights in a transaction with the Fund conducted through the General Resources Account for a currency acceptable to the Fund to meet any charges or installments due under an agreement or the provisions of Schedule H.

Article XXV

Liquidation of the Special Drawing Rights Department

(*a*) The Special Drawing Rights Department may not be liquidated except by decision of the Board of Governors. In an emergency, if the Executive Board decides that liquidation of the Special Drawing Rights Department may be necessary, it may temporarily suspend allocations or cancellations and all operations and transactions in special drawing rights pending decision by the Board of Governors. A decision by the Board of Governors to liquidate the Fund shall be a decision to liquidate both the General Department and the Special Drawing Rights Department.

(*b*) If the Board of Governors decides to liquidate the Special Drawing Rights Department, all allocations or cancellations and all operations and transactions in special drawing rights and the activities of the Fund with respect to the Special Drawing Rights Department shall cease except those incidental to the orderly discharge of the obligations of

participants and of the Fund with respect to special drawing rights, and all obligations of the Fund and of participants under this Agreement with respect to special drawing rights shall cease except those set out in this Article, Article XX, Article XXI(*d*), Article XXIV, Article XXIX(*c*), and Schedule H, or any agreement reached under Article XXIV subject to paragraph 4 of Schedule H, and Schedule I.

(*c*) Upon liquidation of the Special Drawing Rights Department, interest and charges that accrued to the date of liquidation and assessments levied before that date but not paid shall be paid in special drawing rights. The Fund shall be obligated to redeem all special drawing rights held by holders, and each participant shall be obligated to pay the Fund an amount equal to its net cumulative allocation of special drawing rights and such other amounts as may be due and payable because of its participation in the Special Drawing Rights Department.

(*d*) Liquidation of the Special Drawing Rights Department shall be administered in accordance with the provisions of Schedule I.

Article XXVI
Withdrawal from Membership

Section 1. *Right of members to withdraw*

Any member may withdraw from the Fund at any time by transmitting a notice in writing to the Fund at its principal office. Withdrawal shall become effective on the date such notice is received.

Section 2. *Compulsory withdrawal*

(*a*) If a member fails to fulfill any of its obligations under this Agreement, the Fund may declare the member ineligible to use the general resources of the Fund. Nothing in this Section shall be deemed to limit the provisions of Article V, Section 5 or Article VI, Section 1.

(*b*) If, after the expiration of a reasonable period the member persists in its failure to fulfill any of its obligations under this Agreement, that member may be required to withdraw from membership in the Fund by a decision of the Board of Governors carried by a majority of the Governors having eighty-five percent of the total voting power.

(*c*) Regulations shall be adopted to ensure that before action is taken against any member under (*a*) or (*b*) above, the member shall be informed in reasonable time of the complaint against it and given an adequate opportunity for stating its case, both orally and in writing.

Section 3. *Settlement of accounts with members withdrawing*

When a member withdraws from the Fund, normal operations and transactions of the Fund in its currency shall cease and settlement of all accounts between it and the Fund shall be made with reasonable despatch by agreement between it and the Fund. If agreement is not reached promptly, the provisions of Schedule J shall apply to the settlement of accounts.

Article XXVII
Emergency Provisions

Section 1. *Temporary suspension*

(*a*) In the event of an emergency or the development of unforeseen circumstances threatening the activities of the Fund, the Executive Board, by an eighty-five percent ma-

jority of the total voting power, may suspend for a period of not more than one year the operation of any of the following provisions:

(i) Article V, Sections 2, 3, 7, 8(*a*)(i) and (*e*);

(ii) Article VI, Section 2;

(iii) Article XI, Section 1;

(iv) Schedule C, paragraph 5.

(*b*) A suspension of the operation of a provision under (*a*) above may not be extended beyond one year except by the Board of Governors which, by an eighty-five percent majority of the total voting power, may extend a suspension for an additional period of not more than two years if it finds that the emergency or unforeseen circumstances referred to in (*a*) above continue to exist.

(*c*) The Executive Board may, by a majority of the total voting power, terminate such suspension at any time.

(*d*) The Fund may adopt rules with respect to the subject matter of a provision during the period in which its operation is suspended.

Section 2. *Liquidation of the Fund*

(*a*) The Fund may not be liquidated except by decision of the Board of Governors. In an emergency, if the Executive Board decides that liquidation of the Fund may be necessary, it may temporarily suspend all operations and transactions, pending decision by the Board of Governors.

(*b*) If the Board of Governors decides to liquidate the Fund, the Fund shall forthwith cease to engage in any activities except those incidental to the orderly collection and liquidation of its assets and the settlement of its liabilities, and all obligations of members under this Agreement shall cease except those set out in this Article, in Article XXIX(*c*), in Schedule J, paragraph 7, and in Schedule K.

(*c*) Liquidation shall be administered in accordance with the provisions of Schedule K.

Article XXVIII
Amendments

(*a*) Any proposal to introduce modifications in this Agreement, whether emanating from a member, a Governor, or the Executive Board, shall be communicated to the chairman of the Board of Governors who shall bring the proposal before the Board of Governors. If the proposed amendment is approved by the Board of Governors, the Fund shall, by circular letter or telegram, ask all members whether they accept the proposed amendment. When three-fifths of the members, having eighty-five percent of the total voting power, have accepted the proposed amendment, the Fund shall certify the fact by a formal communication addressed to all members.

(*b*) Notwithstanding (*a*) above, acceptance by all members is required in the case of any amendment modifying:

(i) the right to withdraw from the Fund (Article XXVI, Section 1);

(ii) the provision that no change in a member's quota shall be made without its consent (Article III, Section 2(*d*)); and

(iii) the provision that no change may be made in the par value of a member's currency except on the proposal of that member (Schedule C, paragraph 6).

(*c*) Amendments shall enter into force for all members three months after the date of the formal communication unless a shorter period is specified in the circular letter or telegram.

Article XXIX
Interpretation

(*a*) Any question of interpretation of the provisions of this Agreement arising between any member and the Fund or between any members of the Fund shall be submitted to the Executive Board for its decision. If the question particularly affects any member not entitled to appoint an Executive Director, it shall be entitled to representation in accordance with Article XII, Section 3(*j*).

(*b*) In any case where the Executive Board has given a decision under (*a*) above, any member may require, within three months from the date of the decision, that the question be referred to the Board of Governors, whose decision shall be final. Any question referred to the Board of Governors shall be considered by a Committee on Interpretation of the Board of Governors. Each Committee member shall have one vote. The Board of Governors shall establish the membership, procedures, and voting majorities of the Committee. A decision of the Committee shall be the decision of the Board of Governors unless the Board of Governors, by an eighty-five percent majority of the total voting power, decides otherwise. Pending the result of the reference to the Board of Governors the Fund may, so far as it deems necessary, act on the basis of the decision of the Executive Board.

(*c*) Whenever a disagreement arises between the Fund and a member which has withdrawn, or between the Fund and any member during liquidation of the Fund, such disagreement shall be submitted to arbitration by a tribunal of three arbitrators, one appointed by the Fund, another by the member or withdrawing member, and an umpire who, unless the parties otherwise agree, shall be appointed by the President of the International Court of Justice or such other authority as may have been prescribed by regulation adopted by the Fund. The umpire shall have full power to settle all questions of procedure in any case where the parties are in disagreement with respect thereto.

Article XXX
Explanation of Terms

In interpreting the provisions of this Agreement the Fund and its members shall be guided by the following provisions:

(*a*) The Fund's holdings of a member's currency in the General Resources Account shall include any securities accepted by the Fund under Article III, Section 4.

(*b*) Stand-by arrangement means a decision of the Fund by which a member is assured that it will be able to make purchases from the General Resources Account in accordance with the terms of the decision during a specified period and up to a specified amount.

(*c*) Reserve tranche purchase means a purchase by a member of special drawing rights or the currency of another member in exchange for its own currency which does not cause the Fund's holdings of the member's currency in the General Resources Account to exceed its quota, provided that for the purposes of this definition the Fund may exclude purchases and holdings under:

- (i) policies on the use of its general resources for compensatory financing of export fluctuations;

(ii) policies on the use of its general resources in connection with the financing of contributions to international buffer stocks of primary products; and

(iii) other policies on the use of its general resources in respect of which the Fund decides, by an eighty-five percent majority of the total voting power, that an exclusion shall be made.

(*d*) Payments for current transactions means payments which are not for the purpose of transferring capital, and includes, without limitation:

(1) all payments due in connection with foreign trade, other current business, including services, and normal short-term banking and credit facilities;

(2) payments due as interest on loans and as net income from other investments;

(3) payments of moderate amount for amortization of loans or for depreciation of direct investments; and

(4) moderate remittances for family living expenses.

The Fund may, after consultation with the members concerned, determine whether certain specific transactions are to be considered current transactions or capital transactions.

(*e*) Net cumulative allocation of special drawing rights means the total amount of special drawing rights allocated to a participant less its share of special drawing rights that have been cancelled under Article XVIII, Section 2(*a*).

(*f*) A freely usable currency means a member's currency that the Fund determines (i) is, in fact, widely used to make payments for international transactions, and (ii) is widely traded in the principal exchange markets.

(*g*) Members that were members on August 31, 1975 shall be deemed to include a member that accepted membership after that date pursuant to a resolution of the Board of Governors adopted before that date.

(*h*) Transactions of the Fund means exchanges of monetary assets by the Fund for other monetary assets. Operations of the Fund means other uses or receipts of monetary assets by the Fund.

(*i*) Transactions in special drawing rights means exchanges of special drawing rights for other monetary assets. Operations in special drawing rights means other use of special drawing rights.

Article XXXI
Final Provisions

Section 1. *Entry into force*

This Agreement shall enter into force when it has been signed on behalf of governments having sixty-five percent of the total of the quotas set forth in Schedule A and when the instruments referred to in Section 2(*a*) of this Article have been deposited on their behalf, but in no event shall this Agreement enter into force before May 1, 1945.

Section 2. *Signature*

(*a*) Each government on whose behalf this Agreement is signed shall deposit with the Government of the United States of America an instrument setting forth that it has accepted this Agreement in accordance with its law and has taken all steps necessary to enable it to carry out all of its obligations under this Agreement.

(*b*) Each country shall become a member of the Fund as from the date of the deposit on its behalf of the instrument referred to in (*a*) above, except that no country shall become a member before this Agreement enters into force under Section 1 of this Article.

(*c*) The Government of the United States of America shall inform the governments of all countries whose names are set forth in Schedule A, and the governments of all countries whose membership is approved in accordance with Article II, Section 2, of all signatures of this Agreement and of the deposit of all instruments referred to in (*a*) above.

(*d*) At the time this Agreement is signed on its behalf, each government shall transmit to the Government of the United States of America one-hundredth of one percent of its total subscription in gold or United States dollars for the purpose of meeting administrative expenses of the Fund. The Government of the United States of America shall hold such funds in a special deposit account and shall transmit them to the Board of Governors of the Fund when the initial meeting has been called. If this Agreement has not come into force by December 31, 1945, the Government of the United States of America shall return such funds to the governments that transmitted them.

(*e*) This Agreement shall remain open for signature at Washington on behalf of the governments of the countries whose names are set forth in Schedule A until December 31, 1945.

(*f*) After December 31, 1945, this Agreement shall be open for signature on behalf of the government of any country whose membership has been approved in accordance with Article II, Section 2.

(*g*) By their signature of this Agreement, all governments accept it both on their own behalf and in respect of all their colonies, overseas territories, all territories under their protection, suzerainty, or authority, and all territories in respect of which they exercise a mandate.

(*h*) Subsection (*d*) above shall come into force with regard to each signatory government as from the date of its signature.

[The signature and depositary clause reproduced below followed the text of Article XX in the original Articles of Agreement]

Done at Washington, in a single copy which shall remain deposited in the archives of the Government of the United States of America, which shall transmit certified copies to all governments whose names are set forth in Schedule A and to all governments whose membership is approved in accordance with Article II, Section 2.

Schedule A

Quotas

(In millions of United States dollars)

Australia	200	Colombia	50
Belgium	225	Costa Rica	5
Bolivia	10	Cuba	50
Brazil	150	Czechoslovakia	125
Canada	300	Denmark*	*
Chile	50	Dominican Republic	5
China	550	Ecuador	5

* The quota of Denmark shall be determined by the Fund after the Danish Government has declared its readiness to sign this Agreement but before signature takes place.

Egypt	45
El Salvador	2.5
Ethiopia	6
France	450
Greece	40
Guatemala	5
Haiti	5
Honduras	2.5
Iceland	1
India	400
Iran	25
Iraq	8
Liberia	.5
Luxembourg	10
Mexico	90
Netherlands	275
New Zealand	50
Nicaragua	2
Norway	50
Panama	.5
Paraguay	2
Peru	25
Philippine Commonwealth	15
Poland	125
Union of South Africa	100
Union of Soviet Socialist Republics	1200
United Kingdom	1300
United States	2750
Uruguay	15
Venezuela	15
Yugoslavia	60

Schedule B

Transitional Provisions with Respect to Repurchase, Payment of Additional Subscriptions, Gold, and Certain Operational Matters

1. Repurchase obligations that have accrued pursuant to Article V, Section 7(*b*) before the date of the second amendment of this Agreement and that remain undischarged at that date shall be discharged not later than the date or dates at which the obligations had to be discharged in accordance with the provisions of this Agreement before the second amendment.

2. A member shall discharge with special drawing rights any obligation to pay gold to the Fund in repurchase or as a subscription that is outstanding at the date of the second amendment of this Agreement, but the Fund may prescribe that these payments may be made in whole or in part in the currencies of other members specified by the Fund. A non-participant shall discharge an obligation that must be paid in special drawing rights pursuant to this provision with the currencies of other members specified by the Fund.

3. For the purposes of 2 above 0.888 671 gram of fine gold shall be equivalent to one special drawing right, and the amount of currency payable under 2 above shall be determined on that basis and on the basis of the value of the currency in terms of the special drawing right at the date of discharge.

4. A member's currency held by the Fund in excess of seventy-five percent of the member's quota at the date of the second amendment of this Agreement and not subject to repurchase under 1 above shall be repurchased in accordance with the following rules:

(i) Holdings that resulted from a purchase shall be repurchased in accordance with the policy on the use of the Fund's general resources under which the purchase was made.

(ii) Other holdings shall be repurchased not later than four years after the date of the second amendment of this Agreement.

5. Repurchases under 1 above that are not subject to 2 above, repurchases under 4 above, and any specification of currencies under 2 above shall be in accordance with Article V, Section 7(*i*).

6. All rules and regulations, rates, procedures, and decisions in effect at the date of the second amendment of this Agreement shall remain in effect until they are changed in accordance with the provisions of this Agreement.

7. To the extent that arrangements equivalent in effect to (*a*) and (*b*) below have not been completed before the date of the second amendment of this Agreement, the Fund shall

(*a*) sell up to 25 million ounces of fine gold held by it on August 31, 1975 to those members that were members on that date and that agree to buy it, in proportion to their quotas on that date. The sale to a member under this subparagraph (*a*) shall be made in exchange for its currency and at a price equivalent at the time of sale to one special drawing right per 0.888 671 gram of fine gold, and

(*b*) sell up to 25 million ounces of fine gold held by it on August 31, 1975 for the benefit of developing members that were members on that date, provided, however, that the part of any profits or surplus value of the gold that corresponds to the proportion of such a member's quota on August 31, 1975 to the total of the quotas of all members on that date shall be transferred directly to each such member. The requirements under Article V, Section 12(*c*) that the Fund consult a member, obtain a member's concurrence, or exchange a member's currency for the currencies of other members in certain circumstances shall apply with respect to currency received by the Fund as a result of sales of gold under this provision, other than sales to a member in return for its own currency, and placed in the General Resources Account.

Upon the sale of gold under this paragraph 7, an amount of the proceeds in the currencies received equivalent at the time of sale to one special drawing right per 0.888 671 gram of fine gold shall be placed in the General Resources Account and other assets held by the Fund under arrangements pursuant to (*b*) above shall be held separately from the general resources of the Fund. Assets that remain subject to disposition by the Fund upon termination of arrangements pursuant to (*b*) above shall be transferred to the Special Disbursement Account.

Schedule C
Par Values

1. The Fund shall notify members that par values may be established for the purposes of this Agreement, in accordance with Article IV, Sections 1, 3, 4, and 5 and this Schedule, in terms of the special drawing right, or in terms of such other common denominator as is prescribed by the Fund. The common denominator shall not be gold or a currency.

2. A member that intends to establish a par value for its currency shall propose a par value to the Fund within a reasonable time after notice is given under 1 above.

3. Any member that does not intend to establish a par value for its currency under 1 above shall consult with the Fund and ensure that its exchange arrangements are consistent with the purposes of the Fund and are adequate to fulfill its obligations under Article IV, Section 1.

4. The Fund shall concur in or object to a proposed par value within a reasonable period after receipt of the proposal. A proposed par value shall not take effect for the purposes of this Agreement if the Fund objects to it, and the member shall be subject to 3 above. The Fund shall not object because of the domestic social or political policies of the member proposing the par value.

5. Each member that has a par value for its currency undertakes to apply appropriate measures consistent with this Agreement in order to ensure that the maximum and mini-

mum rates for spot exchange transactions taking place within its territories between its currency and the currencies of other members maintaining par values shall not differ from parity by more than four and one-half percent or by such other margin or margins as the Fund may adopt by an eighty-five percent majority of the total voting power.

6. A member shall not propose a change in the par value of its currency except to correct, or prevent the emergence of, a fundamental disequilibrium. A change may be made only on the proposal of the member and only after consultation with the Fund.

7. When a change is proposed, the Fund shall concur in or object to the proposed par value within a reasonable period after receipt of the proposal. The Fund shall concur if it is satisfied that the change is necessary to correct, or prevent the emergence of, a fundamental disequilibrium. The Fund shall not object because of the domestic social or political policies of the member proposing the change. A proposed change in par value shall not take effect for the purposes of this Agreement if the Fund objects to it. If a member changes the par value of its currency despite the objection of the Fund, the member shall be subject to Article XXVI, Section 2. Maintenance of an unrealistic par value by a member shall be discouraged by the Fund.

8. The par value of a member's currency established under this Agreement shall cease to exist for the purposes of this Agreement if the member informs the Fund that it intends to terminate the par value. The Fund may object to the termination of a par value by a decision taken by an eighty-five percent majority of the total voting power. If a member terminates a par value for its currency despite the objection of the Fund, the member shall be subject to Article XXVI, Section 2. A par value established under this Agreement shall cease to exist for the purposes of this Agreement if the member terminates the par value despite the objection of the Fund, or if the Fund finds that the member does not maintain rates for a substantial volume of exchange transactions in accordance with 5 above, provided that the Fund may not make such finding unless it has consulted the member and given it sixty days notice of the Fund's intention to consider whether to make a finding.

9. If the par value of the currency of a member has ceased to exist under 8 above, the member shall consult with the Fund and ensure that its exchange arrangements are consistent with the purposes of the Fund and are adequate to fulfill its obligations under Article IV, Section 1.

10. A member for whose currency the par value has ceased to exist under 8 above may, at any time, propose a new par value for its currency.

11. Notwithstanding 6 above, the Fund, by a seventy percent majority of the total voting power, may make uniform proportionate changes in all par values if the special drawing right is the common denominator and the changes will not affect the value of the special drawing right. The par value of a member's currency shall, however, not be changed under this provision if, within seven days after the Fund's action, the member informs the Fund that it does not wish the par value of its currency to be changed by such action.

Schedule D

Council

1. (*a*) Each member that appoints an Executive Director and each group of members that has the number of votes allotted to them cast by an elected Executive Director shall appoint to the Council one Councillor, who shall be a Governor, Minister in the government of a member, or person of comparable rank, and may appoint not more than seven Associates. The Board of Governors may change, by an eighty-five percent majority of the total voting power, the number of as-

sociates who may be appointed. A Councillor or Associate shall serve until a new appointment is made or until the next regular election of Executive Directors, whichever shall occur sooner.

(*b*) Executive Directors, or in their absence their Alternates, and Associates shall be entitled to attend meetings of the Council, unless the Council decides to hold a restricted session. Each member and each group of members that appoints a Councillor shall appoint an Alternate who shall be entitled to attend a meeting of the Council when the Councillor is not present, and shall have full power to act for the Councillor.

2. (*a*) The Council shall supervise the management and adaptation of the international monetary system, including the continuing operation of the adjustment process and developments in global liquidity, and in this connection shall review developments in the transfer of real resources to developing countries.

(*b*) The Council shall consider proposals pursuant to Article XXVIII(*a*) to amend the Articles of Agreement.

3. (*a*) The Board of Governors may delegate to the Council authority to exercise any powers of the Board of Governors except the powers conferred directly by this Agreement on the Board of Governors.

(*b*) Each Councillor shall be entitled to cast the number of votes allotted under Article XII, Section 5 to the member or group of members appointing him. A Councillor appointed by a group of members may cast separately the votes allotted to each member in the group. If the number of votes allotted to a member cannot be cast by an Executive Director, the member may make arrangements with a Councillor for casting the number of votes allotted to the member.

(*c*) The Council shall not take any action pursuant to powers delegated by the Board of Governors that is inconsistent with any action taken by the Board of Governors and the Executive Board shall not take any action pursuant to powers delegated by the Board of Governors that is inconsistent with any action taken by either the Board of Governors or the Council.

4. The Council shall select a Councillor as chairman, shall adopt regulations as may be necessary or appropriate to perform its functions, and shall determine any aspect of its procedure. The Council shall hold such meetings as may be provided for by the Council or called by the Executive Board.

5. (*a*) The Council shall have powers corresponding to those of the Executive Board under the following provisions: Article XII, Section 2(*c*), (*f*), (*g*), and (*j*); Article XVIII, Section 4(*a*) and Section 4(*c*)(iv); Article XXIII, Section 1; and Article XXVII, Section 1(*a*).

(*b*) For decisions by the Council on matters pertaining exclusively to the Special Drawing Rights Department only Councillors appointed by a member that is a participant or a group of members at least one member of which is a participant shall be entitled to vote. Each of these Councillors shall be entitled to cast the number of votes allotted to the member which is a participant that appointed him or to the members that are participants in the group of members that appointed him, and may cast the votes allotted to a participant with which arrangements have been made pursuant to the last sentence of 3(*b*) above.

(*c*) The Council may by regulation establish a procedure whereby the Executive Board may obtain a vote of the Councillors on a specific question without a meeting of the Council when in the judgment of the Executive Board an action

must be taken by the Council which should not be postponed until the next meeting of the Council and which does not warrant the calling of a special meeting.

(*d*) Article IX, Section 8 shall apply to Councillors, their Alternates, and Associates, and to any other person entitled to attend a meeting of the Council.

(*e*) For the purposes of (*b*) and 3(*b*) above, an agreement under Article XII, Section 3(*i*)(ii) by a member, or by a member that is a participant, shall entitle a Councillor to vote and cast the number of votes allotted to the member.

6. The first sentence of Article XII, Section 2(*a*) shall be deemed to include a reference to the Council.

Schedule E

Election of Executive Directors

1. The election of the elective Executive Directors shall be by ballot of the Governors eligible to vote.

2. In balloting for the Executive Directors to be elected, each of the Governors eligible to vote shall cast for one person all of the votes to which he is entitled under Article XII, Section 5(*a*). The fifteen persons receiving the greatest number of votes shall be Executive Directors, provided that no person who received less than four percent of the total number of votes that can be cast (eligible votes) shall be considered elected.

3. When fifteen persons are not elected in the first ballot, a second ballot shall be held in which there shall vote only (*a*) those Governors who voted in the first ballot for a person not elected, and (*b*) those Governors whose votes for a person elected are deemed under 4 below to have raised the votes cast for that person above nine percent of the eligible votes. If in the second ballot there are more candidates than the number of Executive Directors to be elected, the person who received the lowest number of votes in the first ballot shall be ineligible for election.

4. In determining whether the votes cast by a Governor are to be deemed to have raised the total of any person above nine percent of the eligible votes the nine percent shall be deemed to include, first, the votes of the Governor casting the largest number of votes for such person, then the votes of the Governor casting the next largest number, and so on until nine percent is reached.

5. Any Governor part of whose votes must be counted in order to raise the total of any person above four percent shall be considered as casting all of his votes for such person even if the total votes for such person thereby exceed nine percent.

6. If, after the second ballot, fifteen persons have not been elected, further ballots shall be held on the same principles until fifteen persons have been elected, provided that after fourteen persons are elected, the fifteenth may be elected by a simple majority of the remaining votes and shall be deemed to have been elected by all such votes.

Schedule F

Designation

During the first basic period the rules for designation shall be as follows:

(*a*) Participants subject to designation under Article XIX, Section 5(*a*)(i) shall be designated for such amounts as will promote over time equality in the ratios of the participants' holdings of special drawing rights in excess of their net cumulative allocations to their official holdings of gold and foreign exchange.

(*b*) The formula to give effect to (*a*) above shall be such that participants subject to designation shall be designated:

(i) in proportion to their official holdings of gold and foreign exchange when the ratios described in (*a*) above are equal; and

(ii) in such manner as gradually to reduce the difference between the ratios described in (*a*) above that are low and the ratios that are high.

Schedule G

Reconstitution

1. During the first basic period the rules for reconstitution shall be as follows:

(*a*) (i) A participant shall so use and reconstitute its holdings of special drawing rights that, five years after the first allocation and at the end of each calendar quarter thereafter, the average of its total daily holdings of special drawing rights over the most recent five-year period will be not less than thirty percent of the average of its daily net cumulative allocation of special drawing rights over the same period.

(ii) Two years after the first allocation and at the end of each calendar month thereafter the Fund shall make calculations for each participant so as to ascertain whether and to what extent the participant would need to acquire special drawing rights between the date of the calculation and the end of any five-year period in order to comply with the requirement in (*a*)(i) above. The Fund shall adopt regulations with respect to the bases on which these calculations shall be made and with respect to the timing of the designation of participants under Article XIX, Section 5(*a*)(ii), in order to assist them to comply with the requirement in (*a*)(i) above.

(iii) The Fund shall give special notice to a participant when the calculations under (*a*)(ii) above indicate that it is unlikely that the participant will be able to comply with the requirement in (*a*)(i) above unless it ceases to use special drawing rights for the rest of the period for which the calculation was made under (*a*)(ii) above.

(iv) A participant that needs to acquire special drawing rights to fulfill this obligation shall be obligated and entitled to obtain them, for currency acceptable to the Fund, in a transaction with the Fund conducted through the General Resources Account. If sufficient special drawing rights to fulfill this obligation cannot be obtained in this way, the participant shall be obligated and entitled to obtain them with a freely usable currency from a participant which the Fund shall specify.

(*b*) Participants shall also pay due regard to the desirability of pursuing over time a balanced relationship between their holdings of special drawing rights and their other reserves.

2. If a participant fails to comply with the rules for reconstitution, the Fund shall determine whether or not the circumstances justify suspension under Article XXIII, Section 2(*b*).

Schedule H

Termination of Participation

1. If the obligation remaining after the setoff under Article XXIV, Section 2(*b*) is to the terminating participant and agreement on settlement between the Fund and the terminating participant is not reached within six months of the date of termination, the Fund shall redeem

this balance of special drawing rights in equal half-yearly installments within a maximum of five years of the date of termination. The Fund shall redeem this balance as it may determine, either (*a*) by the payment to the terminating participant of the amounts provided by the remaining participants to the Fund in accordance with Article XXIV, Section 5, or (*b*) by permitting the terminating participant to use its special drawing rights to obtain its own currency or a freely usable currency from a participant specified by the Fund, the General Resources Account, or any other holder.

2. If the obligation remaining after the setoff under Article XXIV, Section 2(*b*) is to the Fund and agreement on settlement is not reached within six months of the date of termination, the terminating participant shall discharge this obligation in equal half-yearly installments within three years of the date of termination or within such longer period as may be fixed by the Fund. The terminating participant shall discharge this obligation, as the Fund may determine, either (*a*) by the payment to the Fund of a freely usable currency, or (*b*) by obtaining special drawing rights, in accordance with Article XXIV, Section 6, from the General Resources Account or in agreement with a participant specified by the Fund or from any other holder, and the setoff of these special drawing rights against the installment due.

3. Installments under either 1 or 2 above shall fall due six months after the date of termination and at intervals of six months thereafter.

4. In the event of the Special Drawing Rights Department going into liquidation under Article XXV within six months of the date a participant terminates its participation, the settlement between the Fund and that government shall be made in accordance with Article XXV and Schedule I.

Schedule I

Administration of Liquidation of the Special Drawing Rights Department

1. In the event of liquidation of the Special Drawing Rights Department, participants shall discharge their obligations to the Fund in ten half-yearly installments, or in such longer period as the Fund may decide is needed, in a freely usable currency and the currencies of participants holding special drawing rights to be redeemed in any installment to the extent of such redemption, as determined by the Fund. The first half-yearly payment shall be made six months after the decision to liquidate the Special Drawing Rights Department.

2. If it is decided to liquidate the Fund within six months of the date of the decision to liquidate the Special Drawing Rights Department, the liquidation of the Special Drawing Rights Department shall not proceed until special drawing rights held in the General Resources Account have been distributed in accordance with the following rule:

> After the distributions made under 2(*a*) and (*b*) of Schedule K, the Fund shall apportion its special drawing rights held in the General Resources Account among all members that are participants in proportion to the amounts due to each participant after the distribution under 2(*b*). To determine the amount due to each member for the purpose of apportioning the remainder of its holdings of each currency under 2(*d*) of Schedule K, the Fund shall deduct the distribution of special drawing rights made under this rule.

3. With the amounts received under 1 above, the Fund shall redeem special drawing rights held by holders in the following manner and order:

   (*a*) Special drawing rights held by governments that have terminated their participation more than six months before the date the Board of Governors decides to liquidate the Special Drawing Rights Department shall be redeemed in accordance with the terms of any agreement under Article XXIV or Schedule H.

(*b*) Special drawing rights held by holders that are not participants shall be redeemed before those held by participants, and shall be redeemed in proportion to the amount held by each holder.

(*c*) The Fund shall determine the proportion of special drawing rights held by each participant in relation to its net cumulative allocation. The Fund shall first redeem special drawing rights from the participants with the highest proportion until this proportion is reduced to that of the second highest proportion; the Fund shall then redeem the special drawing rights held by these participants in accordance with their net cumulative allocations until the proportions are reduced to that of the third highest proportion; and this process shall be continued until the amount available for redemption is exhausted.

4. Any amount that a participant will be entitled to receive in redemption under 3 above shall be set off against any amount to be paid under 1 above.

5. During liquidation the Fund shall pay interest on the amount of special drawing rights held by holders, and each participant shall pay charges on the net cumulative allocation of special drawing rights to it less the amount of any payments made in accordance with 1 above. The rates of interest and charges and the time of payment shall be determined by the Fund. Payments of interest and charges shall be made in special drawing rights to the extent possible. A participant that does not hold sufficient special drawing rights to meet any charges shall make the payment with a currency specified by the Fund. Special drawing rights received as charges in amounts needed for administrative expenses shall not be used for the payment of interest, but shall be transferred to the Fund and shall be redeemed first and with the currencies used by the Fund to meet its expenses.

6. While a participant is in default with respect to any payment required by 1 or 5 above, no amounts shall be paid to it in accordance with 3 or 5 above.

7. If after the final payments have been made to participants each participant not in default does not hold special drawing rights in the same proportion to its net cumulative allocation, those participants holding a lower proportion shall purchase from those holding a higher proportion such amounts in accordance with arrangements made by the Fund as will make the proportion of their holdings of special drawing rights the same. Each participant in default shall pay to the Fund its own currency in an amount equal to its default. The Fund shall apportion this currency and any residual claims among participants in proportion to the amount of special drawing rights held by each and these special drawing rights shall be cancelled. The Fund shall then close the books of the Special Drawing Rights Department and all of the Fund's liabilities arising from the allocations of special drawing rights and the administration of the Special Drawing Rights Department shall cease.

8. Each participant whose currency is distributed to other participants under this Schedule guarantees the unrestricted use of such currency at all times for the purchase of goods or for payments of sums due to it or to persons in its territories. Each participant so obligated agrees to compensate other participants for any loss resulting from the difference between the value at which the Fund distributed its currency under this Schedule and the value realized by such participants on disposal of its currency.

Schedule J

Settlement of Accounts with Members Withdrawing

1. The settlement of accounts with respect to the General Resources Account shall be made according to 1 to 6 of this Schedule. The Fund shall be obligated to pay to a member withdrawing an amount equal to its quota, plus any other amounts due to it from the Fund, less any amounts due to the Fund, including charges accruing after the date of its withdrawal; but no

payment shall be made until six months after the date of withdrawal. Payments shall be made in the currency of the withdrawing member, and for this purpose the Fund may transfer to the General Resources Account holdings of the member's currency in the Special Disbursement Account or in the Investment Account in exchange for an equivalent amount of the currencies of other members in the General Resources Account selected by the Fund with their concurrence.

2. If the Fund's holdings of the currency of the withdrawing member are not sufficient to pay the net amount due from the Fund, the balance shall be paid in a freely usable currency, or in such other manner as may be agreed. If the Fund and the withdrawing member do not reach agreement within six months of the date of withdrawal, the currency in question held by the Fund shall be paid forthwith to the withdrawing member. Any balance due shall be paid in ten half-yearly installments during the ensuing five years. Each such installment shall be paid, at the option of the Fund, either in the currency of the withdrawing member acquired after its withdrawal or in a freely usable currency.

3. If the Fund fails to meet any installment which is due in accordance with the preceding paragraphs, the withdrawing member shall be entitled to require the Fund to pay the installment in any currency held by the Fund with the exception of any currency which has been declared scarce under Article VII, Section 3.

4. If the Fund's holdings of the currency of a withdrawing member exceed the amount due to it, and if agreement on the method of settling accounts is not reached within six months of the date of withdrawal, the former member shall be obligated to redeem such excess currency in a freely usable currency. Redemption shall be made at the rates at which the Fund would sell such currencies at the time of withdrawal from the Fund. The withdrawing member shall complete redemption within five years of the date of withdrawal, or within such longer period as may be fixed by the Fund, but shall not be required to redeem in any half-yearly period more than one-tenth of the Fund's excess holdings of its currency at the date of withdrawal plus further acquisitions of the currency during such half-yearly period. If the withdrawing member does not fulfill this obligation, the Fund may in an orderly manner liquidate in any market the amount of currency which should have been redeemed.

5. Any member desiring to obtain the currency of a member which has withdrawn shall acquire it by purchase from the Fund, to the extent that such member has access to the general resources of the Fund and that such currency is available under 4 above.

6. The withdrawing member guarantees the unrestricted use at all times of the currency disposed of under 4 and 5 above for the purchase of goods or for payment of sums due to it or to persons within its territories. It shall compensate the Fund for any loss resulting from the difference between the value of its currency in terms of the special drawing right on the date of withdrawal and the value realized in terms of the special drawing right by the Fund on disposal under 4 and 5 above.

7. If the withdrawing member is indebted to the Fund as the result of transactions conducted through the Special Disbursement Account under Article V, Section 12(*f*)(ii), the indebtedness shall be discharged in accordance with the terms of the indebtedness.

8. If the Fund holds the withdrawing member's currency in the Special Disbursement Account or in the Investment Account, the Fund may in an orderly manner exchange in any market for the currencies of members the amount of the currency of the withdrawing member remaining in each account after use under 1 above, and the proceeds of the exchange of the amount in each account shall be kept in that account. Paragraph 5 above and the first sentence of 6 above shall apply to the withdrawing member's currency.

9. If the Fund holds obligations of the withdrawing member in the Special Disbursement Account pursuant to Article V, Section 12(*h*), or in the Investment Account, the Fund may

hold them until the date of maturity or dispose of them sooner. Paragraph 8 above shall apply to the proceeds of such disinvestment.

10. In the event of the Fund going into liquidation under Article XXVII, Section 2 within six months of the date on which the member withdraws, the accounts between the Fund and that government shall be settled in accordance with Article XXVII, Section 2 and Schedule K.

Schedule K

Administration of Liquidation

1. In the event of liquidation the liabilities of the Fund other than the repayment of subscriptions shall have priority in the distribution of the assets of the Fund. In meeting each such liability the Fund shall use its assets in the following order:

(*a*) the currency in which the liability is payable;

(*b*) gold;

(*c*) all other currencies in proportion, so far as may be practicable, to the quotas of the members.

2. After the discharge of the Fund's liabilities in accordance with 1 above, the balance of the Fund's assets shall be distributed and apportioned as follows:

(*a*) (i) The Fund shall calculate the value of gold held on August 31, 1975 that it continues to hold on the date of the decision to liquidate. The calculation shall be made in accordance with 9 below and also on the basis of one special drawing right per 0.888 671 gram of fine gold on the date of liquidation. Gold equivalent to the excess of the former value over the latter shall be distributed to those members that were members on August 31, 1975 in proportion to their quotas on that date.

(ii) The Fund shall distribute any assets held in the Special Disbursement Account on the date of the decision to liquidate to those members that were members on August 31, 1975 in proportion to their quotas on that date. Each type of asset shall be distributed proportionately to members.

(*b*) The Fund shall distribute its remaining holdings of gold among the members whose currencies are held by the Fund in amounts less than their quotas in the proportions, but not in excess of, the amounts by which their quotas exceed the Fund's holdings of their currencies.

(*c*) The Fund shall distribute to each member one-half the Fund's holdings of its currency but such distribution shall not exceed fifty percent of its quota.

(*d*) The Fund shall apportion the remainder of its holdings of gold and each currency

(i) among all members in proportion to, but not in excess of, the amounts due to each member after the distributions under (*b*) and (*c*) above, provided that distribution under 2(*a*) above shall not be taken into account for determining the amounts due, and

(ii) any excess holdings of gold and currency among all the members in proportion to their quotas.

3. Each member shall redeem the holdings of its currency apportioned to other members under 2(*d*) above, and shall agree with the Fund within three months after a decision to liquidate upon an orderly procedure for such redemption.

4. If a member has not reached agreement with the Fund within the three-month period referred to in 3 above, the Fund shall use the currencies of other members appor-

tioned to that member under 2(*d*) above to redeem the currency of that member apportioned to other members. Each currency apportioned to a member which has not reached agreement shall be used, so far as possible, to redeem its currency apportioned to the members which have made agreements with the Fund under 3 above.

5. If a member has reached agreement with the Fund in accordance with 3 above, the Fund shall use the currencies of other members apportioned to that member under 2(*d*) above to redeem the currency of that member apportioned to other members which have made agreements with the Fund under 3 above. Each amount so redeemed shall be redeemed in the currency of the member to which it was apportioned.

6. After carrying out the steps in the preceding paragraphs, the Fund shall pay to each member the remaining currencies held for its account.

7. Each member whose currency has been distributed to other members under 6 above shall redeem such currency in the currency of the member requesting redemption, or in such other manner as may be agreed between them. If the members involved do not otherwise agree, the member obligated to redeem shall complete redemption within five years of the date of distribution, but shall not be required to redeem in any half-yearly period more than one-tenth of the amount distributed to each other member. If the member does not fulfill this obligation, the amount of currency which should have been redeemed may be liquidated in an orderly manner in any market.

8. Each member whose currency has been distributed to other members under 6 above guarantees the unrestricted use of such currency at all times for the purchase of goods or for payment of sums due to it or to persons in its territories. Each member so obligated agrees to compensate other members for any loss resulting from the difference between the value of its currency in terms of the special drawing right on the date of the decision to liquidate the Fund and the value in terms of the special drawing right realized by such members on disposal of its currency.

9. The Fund shall determine the value of gold under this Schedule on the basis of prices in the market.

10. For the purposes of this Schedule, quotas shall be deemed to have been increased to the full extent to which they could have been increased in accordance with Article III, Section 2(*b*) of this Agreement.

Index to Articles of Agreement

By-Laws and Rules and Regulations

The By-Laws and the Rules and Regulations of the Fund that were in effect on August 1, 1979 are reproduced below.

By-Laws of the International Monetary Fund

(August 1, 1979)

CONTENTS

These By-Laws are adopted under the authority of, and are intended to be complementary to, the Articles of Agreement of the International Monetary Fund; and they shall be construed accordingly. In the event of a conflict between anything in these By-Laws and any provision or requirement of the Articles of Agreement, the Articles of Agreement shall prevail.

Section 1. Places of Business

The principal office of the Fund shall be located within the metropolitan area of Washington, D.C., United States of America.

The Executive Board may establish and maintain agencies or branch offices at any place in the territories of other members, whenever it is necessary to do so in order to facilitate the efficient conduct of the business of the Fund.

Adopted March 16, 1946, amended June 13, 1978

Section 2. General Department and Special Drawing Rights Department

In matters pertaining exclusively to the Special Drawing Rights Department references in these By-Laws, other than in Sections 4, 5, 6, and 13(b), to members of the Fund or to Governors and Executive Directors shall be understood to refer only to members that are participants or to Governors appointed by members that are participants and Executive Directors appointed by a participant or elected or designated by at least one member that is a participant.

Adopted October 2, 1969, amended June 13, 1978

Section 3. Meetings of the Board of Governors

(a) The Board of Governors shall hold regular meetings, which shall be at annual intervals unless the Board of Governors decides otherwise. The Board of Governors shall determine the time and place of a regular meeting, but the Executive Board may change the time and place of such a meeting if it deems it necessary to do so because of special circumstances. "Regular meetings" of the Board of Governors shall mean meetings subject to this Section 3(a).

(b) Special meetings of the Board of Governors may be called at any time by the Board of Governors or the Executive Board and shall be called upon the request of fifteen members of the Fund or of members of the Fund having in the aggregate one-quarter of the total voting power. Whenever any member of the Fund requests the Executive Board to call a special meeting of the Board of Governors, the member shall state the reasons therefore. The Managing Director shall notify all members of the Fund of the request and of the reasons given therefor.

(c) Arrangements shall be made for meetings of the Board of Governors in the territory of a member only if the Fund has received written assurances with respect to immunities and privileges and other facilities for holding meetings that are satisfactory to it.

Adopted March 16, 1946, amended October 2, 1946, and June 13, 1978

Section 4. Notice of Meetings of the Board of Governors

The Managing Director shall cause notice of the time and place of each meeting of the Board of Governors to be given to each member of the Fund by rapid means of communication not less than 42 days prior to the date set for such meeting, except that in urgent cases notice shall be sufficient if dispatched by rapid means of communication not less than ten days prior to the date set for the meeting.

Adopted March 16, 1946, amended October 2, 1946, and June 13, 1978

Section 5. Attendance at Meetings

(a) An Executive Director and his Alternate may attend all meetings of the Board of Governors and may participate in such meetings, but an Executive Director or his Alternate shall not be entitled to vote at any such meetings unless he shall be entitled to vote as a Governor or an Alternate or temporary Alternate of a Governor.

(b) The Chairman of the Board of Governors, in consultation with the Executive Board, may invite observers to attend any meeting of the Board of Governors.

(c) The Executive Board is authorized to invite the International Bank for Reconstruction and Development to send a representative of the Bank to meetings of the Board of Governors and the Executive Board who may participate in such meetings, but shall have no vote.

(d) The Executive Board is authorized to accept invitations from the Bank to send a representative of the Fund to participate in meetings of the Board of Governors or Executive Directors of the Bank.

Adopted March 16, 1946; paragraphs (c) and (d) were adopted as Section 2 on March 16, 1946; amended October 2, 1946 and June 13, 1978

Section 6. Agenda of Meetings of the Board of Governors

(a) Under the direction of the Executive Board, the Managing Director shall prepare an agenda for each meeting of the Board of Governors and shall cause the agenda to be transmitted to each member of the Fund with the notice of the meeting.

(b) Additional subjects may be placed on the agenda for any meeting of the Board of Governors by any Governor provided that he shall give notice thereof to the Managing Director not less than seven days prior to the date set for the meeting. In special circumstances the Managing Director, by direction of the Executive Board, may at any time place additional subjects on the agenda for any meeting of the Board of Governors. The Managing Director shall cause notice of the addition of any subjects to the agenda for any meeting of the Board of Governors to be given as promptly as possible to each member of the Fund.

(c) Any Governor or Governors may request the Board of Governors at any time to place a subject on the agenda for any meeting of the Board of Governors even though the notice required by this Section has not been given. The Board of Governors may at any time place any subject on the agenda for any meeting of the Board of Governors even though the notice required by this Section has not been given.

(d) Except as otherwise specifically directed by the Board of Governors, the Chairman of the Board of Governors jointly with the Managing Director shall have charge of all arrangements for the holding of meetings of the Board of Governors.

Adopted March 16, 1946, amended October 2, 1946, and June 13, 1978

Section 7. Selection of Chairman and Vice-Chairmen

At each regular meeting the Board of Governors shall select a Governor to act as Chairman and at least two other Governors to act as Vice-Chairmen until the end of the next regular meeting.

In the absence of the Chairman, the Vice-Chairman designated by the Chairman shall act in his place.

Adopted March 16, 1946, amended June 13, 1978

Section 8. Secretary

The Secretary of the Fund shall serve as Secretary of the Board of Governors.

Adopted March 16, 1946

Section 9. Minutes

The Board of Governors shall keep a summary record of its proceedings, which shall be available to all members and which shall be filed with the Executive Board for its guidance.

Adopted March 16, 1946, amended June 13, 1978

Section 10. Report of Executive Board

The Executive Board shall have prepared for presentation to the Board of Governors an annual report in which shall be discussed the policies and activities of the Fund and which shall make recommendations to the Board of Governors on the problems confronting the Fund. The Executive Board shall review, as part of the annual report, the functioning of the international monetary system, including the adequacy of global reserves, the conduct of the business of the General Department and of the Special Drawing Rights Department, as well as the performance of financial services by the Fund, including the administration of resources contributed by members.

Adopted March 16, 1946, amended October 2, 1969, and June 13, 1978

Section 11. Voting

Except as otherwise specifically provided in the Articles of Agreement, all decisions of the Board of Governors shall be made by a majority of the votes cast. At any meeting the Chairman may ascertain the sense of the meeting in lieu of a formal vote but he shall require a formal vote upon the request of any Governor. Whenever a formal vote is required the written text of the motion shall be distributed to the voting members.

Adopted March 16, 1946, amended June 13, 1978

Section 12. Proxies

No Governor or Alternate may vote at any meeting by proxy or by any other method than in person, but a member may make provision for the designation of a temporary Alternate to vote for the Governor at any session of the Board of Governors at which the regularly designated Alternate is unable to be present.

Adopted March 16, 1946, amended June 13, 1978

Section 13. Voting Without Meeting

(a) Whenever, in the judgment of the Executive Board, any action by the Fund must be taken by the Board of Governors which should not be postponed until the next meeting of the Board of Governors and does not warrant the calling of a special meeting of the Board of Governors, the Executive Board shall request Governors to vote without meeting.

(b) The Executive Board shall present to each member by rapid means of communication a motion embodying the proposed action.

(c) Votes shall be cast during such period as the Executive Board may prescribe.

(d) The Executive Board may provide that no Governor shall vote on a motion during such period after dispatch of the motion as the Executive Board prescribes.

(e) At the expiration of the period prescribed for voting, the Executive Board shall record the results, and the Managing Director shall notify all members. If the replies received do not include a majority of the Governors exercising two-thirds of the total voting power, which is required for a quorum of the Board of Governors, the motion shall be considered lost.

Adopted March 16, 1946, amended October 2, 1969, and June 13, 1978

Section 14. Terms of Service

(a) Governors and Alternates shall receive reimbursement for reasonable expenses incurred in attending meetings of the Board of Governors.

(b) Pending the necessary action by members to exempt from national taxation salaries and allowances paid out of the budget of the Fund, the Governors and the Executive Directors, and their Alternates, the Managing Director, and staff members and other employees of the Fund, except those whose employment contracts state otherwise, shall be reimbursed by the Fund for the taxes which they are required to pay on such salaries and allowances.

In computing the amount of tax adjustment to be made with respect to any individual, it shall be presumed for the purposes of the computation that the income received from the Fund is his total income. All salary scales and expense allowances prescribed by this section are stated as net on the above basis.

(c) The salary of the Managing Director shall be determined by the Board of Governors and shall be included in his contract. The Fund shall also pay any reasonable expenses incurred by the Managing Director in the interest of the Fund (including travel and transportation expenses for himself, and expenses for his family, and his personal effects in moving once to the seat of the Fund during or immediately before his term of office and in moving once from the seat during or within a reasonable period after his term of office). The contract of the Managing Director shall be for a term of five years and may be renewed for the same term or for a shorter term at the discretion of the Executive Board, provided that no person shall be initially appointed to the post of Managing Director after he has reached his sixty-fifth birthday and that no Managing Director shall hold such post beyond his seventieth birthday.

(d) It shall be the duty of an Executive Director and his Alternate to devote all the time and attention to the business of the Fund that its interests require, and, between them, to be continuously available at the principal office of the Fund; however, in the event that both an Executive Director and his Alternate are unable to be available at the principal office of the Fund for reasons of health, absence while on business of the Fund, or similar reasons, the Executive Director may designate a temporary Alternate to act for him for periods of time which shall not in the aggregate exceed fifteen business days in the course of any year of his service. In special circumstances the Executive Director may designate a temporary Alternate to serve for an additional aggregate period not exceeding fifteen business days. A temporary Alternate shall receive no salary or expense allowance for his services in this capacity.

(e) (i) Executive Directors and their Alternates shall be entitled to remuneration in the form of salary and supplemental allowances at such annual rates as shall be determined from time to time by the Board of Governors. Remuneration as determined shall continue until changed by the Board of Governors.

(ii) A standing Joint Committee on the Remuneration of Executive Directors and their Alternates, appointed by the Chairmen of the Boards of Governors of the Fund and Bank and consisting of one of the Chairmen and two former Governors or Alternate Governors of the Fund or Bank, chosen by the Chairmen in consultation with the Managing Director of the Fund and the President of the Bank, shall be constituted following each regular meeting of the Board of Governors. The Joint Committee shall consider all matters affecting the remuneration and other benefits of the Executive Directors of the Bank and Fund, and of their Alternates, and from time to time, but at least by July 1 of each year in which a regular election of Executive Directors is scheduled to be held, shall make such recommendations for any action by the Board of Governors on the said matters as the Joint Committee shall deem advisable. Reports of the Joint Committee shall be submitted to the Board of Governors for a vote on any recommendation contained therein without meeting in accordance with Section 13

of the By-Laws. In making proposals with respect to the remuneration of the Executive Directors and their Alternates, the Committee shall bear in mind their functions under the Articles of Agreement of the Fund in relation to those of the Managing Director.

(f) The Executive Directors and their Alternates are to be reimbursed, in addition, for all reasonable expenses incurred during absence from the seat of the Fund while on official Fund business, and for reasonable expenses actually incurred by them in Washington or in the place of a meeting of the Board of Governors in connection with official Fund business to entertain senior officials coming from the countries that appointed, elected, or designated them. They shall also be reimbursed for travel and transportation expenses for themselves, their families, and their personal effects in moving once to the seat of the Fund during or immediately before their periods of service, and in moving once from the seat during or within a reasonable period after their periods of service.

In addition, Executive Directors and Alternates shall, in the third year of continuous full-time service in either capacity and in every second year of such service thereafter, be entitled to reimbursement for the cost of transportation expenses for their families in travelling once to and from the country of which they or their spouses are nationals, provided that in cases where the spouse is a national of a country other than that of the Executive Director or the Alternate the reimbursement for transportation expenses to and from the country of the spouse does not exceed transportation expenses to and from the country of which the Executive Director or Alternate is a national. For home leave travel every second year, reimbursement shall be made on the basis of cabin- or economy-class accommodations.

(g) Where not specified, it is assumed that the Executive Director or Alternate will be a full-time Executive Director or Alternate. Where it is intended that he shall not devote his full time, it shall be so indicated. Where an Executive Director or Alternate indicates that he intends to devote only part of his time to the Fund, his remuneration shall be prorated on the basis of a representation by him of the proportion of his time he has devoted to the interests of the Fund. The representation shall be made at appropriate intervals.

(h) Where an individual is serving both Fund and Bank, the aggregate of salary received from both shall not exceed the full annual single salary as determined in accordance with (e) above.

In all cases of salaries or expenses involving dual offices in the Fund or Bank, or both, the individual affected is entitled to take his choice as to which salary or expense he elects, but he shall not be entitled to both.

(i) An individual putting forward a claim for reimbursement for any expenses incurred by him shall include therewith a representation that he has not received and will not claim reimbursement in respect to those expenses from any other source.

(j) Secretarial and staff services, office space, and other services incidental to the performance of the duties of the Executive Directors and Alternates shall be provided by the Fund.

Adopted March 16, 1946; paragraph (a) amended March 18, 1946, June 6, 1966, and May 17, 1977; paragraph (c) amended July 27, 1951, December 14, 1960, effective December 1, 1960, February 13, 1969, effective November 1, 1968, and August 31, 1973, effective September 1, 1973; paragraph (d) amended September 17, 1947, December 20, 1971, and June 26, 1972; paragraph (e) amended January 5, 1951, effective January 1, 1951, December 2, 1957, effective November 1, 1957, December 28, 1959, effective November 1, 1959, November 7, 1962, effective September 1, 1962, August 8, 1966, effective November 1, 1965, February 13, 1969, effective November 1, 1968, July 30, 1969, effective August 1,

1969, July 13, 1972, effective November 1, 1972, and July 8, 1974; paragraph (f) amended September 17, 1947, September 30, 1948, August 18, 1961, September 10, 1964, and February 13, 1969; paragraphs (a) through (h) and (j) amended June 13, 1978

Section 15. Delegation of Authority

The Executive Board is authorized by the Board of Governors to exercise all the powers of the Board of Governors except those conferred directly by the Articles of Agreement on the Board of Governors.

Adopted March 16, 1946, amended October 2, 1969, and June 13, 1978

Section 16. Rules and Regulations

The Executive Board is authorized by the Board of Governors to adopt such Rules and Regulations, including financial regulations, as may be necessary or appropriate to conduct the business of the Fund. Any Rules and Regulations so adopted, and any amendments thereof, shall be subject to review by the Board of Governors at their next regular meeting.

Adopted March 16, 1946, amended June 13, 1978

Section 17. Vacant Directorships

Whenever a new Executive Director must be elected because of a vacancy requiring an election, the Managing Director shall notify the members who elected the former Executive Director of the existence of the vacancy. He may convene a meeting of the Governors of these members exclusively for the purpose of electing a new Executive Director; or he may request nominations, and conduct ballots, by rapid means of communication. Successive ballots shall be cast until one candidate has a majority; and after each ballot, the candidate with the smallest number of votes shall be dropped from the next ballot.

When a new elective Executive Director is named, the office of Alternate shall be deemed to be vacant and an Alternate shall be named by the newly elected Executive Director.

Adopted March 16, 1946, amended June 13, 1978

Section 18. Additional Directors

(a) At least six weeks before each regular election of Executive Directors, the Managing Director shall notify all members by rapid means of communication of the two members whose currencies held in the General Resources Account have been, on the average over the preceding two years, reduced below their quotas by the largest absolute amounts in terms of the special drawing right. He shall state whether either or both may appoint an Executive Director in accordance with Article XII, Section 3(*c*).

(b) The Executive Board shall prescribe a period within which a member that may appoint an Executive Director in accordance with Article XII, Section 3(*c*) shall notify the Managing Director whether it will appoint an Executive Director. The Managing Director shall inform each member that may appoint an Executive Director under Article XII, Section 3(*c*) of the period and shall inform all members promptly of the receipt of a notification under this (b).

(c) A member that is entitled to appoint an Executive Director in accordance with Article XII, Section 3(*b*)(i) and a member that may appoint an Executive Director in accordance with Article XII, Section 3(*c*) and notifies the Managing Director under (b) above

that it will appoint an Executive Director shall not participate in the election of an Executive Director.

Adopted March 16, 1946, amended June 13, 1978

Section 19. Representation of Members Not Entitled to Appoint an Executive Director

(a) Each member not entitled to appoint an Executive Director in accordance with Article XII, Section 3(*b*)(i) may, in accordance with the regulations provided in this Section, send a representative to attend any meeting of the Executive Board when a request made by, or a matter particularly affecting, that member is under consideration. A member may waive its rights under this provision. The Executive Board shall determine whether a matter under consideration particularly affects a member not entitled to appoint an Executive Director in accordance with Article XII, Section 3(*b*)(i), which determination shall be final.

(b) Whenever a member not entitled to appoint an Executive Director in accordance with Article XII, Section 3(*b*)(i) desires to present its views at the meeting of the Executive Board at which a request the member has made is to be considered, it shall so notify the Fund when it makes the request and shall designate a representative for this purpose who shall be available at the seat of the Fund. Failure to give notice or to designate an available representative shall constitute a waiver of the member's right to present its views at the meeting.

(c) Whenever the Executive Board is to consider a matter which has been determined particularly to affect a member not entitled to appoint an Executive Director in accordance with Article XII, Section 3(*b*)(i), the member shall be promptly informed by rapid means of communication of the date set for its consideration. No final action shall be taken by the Executive Board with respect to such matter, nor any question particularly affecting such member submitted to the Board of Governors, until the member has either waived its rights under paragraph (a) of this Section or has been given an opportunity to present its views through an appropriately authorized representative at a meeting of the Executive Board, of which the member has had reasonable notice.

Adopted March 16, 1946, amended September 17, 1947, and June 13, 1978

Section 20. Budget and Audits

(a) The Managing Director shall prepare an annual administrative budget to be presented to the Executive Board for approval. The budget so approved shall be incorporated in the annual report presented to the Board of Governors.

(b) An external audit of the financial statements of the Fund and of Accounts administered under Article V, Section 2(*b*), including the financial statements of the Staff Retirement Fund, shall be made annually and such audit shall relate to the period representing the financial year.

(c) The annual audit shall be made by an external audit committee consisting of either three or five persons each of whom shall be nominated by a different member of the Fund and confirmed by the Executive Board. At least one person serving on each audit committee shall be nominated by one of the six members of the Fund having the largest quotas, and at least one person shall be nominated by a member that is also a participant in the Special Drawing Rights Department. The Executive Board shall determine, in the case of each audit, whether the audit committee shall consist of three or five persons and which members of the Fund shall be requested to nominate persons to serve on the committee. The service of the members of each audit committee shall terminate upon comple-

tion of the annual audit and submission of the audit report. The Managing Director shall arrange for auditing services by persons outside the Fund to assist the audit committee in the performance of its functions. The members of the audit committee and any outside assistants shall respect the confidential nature of their service and the information made available for purposes of the audit.

Each audit committee shall elect one of its members as chairman, shall determine its own procedure, and shall otherwise be independent of the Management of the Fund in conducting the annual audit.

(d) The annual audit shall be conducted in accordance with generally accepted auditing standards, and shall include such tests of the accounting records and such other auditing procedures as are considered necessary. The audit shall be comprehensive with respect to examination of the financial records of the General Department, the Special Drawing Rights Department, and Accounts administered under Article V, Section 2(*b*), including the Staff Retirement Fund; shall extend, insofar as practicable, to the ascertainment that operations and transactions conducted during the period under review are supported by the necessary authority; and shall determine that there is adequate and faithful accounting for the assets and liabilities of the General Department and Accounts administered under Article V, Section 2(*b*), including the Staff Retirement Fund, and for special drawing rights. On the basis of this audit, the audit committee shall state whether the financial statements as presented give a true and fair view of the financial position at the close of the financial year of the General Department, and of Accounts administered under Article V, Section 2(*b*), including the Staff Retirement Fund, and, with respect to the Special Drawing Rights Department, of the allocations and holdings of special drawing rights, and of the results of operations and transactions during that year. For these purposes, the audit committee shall have access to the accounting records of the Fund and other supporting evidence of its operations and transactions, and of its administration of Accounts under Article V, Section 2(*b*), including the Staff Retirement Fund. The Managing Director of the Fund shall furnish the audit committee with such information and representations as may be required in connection with the audit.

(e) The Executive Board shall decide all questions of policy raised by requests of the audit committee for particular information or the inspection of particular records or documents. The refusal of any such requests for reasons of policy shall be explained in the comments of the Executive Board forwarded to the Board of Governors with the audit report.

Any question the audit committee may have concerning interpretation of the Articles of Agreement, the By-Laws, the Rules and Regulations, or the decisions of the Fund shall be discussed with the Managing Director, or officials designated by him, and if the reply is not completely satisfactory to the audit committee, the matter shall be referred to the Executive Board through the Managing Director.

(f) The audit committee shall submit the audit report to the Board of Governors for consideration by it. Such submission shall be made through the Managing Director and the Executive Board which shall forward with the audit report its comments thereon. The audit committee shall afford the Managing Director an opportunity for explanation to it before deciding that any matter seems to require criticism in the report. The audit report shall be submitted to the Board of Governors within a reasonable time after its completion.

The audit committee may formally furnish to the Managing Director and the Executive Board the committee's views and suggestions concerning the system of accounting, internal financial control, and documentary or other procedure which may technically strengthen or improve the administration of the Fund's financial affairs. Such matters

need not be dealt with in the audit report unless the audit committee believes they are of such moment as to warrant inclusion.

(g) The Managing Director shall determine what expenses are necessary and reasonable in connection with each annual audit, and the Fund shall bear such expenses.

Adopted March 16, 1946, amended September 17, 1947, October 2, 1969, March 20, 1972, and June 13, 1978

Section 21. Applications for Membership

(a) Any country may apply for membership in the Fund by filing with the Fund an application, which shall set forth all relevant facts.

(b) The Executive Board shall report on all applications to the Board of Governors. When an application is submitted to the Board of Governors with a recommendation that the applicant country be admitted to membership, the Executive Board after consultation with the applicant country shall recommend to the Board of Governors the amount of the quota, the form of payment of the subscription, and such other conditions as, in the opinion of the Executive Board, the Board of Governors may wish to prescribe.

Adopted March 16, 1946, amended June 13, 1978

Section 22. Compulsory Withdrawal

Before any member is required to withdraw from membership in the Fund, the matter shall be considered by the Executive Board, which shall inform the member in reasonable time of the complaint against it and allow the member an adequate opportunity for stating its case both orally and in writing. The Executive Board shall recommend to the Board of Governors the action it deems appropriate. The member shall be informed of the recommendation and the date on which its case will be considered by the Board of Governors and shall be given a reasonable time within which to present its case to the Board of Governors both orally and in writing. Any member so electing may waive this provision.

Adopted March 16, 1946, amended June 13, 1978

Section 23. Settlement of Disagreements with Withdrawing Member

The President of the International Court of Justice is prescribed as the authority to appoint an umpire whenever there arises a disagreement of the type referred to in Article XXI(*d*) or Article XXIX(*c*).

Adopted March 16, 1946, amended October 2, 1969, and June 13, 1978

Section 24. Amendment of By-Laws

These By-Laws may be amended by the Board of Governors at any meeting thereof or by vote without a meeting as provided in Section 13.

Adopted October 2, 1946

Rules and Regulations of the International Monetary Fund
(August 1, 1979)

CONTENTS

A—Scope of Rules and Regulations

A-1. These Rules and Regulations supplement the Articles of Agreement and the By-Laws adopted by the Board of Governors. They are not intended to replace any provision of either the Articles or the By-Laws. The Rules and Regulations provide such operating rules, procedures, regulations, and interpretation as are necessary and desirable to carry out the purposes and powers contained in the Articles, as supplemented by the By-Laws. If any provision in the Rules and Regulations is found to be in conflict with any provision in the Articles or in the By-Laws, the Articles and By-Laws shall prevail and an appropriate amendment shall be made to these Rules and Regulations.

Adopted September 25, 1946, amended April 1, 1978

A-2. Additions to, and changes of, the Rules and Regulations will be made as experience brings to light new problems or suggests modifications in procedures already adopted.

Adopted September 25, 1946

B—Terms and Definitions

B-1. Executive Director, except where otherwise specified, shall include the Alternate or the temporary Alternate, as the case may be. In matters pertaining exclusively to the Special Drawing Rights Department references in these Rules and Regulations to Executive Director, other than in Rules C-1, C-5(a), C-15, and C-16, shall apply to an Executive Director appointed by a participant or elected or designated by at least one member that is a participant. Staff shall include all officers or employees of the Fund other than the Managing Director and those persons whose contracts state that they are not staff members. It shall not include Executive Directors, Alternate Executive Directors, Advisors or assistants to Executive Directors.

Adopted September 25, 1946; amended August 14, 1947, effective September 17, 1947; September 18, 1969; and April 1, 1978

B-2. Chairman, except where otherwise specified, shall refer to the Chairman or Acting Chairman of the Executive Board.

Adopted September 25, 1946

B-3. Agenda ordinarily refers to both the list of items to be considered at a meeting and the supplementary documents pertinent thereto.

Adopted September 25, 1946

B-4. Business day of the Fund refers to the normal working hours of the Fund, 9:00 a.m. to 5:30 p.m. at the official time for the District of Columbia, on Monday through Friday of each week with the following exceptions (which will include the preceding Friday whenever one of the dates specified below falls on a Saturday and the following Monday whenever one falls on a Sunday):

January 1
The third Monday in February
The last Monday in May
July 4
The first Monday in September

The second Monday in October
November 11
The fourth Thursday in November
December 25

Adopted May 28, 1947, amended March 8, 1948, October 27, 1961, November 24, 1970, April 1, 1978, and June 5, 1978

B-5. The definition of "business day" shall not affect in any way the arrangements which have been made for the receipt of messages at all times and for prompt action upon them as required by circumstances and by the Articles, By-Laws, and Rules and Regulations.

Adopted April 1, 1978

C—The Executive Board

Meetings

C-1. Meetings of the Executive Board shall be called by the Chairman as the business of the Fund may require. Except in special circumstances the Chairman shall notify all Executive Directors of meetings at least two business days in advance.

Adopted September 25, 1946, amended May 28, 1947, and April 1, 1978

C-2. The Chairman shall call a meeting at the request of any Executive Director.

Adopted September 25, 1946

C-3. (a) Ordinary meetings of the Executive Board shall be open to attendance by Advisors and assistants to Executive Directors, the Secretary and such other members of the staff as the Chairman indicates, but the Executive Board may determine which particular members of the staff may attend a session. The Deputy Managing Director shall be entitled to attend all ordinary meetings of the Executive Board.

(b) Meetings of the Executive Board shall be held in executive session whenever the Managing Director or any Executive Director so desires. Only Executive Directors, the Managing Director, and the Deputy Managing Director shall be present at executive sessions, except that for any particular executive session the Executive Board may permit attendance by the Secretary and by such other members of the staff as may be prescribed by the Executive Board. The Executive Board may permit attendance by Advisors or assistants to Executive Directors.

Adopted September 25, 1946, amended January 15, 1948, and April 1, 1978

C-4. The Executive Board shall meet at the principal office of the Fund unless the Executive Board decides that a particular meeting shall be held elsewhere.

Adopted September 25, 1946, amended April 1, 1978

C-5. (a) Executive Directors may participate in all meetings of the Executive Board and of its committees.

(b) In the absence of the Managing Director, the Deputy Managing Director shall act as Chairman and shall have a deciding vote in case of an equal division. In the absence of both the Managing Director and the Deputy Managing Director, the Executive Director selected by the Executive Board shall act as Chairman. An Executive Director shall retain his right to vote when serving as Acting Chairman.

Adopted September 25, 1946, amended November 12, 1948, September 18, 1969, and April 1, 1978

Agenda

C-6. The agenda for each meeting shall be prepared by the Chairman. The agenda shall include any item requested by an Executive Director.

Adopted September 25, 1946

C-7. Except in special circumstances the Chairman shall notify Executive Directors of new items on the agenda at least two full business days before their consideration in meetings. Additional advance notice shall be given at the discretion of the Chairman before the consideration of new items of special importance which may require consultation with members or the return to the principal office of the Fund of Executive Directors who are absent.

Adopted September 25, 1946, amended May 28, 1947, and April 1, 1978

C-8. Matters not on the agenda for a meeting may be considered at that meeting only by unanimous consent of the Executive Directors present.

Adopted September 25, 1946

C-9. Any item of the agenda for a meeting, consideration of which has not been completed at that meeting, shall, unless the Executive Board decides otherwise, be automatically included in the agenda of the next meeting.

Adopted September 25, 1946, amended April 1, 1978

Voting

C-10. The Chairman shall ordinarily ascertain the sense of the meeting in lieu of a formal vote. Any Executive Director may require a formal vote to be taken with votes cast as prescribed in Article XII, Section 3(*i*), or Article XXI(*a*)(ii).

Adopted September 25, 1946, amended September 18, 1969, and April 1, 1978

C-11. There shall be no formal voting in committees and subcommittees. The Chairman of the committee or subcommittee shall determine the sense of the meeting (including alternative points of view) which shall be reported.

Adopted September 25, 1946

C-12. No Executive Director may vote at any meeting by proxy or by any other method than in person.

Adopted September 25, 1946

Language

C-13. The working language of the Fund shall be English. The discussion, documents, and reports of meetings shall ordinarily be in English. Speeches or papers presented in other languages shall be translated into English.

Adopted September 25, 1946, amended April 1, 1978

Minutes

C-14. Under the direction of the Managing Director, the Secretary shall be responsible for the preparation of a summary record of the proceedings of the Executive Board.

Adopted September 25, 1946

C-15. Verbatim records shall be kept for inclusion in the archives of the Fund only if the Chairman or an Executive Director so requests. In addition, verbatim records may be kept in

order to assist the Secretary to prepare the summary record of a meeting of the Executive Board, provided that these verbatim records shall be destroyed after a reasonable period of time.

Adopted September 25, 1946, amended April 1, 1978

C-16. Draft minutes shall be circulated to all Executive Directors as soon as possible after meetings. They shall be submitted for approval by the Executive Board within a reasonable time.

Adopted September 25, 1946, amended May 28, 1947, August 14, 1947, and April 1, 1978

D—Application for Membership and Change in Quota

Application for Membership

D-1. When a country applies for membership in the Fund, the application shall be placed promptly before the Executive Board, and a reasonable time shall be allowed for discussion and preliminary investigation by the Executive Board before a decision is reached to proceed with the formal investigation. If this decision is in the affirmative the Fund may proceed to obtain all relevant information and discuss with the applicant any matters relating to its application. Any Executive Director may request such information to be added to the list requested of the applicant as in his opinion is relevant to the decision to be made. The Executive Board shall then decide whether to submit an application for membership with its views to the Board of Governors for a vote without meeting or hold the application until the next meeting of the Board of Governors.

If the Executive Board decides not to proceed with its formal investigation of an application for membership, it shall report that decision to the Board of Governors with the reasons for the decision.

Adopted September 25, 1946, amended April 1, 1978

Quotas

D-2. When a member requests an adjustment of its quota, the Executive Board, after consulting the member, shall submit a written report on the request to the Board of Governors.

Adopted September 25, 1946, amended May 28, 1947, and April 1, 1978

D-3. At least one year prior to the time when a general review of quotas must be undertaken by the Board of Governors, the Executive Board shall appoint a Committee of the Whole to study the matter and to prepare a written report. If it is decided to conduct a general review before the time at which such a review must be undertaken by the Board of Governors, the Executive Board shall appoint a Committee of the Whole for this purpose promptly.

Adopted September 25, 1946, amended April 1, 1978

E—Subscriptions

E-1. A member shall pay its currency subscription to the Fund at the designated depository. Each member is authorized to substitute, in accordance with Article III, Section 4, nonnegotiable, non-interest bearing notes payable to the Fund on demand for that part of the currency holdings of the Fund in the General Resources Account which exceed 1/4 of 1 per cent of the member's quota, and the depository shall hold such notes for the account of the Fund. Such notes shall not be accepted until the Fund is satisfied that they are in proper form and that their

issue has been authorized. The balances held in the administrative accounts of the Fund shall not be considered as part of the currency holdings of the Fund for the application of this Rule.

Adopted September 25, 1946, amended February 20, 1950, January 30, 1974, and April 1, 1978

E-2. The Executive Board may agree to alter the ¼ of 1 per cent requirement in the case of any member should circumstances in the opinion of the Executive Board warrant a different percentage.

Adopted September 25, 1946, amended February 20, 1950, and January 30, 1974

E-3. The member is allowed 24 hours in which to deposit the currency necessary to maintain the amount required under E-1 and E-2.

Adopted September 25, 1946, amended April 1, 1978

F—Gold

F-1. Gold depositories of the Fund shall be established in the United States, the United Kingdom, France, and India. The gold of the Fund shall be held with the depositories designated by the members in whose territories they are located at places agreed with the Fund.

Adopted September 25, amended November 29, 1956, and April 1, 1978

F-2. The Fund may hold gold under earmark for members.

Adopted April 1, 1978

G—Operations and Transactions

G-1. Each member shall designate a fiscal agency in accordance with Article V, Section 1, and may change the agency after notifying the Fund.

Adopted September 25, 1946, amended September 18, 1969

G-2. Instructions from a member for the transfer of currency, special drawing rights, or gold between it and the General Department and for transfers of special drawing rights through the Special Drawing Rights Department shall be given by the fiscal agency of the member. Instructions shall be authenticated in the manner agreed upon by the Fund and the fiscal agency.

Adopted September 25, 1946, amended February 20, 1947, and April 1, 1978

G-3. In its operations on behalf of the Fund a depository will act only on instructions authenticated in such manner as may be agreed upon by the Fund and the depository.

Adopted September 25, 1946, amended February 20, 1947, and April 1, 1978

G-4. When a duly authenticated request is received for a purchase in accordance with Article V, Section 3, other than a reserve tranche purchase or a purchase under a stand-by or extended arrangement, the Fund shall promptly consider the request. Instructions for a transfer of currency shall be given by the Fund on the day of its decision approving the purchase, except when the Executive Board decides otherwise. When a request is received for a reserve tranche purchase of currency, or for a purchase of currency in accordance with a stand-by or extended arrangement, the Fund's instructions to the appropriate depository to make the transfer shall be given not later than the close of the first business day following receipt of the request.

Adopted September 25, 1946, amended February 7, 1947, and April 1, 1978

G-5. When a member expects to purchase from the Fund, in a single transaction or a series of transactions, an amount of another member's currency that is unusually large in relation to

the quota of that other member, the member shall give the Managing Director as much notice of the proposed transaction or transactions as can reasonably be effected.

Adopted September 25, 1946, amended April 1, 1978

H—Exchange Controls, Currency Practices, Agreements, and Information

H-1. The Fund shall keep all exchange controls under review and shall consult with members with a view to the progressive removal of exchange restrictions in accordance with the Fund Agreement.

Adopted September 25, 1946

H-2. If a member complains to the Executive Board that another member is not complying with its obligations concerning exchange controls, discriminatory currency arrangements, or multiple currency practices, the complaint shall give all facts pertinent to an examination.

Adopted September 25, 1946

H-3. Upon receipt of a complaint from a member, the Executive Board shall make arrangements promptly for consultation with the members directly involved.

Adopted September 25, 1946

H-4. All requests by a member under Article VIII, Sections 2 and 3, that the Fund approve the imposition of restrictions on the making of payments and transfers for current international transactions, or the use of discriminatory currency arrangements or multiple currency practices, shall be submitted to the Executive Board in writing, with a statement of the reasons for making the request.

Adopted September 25, 1946

H-5. The Executive Board shall decide each request for approval expeditiously.

Adopted September 25, 1946

H-6. The Fund shall arrange through the fiscal agencies of members that frequent and regular information as to the market rates of members' currencies bought and sold in their territories is made available to the Fund.

Adopted September 25, 1946, amended April 1, 1978

H-7. Pursuant to Article VIII, Section 5, the Fund shall arrange with members to report their official holdings of gold and foreign exchange to the Fund within thirty days of the end of each month.

Adopted April 1, 1978

I—Charges in Respect of General Resources Account Transactions and Remuneration

I-1. The service charge payable by a member buying, in exchange for its own currency, the currency of another member or special drawing rights from the General Resources Account shall be ½ of 1 per cent, except that no service charge shall be payable in respect of any purchase to the extent that it is a reserve tranche purchase. The service charge shall be paid at the time the transaction is consummated. The service charge shall be reviewed in connection with any review of charges under Rule I-7.

Adopted September 25, 1946, amended November 19, 1951, November 14, 1952, June 26, 1953, October 14, 1953, December 23, 1953, December 15, 1954, December 27, 1955, May 23, 1956, December 21, 1956, December 9, 1957, December 12, 1958, March 20, 1959, April 20, 1959, April 19, 1960, April 17, 1961, April 25, 1962, April 24, 1963, April 13, 1964, April 28, 1965, April 22, 1966, September 18, 1969, September 10, 1971, and April 1, 1978

I-2. As soon as possible after July 31, October 31, January 31, and April 30, the Fund shall notify each member by cable of the charges it owes to the Fund pursuant to Article V, Section 8(*b*) or (*c*) for the three calendar months ending on each such date. These charges shall be payable promptly after the end of the quarter to which they relate.

Adopted September 25, 1946, amended July 30, 1948, February 24, 1954, April 1, 1977, and April 1, 1978

I-3. Charges payable by each member under Article V, Section 8(*b*) or (*c*) shall be computed on the basis of the "average of the holdings" which, as used in this section, means the average daily balances of its currency held by the Fund that are subject to charges, calculated as follows:

(a) at the end of each calendar month there shall be averaged for each member the daily amounts of the Fund's holdings of its currency on the Fund's books at the close of each day during that month that are subject to charges;

(b) the Fund's holdings of each member's currency shall consist of all of its currency except amounts, not in excess of 1/10 of 1 per cent of the member's quota, in a special account to meet administrative expenses and amounts in sundry cash accounts.

Adopted July 30, 1948, amended November 1, 1968, and April 1, 1978

I-4. The period of time during which the Fund's holdings of a member's currency have been at a particular level shall be the continuous period of time during which the average of the holdings has not fallen below that level, and, in determining periods of time for the application of the charges, changes in the average of the holdings shall affect the calculation of time periods in the following way:

(a) Each increase in the average of the holdings shall create a new segment of the holdings which will be equal to the amount of the increase and the period of time during which each segment is held shall be measured from the beginning of the month in which the increase in the average of the holdings occurs.

(b) Each decrease in the average of the holdings shall terminate the period of time during which the holdings have been in excess of the new average and the period of time shall terminate at the end of the month preceding that in which the decrease in the average of the holdings occurs.

Adopted July 30, 1948

I-5. The calculations under Rule I-3 and Rule I-4 shall be made separately in respect of the parts of the Fund's holdings of a member's currency that are subject to separate schedules of charges.

Adopted June 13, 1974, amended September 13, 1974, April 4, 1975, and April 1, 1978

I-6. Changes in any schedule of charges levied under Article V, Section 8(*b*) or (*c*) shall apply from the first day of the month following the month during which a change is made.

Adopted June 13, 1974, amended April 1, 1978

I-7. (1) The charge on a segment of the holdings of a member's currency acquired by the Fund as the result of a purchase under the Oil Facility for 1974 (Executive Board Decision No. 4241-(74/67)) shall be 6 7/8 per cent per annum for the first three years, and an additional 1/8 of 1 per cent per annum for each subsequent twelve months, provided that, subject to (9) below, the rate shall not increase above 7 1/8 per cent per annum.

(2) The charge on a segment acquired as the result of a purchase under the Oil Facility for 1975 (Executive Board Decision No. 4634-(75/47)) shall be 7 5/8 per cent per annum for the first three years and an additional 1/8 of 1 per cent per annum for each subsequent twelve months, provided that, subject to (9) below, the rate shall not increase above 7 7/8 per cent per annum.

(3) The charge on a segment acquired as the result of a purchase under the facility for the compensatory financing of export fluctuations (Decision No. 4912-(75/207), as amended) or under the facility for the problem of stabilization of prices of primary products (Decision No. 2772-(69/47), as amended), shall be at the rates in

(i) (5)(a)(i), (ii), and (iii) below if the segment includes holdings acquired prior to July 1, 1974; and

(ii) (5)(b)(i) and (ii) below if the segment includes holdings acquired on or after July 1, 1974.

(4) (a) The charge on a segment acquired as the result of purchases made with supplementary financing pursuant to Executive Board Decision No. 5508-(77/127) shall be equal to the rate of interest paid by the Fund from time to time pursuant to paragraph 4(a) of the Annex to Executive Board Decision No. 5509-(77/127), plus

(i) 1/5 of 1 per cent per annum for the first three and one-half years after a purchase, and

(ii) an additional 1/8 of 1 per cent per annum for the twelve months following the period in (i), and

(iii) an additional 1/8 of 1 per cent per annum thereafter.

(b) The charges under (a) above shall not exceed the rate of interest by more than 3/8 of 1 per cent per annum, provided that during any period in which there is a failure to repurchase in accordance with paragraph 7 of Decision No. 5508-(77/127) or with a representation by the Fund that the member should repurchase because of an improvement in its balance of payments and reserve position, the charges to be levied shall be higher than they would otherwise have been by an additional 1/8 of 1 per cent per annum for each period of twelve months until the charges payable on any segment have reached 7/10 of 1 per cent per annum above the interest rate payable by the Fund in accordance with (a) above, at which time the Fund will review the charges to be imposed.

(5) The charge on a segment that is not subject to another schedule of charges and that is in excess of quota after the exclusion of any segments subject to (1), (2), (3), or (4) above, shall be,

(a) if the segment includes holdings acquired prior to July 1, 1974:

(i) to the extent that the segment is within the first bracket of 50 per cent in excess of quota, nil for the first three months, 2 per cent per annum for the next fifteen months, and an additional 1/2 of 1 per cent per annum for each subsequent six months;

(ii) to the extent that the segment is within the second bracket of more than 50 per cent and not more than 100 per cent in excess of quota, nil for the first three months, 2 per cent per annum for the next nine months, and an additional 1/2 of 1 per cent per annum for each subsequent six months;

(iii) to the extent that the segment is within the third bracket of more than 100 per cent in excess of quota, nil for the first three months, 2 per cent annum

for the next three months, and an additional ½ of 1 per cent per annum for each subsequent six months;

provided that, subject to (9) below, the rate shall not increase above 5 per cent per annum;

(b) if the segment includes holdings acquired on or after July 1, 1974:[1]

(i) 4⅜ per cent per annum for the first twelve months, provided that if in any period of six successive months the Fund's total expenses exceeded its income the Executive Board will promptly review all aspects of the Fund's financial position, including the rate of remuneration pursuant to Rule I-10 and the rate of charge for the first twelve months, and take such action as it considers necessary to safeguard the financial position of the Fund, and provided further that the rate of charge for the first twelve months shall be ¼ of 1 per cent above the rate of remuneration, unless, as a result of this review, the Executive Board decides within one month after the end of any such six-month period that a different rate of charge shall apply; and

(ii) an additional ½ of 1 per cent per annum for each additional twelve months, provided that, subject to (9) below, the rate shall not increase above 6⅞ per cent per annum.

This provision shall be reviewed if the Fund's total annual income substantially exceeded its total annual expenses.

(6) The charge on a segment that has been acquired as the result of a purchase under the extended Fund facility (Decision No. 4377-(74/114), as amended), and that is in excess of quota after excluding any segments subject to (1), (2), (3), or (4) above, shall be,[1]

(i) the rate of charge in (5)(b)(i) after for the first twelve months; and

(ii) an additional ½ of 1 per cent per annum for each additional twelve months, provided that, subject to (9) below, the rate shall not increase above the rate in (5)(b)(i) above plus 2½ per cent per annum.

(7) The charge on a segment that has been acquired by the Fund as the result of a sale of gold to a member pursuant to paragraph 2 of Executive Board Decision No. 5293-(76/167) and that is in excess of quota after the exclusion of any segments subject to (1), (2), (3), or (4) above shall be the higher of 4 per cent per annum or the rate of charge under (5)(b) above.

(8) The charge on a segment that has been acquired otherwise than as the result of a purchase and is not subject to (7) above, and that is subject to charges, shall be the rate of charge under

(i) (5)(a) above if the segment includes holdings acquired prior to July 1, 1974; and

(ii) (5)(b) above if the segment includes holdings acquired on or after July 1, 1974.

(9) The Fund may review the rates of charge to be levied on its holdings of a member's currency that have not been repurchased in accordance with the requirements of the Articles or decisions of the Fund, and, after consultation with the member on the reduction of the Fund's holdings of its currency, may impose such charges as it deems appropriate.

[1] See Note on p. 481 below.

(10) The initial rates of charge on balances held on the date of the Amendment that are subject to (1), (2), (3), or (4) above shall be the rates for the first twelve months.

Adopted April 24, 1963, amended April 13, 1964, April 28, 1965, April 22, 1966, June 13, 1974, September 13, 1974, April 4, 1975, April 1, 1977, and April 1, 1978; paragraph (5) amended October 25, 1978, effective January 1, 1979

I-8. The following provisions shall apply to stand-by arrangements approved after the date of the Second Amendment:

(a) A charge of ¼ of 1 per cent per annum shall be payable at the beginning of each twelve-month period of a stand-by arrangement on that part of the total amount of the arrangement that has not been purchased.

(b) When a purchase is made under a stand-by arrangement, the amount of the charge paid shall be reduced in the proportion the amount of the purchase bears to the total amount that can be purchased under the arrangement during the period of twelve months or less in which the purchase was made. A refund equal to the reduction shall be made.

(c) If a member notifies the Fund that it wishes to cancel a stand-by arrangement, the Fund shall repay to the member a portion of the charge. The portion repaid shall represent the charge for the period remaining unexpired at the date of cancellation for the amount that could still be purchased under the stand-by arrangement at the date of cancellation for which the member has paid a charge.

(d) Refunds for reductions under subparagraph (b) above and repayments under subparagraph (c) above of a charge paid for a stand-by arrangement shall be made in the media selected by the Fund.

Adopted April 1, 1978

I-9. (a) Remuneration shall accrue daily and shall be paid as of the end of each financial year of the Fund.

(b) A member that wishes to receive in its own currency the whole or a specified portion of the remuneration payable to it shall notify the Fund by rapid means of communication not later than the end of a financial year.

Adopted September 18, 1969, amended April 1, 1978

I-10. (a) The rate of remuneration shall be equal to 90 per cent of the rate of interest on the special drawing right under Rule T-1(b).

(b) The Fund shall review the rate of remuneration on the occasion of the quarterly review of the rate of interest paid by it on holdings of special drawing rights.

(c) Shortly before the end of each financial year the Fund shall consider whether the estimated net income of the Fund for that year was sufficiently large to permit the average annual rate of remuneration for that year to be raised to a level above 90 per cent but not above 100 per cent of the average annual rate of interest on the special drawing right. In considering whether to establish a higher rate of remuneration for a particular year, the Fund shall also consider the possibility of reducing the rates of charges applicable under Rule I-7(5)(b)(i) from the beginning of the subsequent financial year.

Adopted June 13, 1974, amended July 7, 1975, June 30, 1976, April 1, 1978, and October 25, 1978, effective January 1, 1979

J—Accounting and Reporting

Accounts

J-1. (a) The accounts of the General Department shall be summarized, and the financial statements relating to them shall be expressed, in terms of the special drawing right. Currencies and other assets denominated in currency shall be valued in accordance with exchange rates under Article XIX, Section 7(*a*) and decisions of the Fund. Gold held by the Fund on the date of the Second Amendment shall be valued on the basis of one special drawing right per 0.888 671 gram of fine gold, and gold accepted by the Fund after that date shall be valued in terms of the special drawing right in such manner as the Executive Board shall decide.

(b) The accounts of the Special Drawing Rights Department shall be kept in terms of the special drawing right.

(c) An Account administered by the Fund under Article V, Section 2(*b*) shall be summarized, and the financial statements relating to it shall be expressed, in terms of the special drawing right or, if the Fund so decides, in terms of a currency held in the Account.

Adopted September 25, 1946; amended September 18, 1969; February 25, 1972, effective March 20, 1972; and April 1, 1978

J-2. (a) The accounts of the General Department shall be kept in a manner that will show clearly the nature and amount of each operation and transaction and the position of each member. The accounts of the Special Drawing Rights Department shall be kept in a manner that will show clearly the nature and amount of each operation and transaction in special drawing rights and the postion of each participant, the Fund, and each other holder.

(b) Accounts administered by the Fund under Article V, Section 2(*b*) shall be kept in a manner that will show clearly the nature and amount of each operation and transaction, the position of each such Account, the postion of each contributor, and the position of each recipient of resources from the Account.

Adopted September 25, 1946, amended September 18, 1969, and April 1, 1978

J-3. (a) A summary statement of the operations and transactions conducted through the General Department shall be issued at intervals of three months or less. A monthly statement shall be sent to each member, setting forth the member's position in the Accounts of the General Department and the details of operations and transactions between the member and the Fund other than operations and transactions of an administrative nature.

(b) A summary statement of the operations and transactions conducted through the Special Drawing Rights Department, and of the position of each participant and each other holder, shall be issued at intervals of three months or less. A statement shall be sent periodically to each participant and each other holder, setting forth the position of the participant or the other holder in the Special Drawing Rights Department and the details of operations and transactions involving the participant or the other holder.

(c) A summary statement of the operations and transactions conducted through Accounts administered by the Fund under Article V, Section 2(*b*), except the Staff Retirement Fund, shall be issued at intervals of three months or less. A monthly statement shall be sent to each contributor and to each recipient of benefits through such an Account, setting forth the position of the contributor or the recipient, and

the details of operations and transactions between the Account and the contributor or the recipient.

(d) Accounting and reporting with respect to the Staff Retirement Fund shall be carried out in accordance with the terms of the Staff Retirement Plan.

Adopted September 25, 1946, amended September 18, 1969, and April 1, 1978

Annual Administrative Budget

J-4. Not later than April 1 of each year, the Managing Director shall present for the approval of the Executive Board the annual administrative budget of the Fund. The budget shall include a projection of the income of the Fund and of the expense of conducting the business of the Fund and of reimbursement of the General Resources Account in respect of the expenses of administration of the Special Disbursement Account, the Special Drawing Rights Department, and Accounts administered by the Fund under Article V, Section 2(*b*).

Adopted September 25, 1946, amended February 20, 1948, September 18, 1969, and April 1, 1978

Annual Report

J-5. Not later than May 31 of each year, the Managing Director shall present to the Executive Board for its consideration a summary of the matters which in his opinion should be included in the annual report to the Board of Governors. At least two months before a regular meeting of the Board of Governors, the Managing Director shall submit to the Executive Board for its consideration a draft of the annual report. If a regular meeting of the Board of Governors is not scheduled to be held during a year, the draft shall be submitted as soon as possible after May 31 of the same year.

Adopted September 25, 1946, amended April 1, 1978

Audit

J-6. At least two months before a regular meeting of the Board of Governors, the audited financial statements of the Fund shall be submitted to the Executive Board for its consideration. If a regular meeting of the Board of Governors is not scheduled to be held in any year, the audited financial statements shall be submitted as soon as possible after the end of the financial year of the Fund.

Adopted September 25, 1946, amended April 1, 1978

Financial Year

J-7. For purposes of the Fund's accounts and reports, its financial year shall begin on May 1 and end on the succeeding April 30.

Adopted February 7, 1947; amended May 28, 1947, effective September 17, 1947; and April 1, 1978

K—Limitation and Ineligibility

K-1. The Managing Director shall report to the Executive Board any case in which it appears to him that a member is not fulfilling obligations under the Articles other than obligations referred to in Rule S-1.

Adopted September 25, 1946, amended September 18, 1969, and April 1, 1978

K-2. Whenever the Executive Board is authorized by the Articles to declare a member ineligible to use the general resources of the Fund it may refrain from making the declaration and

indicate the circumstances under which, and the extent to which, the member may make use of the general resources.

Adopted September 25, 1946, amended April 1, 1978

K-3. Before any member is declared ineligible to use the general resources of the Fund pursuant to Article XXVI, Section 2(*a*), the matter shall be considered by the Executive Board, which shall inform the member in reasonable time of the complaint against it and allow the member an adequate opportunity for stating its case both orally and in writing.

Adopted September 25, 1946, amended April 1, 1978

K-4. When any member that is ineligible to use the general resources of the Fund, or whose use of the general resources has been limited according to Rule K-2 above, requests the Executive Board to permit the resumption of the use of the general resources with or without special limitations and the Executive Board decides not to permit such resumption, a written report shall be presented to the member stating what further action is required before such resumption will be permitted.

Adopted September 25, 1946, corrected October 18, 1950, amended April 1, 1978

K-5. When it is decided to use assets held in the Special Disbursement Account to make a distribution to developing members in accordance with Article V, Section 12(*f*) (iii), the Executive Board shall consider whether to permit a member that has been declared ineligible to use the general resources of the Fund under Article V, Section 5 to participate in the distribution before the ineligibility of the member has ceased.

Adopted April 1, 1978

L—Capital Transfers

L-1. If a large or sustained outflow of capital from a member country is taking place:

(a) that member or any other member may notify the Fund, presenting such information as it deems necessary, and may request the Fund's views with respect to such capital movement; and

(b) the Fund may present to the member or members concerned a report setting forth its views, and may request the member or members to report on the situation within a suitable time.

Adopted September 25, 1946

L-2. Whenever the Fund has requested a member to exercise controls to prevent use of the general resources of the Fund to meet a large or sustained outflow of capital, the Fund shall request the member to notify it promptly and in detail of the measures taken.

Adopted September 25, 1946, amended April 1, 1978

L-3. Each member shall inform the Fund in detail of any measures it is taking to regulate international capital movements and of changes made in such measures.

Adopted September 25, 1946, amended April 1, 1978

L-4. If the Fund is of the opinion that the controls exercised by a member to regulate international capital movements are restrictive of payments for current international transactions, or unduly delay transfers of funds in settlement of commitments, the Fund shall, subject to the provisions of Article VII, Section 3(*b*) and Article XIV, Section 2, consult with the member on the manner in which the controls are exercised. If, after consultation, the Fund is not satisfied that the controls are exercised in a manner consistent with the Articles, it shall so inform the member in a written report and request it to modify the controls.

Adopted September 25, 1946, amended April 1, 1978

M—Relations with Non-Members

M-1. The Fund may request the cooperation of any member with a view to the application of appropriate measures to prevent transactions with non-members or with persons in their territories, contrary to the provisions of the Articles or the purposes of the Fund.

Adopted September 25, 1946, amended April 1, 1978

M-2. When the Fund finds that a member or any of its fiscal agencies referred to in Article V, Section 1, engages in any transaction with or cooperates in practices with a non-member or with persons in a non-member's territory contrary to the provisions of the Articles or the purposes of the Fund, it shall present to the member a report setting forth its views and may request the cessation or modification of the transactions or practices.

Adopted September 25, 1946, amended April 1, 1978

M-3. A member shall inform the Fund promptly and in detail of any restrictions which it imposes on exchange transactions with non-members or with persons in their territories.

Adopted September 25, 1946

M-4. Any member may notify the Fund of restrictions imposed by a member on exchange transactions with non-members or with persons in their territories which are deemed to prejudice the interests of members and to be contrary to the purposes of the Fund.

Adopted September 25, 1946

M-5. When the Fund finds that the restrictions imposed by a member on exchange transactions with non-members or with persons in their territories are prejudicial to the interests of members and contrary to the purposes of the Fund, it shall present to the member a report setting forth its views and may request the abolition or modification of the restrictions.

Adopted September 25, 1946

M-6. The Fund deems that it would be prejudicial to the interests of members and contrary to the purposes of the Fund for a member to impose restrictions on exchange transactions with those non-members having entered into special exchange agreements under the General Agreement on Tariffs and Trade, or with persons in their territories, which the member would not in similar circumstances be authorized to impose on exchange transactions with other members or persons in their territories. Therefore, pursuant to Article XI, Section 2, members should not institute restrictions on exchange transactions with such non-members, or persons in their territories, unless the restrictions (a) if instituted on transactions with other members, or persons in their territories, would be authorized under the Articles, or (b) have been approved in advance by the Fund. Requests for prior approval shall be submitted in writing with a statement of reasons.

Adopted June 7, 1950, amended April 1, 1978

N—Staff Regulations

N-1. Persons on the staff of the Fund shall be nationals of members of the Fund unless the Executive Board authorizes exceptions in particular cases. In appointing the staff the Managing Director shall, subject to the paramount importance of securing the highest standards of efficiency and of technical competence, pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible.

Adopted as N-2, September 25, 1946, amended June 22, 1979

N-2. Subject to Rule N-1 above, the employment, classification, promotion and assignment of persons on the staff of the Fund shall be made without discriminating against any person because of sex, race, creed, or nationality.

Adopted as N-1, September 25, 1946, amended June 22, 1979

N-3. Persons on the staff of the Fund, in the discharge of their functions, shall owe their duty entirely to the Fund and to no other authority, and shall neither seek nor accept instructions from any government or any authority external to the Fund.

Adopted September 25, 1946, amended June 22, 1979

N-4. Persons on the staff of the Fund shall maintain standards of conduct compatible with their position as international civil servants and shall avoid any action or pronouncement, either in their own country or elsewhere, that would not be in keeping with their position as international civil servants. They shall always bear in mind the reserve and tact incumbent upon them by reason of their international functions, and they shall exercise the utmost discretion in matters of official business.

Adopted September 25, 1946, amended June 22, 1979

N-5. Except with the express authorization of the Managing Director, persons on the staff of the Fund may not , during their term of service: (i) publish, cause to be published, or assist in the publication of any book, pamphlet, article, letter or other document relating to the policies or activities of the Fund or to any national political questions; or (ii) deliver any speech, lecture, or broadcast, or grant any press interview on such policies, activities, or questions.

Adopted September 25, 1946, amended June 22, 1979

N-6. Persons on the staff of the Fund, and persons formerly on the staff of the Fund, shall not, at any time, without the express authorization of the Managing Director: (i) reveal any unpublished information known to them by reason of their service with the Fund to a person not authorized by the Fund to receive the information; or (ii) use, or allow the use of, unpublished information known to them by reason of their service with the Fund for private advantage, directly or indirectly, or for any interest contrary to that of the Fund as determined by the Managing Director.

Adopted as part of N-5, September 25, 1946, amended June 22, 1979

N-7. Persons on the staff of the Fund, during their terms of service, including periods of leave with or without pay, shall not hold other public or private employment, engage in any occupation, business activity, or profession, that, in the opinion of the Managing Director, is incompatible with these Rules or the proper performance of their official duties or inconsistent with their position as international civil servants.

Adopted as N-6, September 25, 1946, amended June 22, 1979

N-8. Persons on the staff of the Fund shall not engage in such political activity as, in the opinion of the Managing Director, is inconsistent with, or reflects adversely upon, the independence and impartiality required by their position as international civil servants. Any person on the staff of the Fund who accepts an office of a political character shall immediately offer to resign from the staff of the Fund.

Adopted September 25, 1946, amended June 22, 1979

N-9. Persons on the staff of the Fund may retain re-employment rights or pension rights acquired in the service of another public or a private organization.

Adopted as N-7, September 25, 1946, amended June 22, 1979

N-10. No person on the staff may accept any honor, decoration, favor, gift, or bonus from any government, or from any other authority or person external to the Fund, for services rendered during the period of his appointment or service with the Fund.

Adopted as N-9, September 25, 1946

N-11. Upon appointment, each person on the staff will subscribe in writing to the following affirmation:

—I solemnly affirm:

—That, to the best of my ability, I will carry out my responsibilities in a manner that will further the purposes of the International Monetary Fund;

—That I will refrain from communicating confidential information to persons outside the Fund;

—That I will not use to private advantage information known to me by reason of my official position; and

—That I will accept no instruction in regard to the performance of my duties from any government or authority external to the Fund.

Adopted as N-10, September 25, 1946

N-12. The Managing Director shall inform the Executive Board at least two weeks in advance of any action to appoint or dismiss any person at or above the rank of division chief or receiving a salary equal to or exceeding that of a division chief. Such information shall not be necessary for other appointments or dismissals by the Managing Director.

Adopted as N-13, September 25, 1946, amended July 1, 1959, and June 22, 1979

N-13. The Managing Director is authorized to issue General Administrative Orders concerning general personnel policies that have been approved by the Executive Board.

Adopted as N-14, September 25, 1946, amended June 22, 1979

N-14. Persons on the staff of the Fund shall have the right to associate in order to present their views to the Managing Director and the Executive Board, through representatives, on matters pertaining to personnel policies and their conditions of service.

Adopted June 22, 1979

N-15. Appropriate procedures shall be established for the consideration of complaints and grievances of individual persons on the staff of the Fund on matters involving the consistency of actions taken in their individual cases with the regulations governing personnel and their conditions of service.

Adopted June 22, 1979

N-16. (a) Official travel shall be undertaken by persons on the staff of the Fund only with the approval of the Managing Director.

(b) The Managing Director shall inform the Executive Board of all such travel at least once a month and in such manner as indicates the purpose of the travel.

(c) (i) Official travel by persons on the staff of the Fund to a member's territory shall be undertaken only after consultation with the Executive Director appointed, elected, or designated by the member.

(ii) In addition, normally, meetings of persons on the staff of the Fund with officials of a member to discuss official business shall be held only after consultation with the Executive Director appointed, elected, or designated by the member.

(d) The advance approval of the Executive Board shall be necessary for technical services by persons on the staff of the Fund in response to requests by national or international agencies. In addition, such approval shall be necessary for participation by persons on the staff of the Fund in the deliberations of national or international agencies, or in conferences, in which the views of the Executive Board on the subject matter of the deliberations or conferences are to be presented.

(e) For the purpose of this Rule N-16, official travel shall be deemed not to include travel solely in accordance with the provisions of staff benefit policies.

Paragraph (a) adopted as N-15(a), September 25, 1946, amended February 11, 1948, and June 22, 1979; paragraphs (b), (c), and (d) adopted as N-15(b), (c), (d), February 11, 1948, amended June 22, 1979; paragraph (e) adopted June 22, 1979

O—Valuation of the Special Drawing Right, Valuation of Currencies in Terms of the Special Drawing Right, Freely Usable Currency, Procedures for Exchange of Currency, and Operational Budget

Valuation of the Special Drawing Right

O-1. The value of the special drawing right shall be the sum of the values of the following amounts of the following currencies:

U.S. dollar	0.40
Deutsche mark	0.32
Japanese yen	21
French franc	0.42
Pound sterling	0.050
Italian lira	52
Netherlands guilder	0.14
Canadian dollar	0.070
Belgian franc	1.6
Saudi Arabian riyal	0.13
Swedish krona	0.11
Iranian rial	1.7
Australian dollar	0.017
Spanish peseta	1.5
Norwegian krone	0.10
Austrian schilling	0.28

Adopted September 18, 1969; amended June 13, 1974, effective July 1, 1974; July 1, 1974; April 1, 1978; and June 30, 1978, effective July 1, 1978

Valuation of Currencies in Terms of the Special Drawing Right

O-2. (a) The value of the United States dollar in terms of the special drawing right shall be equal to the reciprocal of the sum of the equivalents in United States dollars of the amounts of the currencies specified in Rule O-1, calculated on the basis of exchange rates established in accordance with procedures decided from time to time by the Fund.

(b) The value of a currency other than the United States dollar in terms of the special drawing right shall be determined on the basis of the value of the United States dollar in terms of the special drawing right in accordance with (a) above and an exchange rate for that other currency determined as follows:

(i) for the currency of a member having an exchange market in which the Fund finds that a representative spot rate for the United States dollar can be readily ascertained, that representative rate;

(ii) for the currency of a member having an exchange market in which the Fund finds that a representative spot rate for the United States dollar cannot be readily ascertained but in which a representative spot rate can be readily ascertained for a currency as described in (i), the rate calculated by reference to the representative spot rate for that currency and the rate ascertained pursuant to (i) above for the United States dollar in terms of that currency;

(iii) for the currency of any other member, a rate determined by the Fund.

(c) Procedures to establish exchange rates under (b) above shall be determined by the Fund in consultation with members.

Adopted September 18, 1969; amended June 13, 1974, effective July 1, 1974; July 1, 1974; and April 1, 1978

Freely Usable Currency

O-3. (a) The Fund shall determine the currencies that are freely usable in accordance with Article XXX(*f*).

(b) The Fund shall consult a member before placing its currency on, or removing it from, the list of freely usable currencies.

Adopted April 1, 1978

Procedures for Exchange of Currency

O-4. (a) The Fund shall consult all members with respect to procedures for the prompt exchange of currency, or to facilitate such exchange, in connection with

(i) the operations and transactions of the Fund conducted through the General Resources Account, and

(ii) transactions with designation conducted through the Special Drawing Rights Department.

(b) On the request of any member, an Executive Director, or the Managing Director, the Executive Board shall decide whether procedures under (a) above for the exchange of currency are in accordance with the obligations of members.

(c) The Fund shall inform all members of the procedures for the exchange of each freely usable currency.

Adopted April 1, 1978

O-5. A member requesting an exchange of currency in accordance with the procedures under Rule O-4(a) shall make its request to the Fund not later than the date on which the Fund issues instructions for the execution of the operation or transaction that gives rise to the request.

Adopted April 1, 1978

O-6. (a) An exchange of currency in accordance with the procedures under Rule O-4(a) shall be made at an exchange rate between the two currencies corresponding to their exchange rates in terms of the special drawing right as determined under Rule O-2, if

(i) the exchange is requested under Article V, Section 3(*e*)(i) or (iv) or under Article V, Section 7(*j*)(i) or (iv), or

(ii) the procedures for the exchange of currency under Rule O-4(a) so provide.

(b) The exchange rate for each currency for the purposes of (a) above shall be determined as of the date of dispatch of the Fund's instruction for the execution of the transaction or operation under (a) above.

(c) The value date for an exchange of currency under (a) above shall be the third business day after the date of dispatch of the Fund's instruction under (b) above, or as close thereto as is practicable.

Adopted April 1, 1978

O-7. No member shall levy any charge or commission in respect of an exchange of currency to which Rule O-6 applies.

Adopted April 1, 1978

O-8. (a) An exchange of currency to which Rule O-6 applies shall be made by an official agency of the member issuing the currency, unless the members exchanging currency agree otherwise.

(b) Instruction for an exchange by an official agency under (a) above shall be given by the Fund.

Adopted April 1, 1978

O-9. (a) In an exchange pursuant to Article V, Section 7(*j*)(iv), the freely usable currency to be provided by the repurchasing member in the exchange shall be the freely usable currency agreed between the members exchanging currency.

(b) In the absence of agreement under (a) above, the Fund shall specify the freely usable currency to be provided by the repurchasing member. In making any such specification, the Fund shall take into account the circumstances of the members exchanging currency.

Adopted April 1, 1978

Operational Budget

O-10. (a) At quarterly intervals the Executive Board shall decide on the budget, including amounts, for the use of currencies and special drawing rights in the operations and transactions of the Fund conducted through the General Resources Account until the next decision takes effect.

(b) The Executive Board may decide at any time to adopt a special budget.

(c) On the request of any member, an Executive Director, or the Managing Director, the Executive Board shall review, and if necessary amend, any budget adopted pursuant to (a) or (b) above.

Adopted April 1, 1978

P—Procedures for Operations and Transactions Involving Special Drawing Rights

Transactions with Designation

P-1. (a) A participant shall inform the Fund of its intention to use special drawing rights in a transaction with designation. If it desires a particular freely usable

currency the participant shall indicate this not later than the date on which the Fund issues instructions for the execution of the transaction.

(b) Instructions for a transaction pursuant to (a) above shall be given by the Fund in accordance with Rule P-2 and the procedures under Rule O-4(a), and shall be carried out promptly.

Adopted September 18, 1969, amended April 1, 1978

P-2. In a transaction with designation the freely usable currency shall be provided at an exchange rate determined under Rule O-2, and at an official agency of the participant issuing the currency.

Adopted April 1, 1978

P-3. No participant shall levy any charge or commission in respect of the provision of currency in a transaction with designation.

Adopted September 18, 1969, amended April 1, 1978

P-4. A participant using special drawing rights in a transaction with designation shall declare that the use is in accordance with Article XIX, Section 3(*a*), or a waiver under Article XIX, Section 3(*c*).

Adopted September 18, 1969, amended April 1, 1978

Designation of Participants to Provide Currency

P-5. At quarterly intervals the Executive Board shall decide, in accordance with Article XIX, Section 5, and Schedule F, on the plan, including amounts, by which designations will be made until the next decision takes effect.

On the request of any participant, an Executive Director, or the Managing Director, the Executive Board shall review, and if necessary amend, any plan adopted pursuant to this Rule.

Adopted September 18, 1969, amended April 1, 1978

Transactions by Agreement Between Participants

P-6. (a) Currency shall be provided in a transaction by agreement between participants at an exchange rate determined under Rule O-2 for the third business day preceding the value date, or for the second business day preceding the value date if agreed between the participants, unless the transaction is carried out at another exchange rate pursuant to authorization by the Fund under Article XIX, Section 7(*b*).

(b) No participant shall levy any charge or commission in respect of a transaction under Article XIX, Section 2(*b*).

Adopted April 1, 1978

Prescribed Operations

P-7. The parties to an operation pursuant to a prescription under Article XIX, Section 2(*c*) shall declare that the operation is in accordance with the prescription.

Adopted September 18, 1969, amended April 1, 1978

Recording

P-8. A participant using special drawing rights in a transaction shall inform the Fund immediately of the receipt of currency in accordance with the Articles of Agreement and these Rules and Regulations.

Adopted September 18, 1969, amended April 1, 1978

P-9. The Fund shall record a transaction or an operation in the Special Drawing Rights Department when it is satisfied that the transaction or the operation is in conformity with the obligations of participants under the Articles of Agreement and with the Rules and Regulations and any applicable decisions of the Fund. A transaction shall be recorded as of the date on which currency is provided, and an operation shall be recorded as of the date on which it is carried out.

Adopted September 18, 1969, amended April 1, 1978

Q—Other Holders

Q-1. An application for prescription by the Fund as a holder of special drawing rights, and of the terms and conditions for holding, accepting, and using special drawing rights in operations and transactions, shall be filed with the Fund with all relevant facts. Terms and conditions shall be prescribed by the Executive Board after consultation with the applicant.

Adopted April 1, 1978

R—Reconstitution

R-1. Any period of five years ending five years after the first allocation or at the end of any calendar quarter thereafter shall be a reconstitution period under Schedule G, paragraph 1.

Adopted September 18, 1969

R-2. The calculations for each participant under Schedule G, paragraph 1(*a*)(ii), shall be based on the assumptions that the Executive Board makes from time to time with respect to allocations or cancellations during the remainder of any reconstitution period, and on the assumption that a participant will make no use of special drawing rights during the remainder of the reconstitution period for which the calculation is made except for payment to the Fund of any excess of charges over interest in the Special Drawing Rights Department, provided that allocations or cancellations shall be assumed for a basic period only on the basis of a decision by the Board of Governors under Article XVIII, Section 4 or a pending proposal by the Managing Director under that provision.

Adopted September 18, 1969, amended December 15, 1972, and April 1, 1978

R-3. When these calculations indicate that a participant would need to obtain special drawing rights in order to comply with the requirement in Schedule G, paragraph 1(*a*)(i), the Managing Director shall inform the participant of the amount it would have to obtain and hold during the remainder of the reconstitution period in order to comply with this requirement. This amount shall be expressed both

(i) as a single amount assumed to be acquired on the last day of the calendar month following the date for which the calculation is made; and

(ii) as a series of equal quarterly amounts assumed to be acquired on the fifteenth day of each full calendar quarter remaining in the reconstitution period.

Adopted September 18, 1969, amended December 15, 1972

R-4. When these calculations indicate that a participant would need to obtain special drawing rights for any reconstitution period in an amount per quarter that equals or exceeds 10 per cent of the participant's net cumulative allocation at the end of the reconstitution period, the participant shall be subject to designation under Article XIX, Section 5(*a*)(ii), as of the beginning of the calendar quarter following the calculation, for an amount of special drawing rights equal to the largest amount per quarter calculated for any reconstitution period.

Adopted September 18, 1969, amended April 1, 1978

R-5. The Managing Director shall give the special notice required under Schedule G, paragraph 1(*a*)(iii), when these calculations indicate that the quarterly amount of special drawing rights which the participant needs to obtain in order to comply with the reconstitution requirement in Schedule G, paragraph 1(*a*)(i), for any reconstitution period equals or exceeds 50 per cent of its net cumulative allocation at the end of the reconstitution period.

Adopted September 18, 1969

R-6. The Fund shall specify the participant and the amount of special drawing rights it shall provide when this is required by Schedule G, paragraph 1(*a*)(iv); Article XX, Section 5; and Article XXIV, Section 3.

Adopted September 18, 1969, amended April 1, 1978

S—Suspension of Use of Special Drawing Rights

S-1. The Managing Director shall report to the Executive Board any facts on the basis of which it appears to him that a participant is not fulfilling obligations under the Articles that could lead to suspension under Article XXIII, Section 2, and may include a complaint in his report.

Adopted September 18, 1969, amended April 1, 1978

S-2. A participant may complain that another participant is not fulfilling obligations under the Articles that could lead to suspension under Article XXIII, Section 2, and the Managing Director shall transmit the complaint to the Executive Board with his comments. Any complaint shall be made in writing or by any rapid means of communication, and it shall be accompanied by a statement of the facts on which the participant bases its complaint.

Adopted September 18, 1969, amended April 1, 1978

S-3. The Managing Director shall immediately inform a participant of any complaint against it and the statement of the facts on which the complaint is based.

Adopted September 18, 1969

S-4. If the complaint is that the participant has failed to fulfill its obligations under Article XIX, Section 4, the participant shall not use special drawing rights and this limitation shall continue pending the disposition of the complaint.

Adopted September 18, 1969, amended April 1, 1978

S-5. A participant against which a complaint has been made under Rule S-1 or Rule S-2, the Managing Director, or an Executive Director may request the Executive Board to dismiss the complaint. The Executive Board shall consider the request forthwith.

Adopted September 18, 1969, amended April 1, 1978

S-6. If the right of a participant to use special drawing rights has been limited under Rule S-4, and a request under Rule S-5 has been made by a participant, the complaint

shall be deemed to have been dismissed at the end of ten business days after the request, or at the end of such longer period as the participant states in the request, unless within this time the Executive Board has taken a decision disposing of the complaint.

Adopted September 18, 1969, amended April 1, 1978

S-7. If the right of a participant to use its special drawing rights has been suspended under Article XXIII, Section 2, the participant may request the Executive Board to terminate the suspension. If the Executive Board decides not to terminate the suspension, a written report shall be made to the participant stating the circumstances under which the suspension would be terminated.

Adopted September 18, 1969, amended April 1, 1978

S-8. All procedures under Rules S-1 through S-7 shall be conducted as expeditiously as possible, and shall allow the participant an adequate opportunity to state its case both orally and in writing.

Adopted September 18, 1969, amended April 1, 1978

T—Interest, Charges, and Assessments in Respect of Special Drawing Rights

T-1. (a) Interest and charges in respect of special drawing rights shall accrue daily at the rate referred to in (b) below and shall be paid promptly as of the end of each financial year of the Fund. The accounts of participants shall be credited with the excess of interest due over charges or debited with the excess of charges over the interest due. The accounts of holders that are not participants shall be credited with the interest due.

(b) Unless the Executive Board decides otherwise, the rate of interest on holdings of special drawing rights for each calendar quarter shall be four fifths of the combined market interest rate as determined in (c) below, provided that the rate shall be rounded to the nearest ¼ of 1 per cent.

(c) The combined market interest rate shall be the average of the daily interest rates for the obligations, combined in accordance with the weights listed below, for the six-week period ending on the fifteenth day of the last month before the calendar quarter for which the rate of interest is determined:

	Per cent
Market yields for three-month U.S. Treasury bills	49
Three-month interbank deposits rate in Germany	18
Market yields for three-month U.K. Treasury bills	11
Three-month interbank money rate against private paper in France	11
Call money market rate (unconditional) in Japan	11
	100

(d) The Fund will review the rate of interest on holdings of special drawing rights before the beginning of each calendar quarter.

Adopted September 18, 1969, amended June 13, 1974, June 30, 1976, April 1, 1978, and June 15, 1978, effective July 1, 1978; paragraph (b) amended October 25, 1978, effective January 1, 1979

T-2. Assessments shall be levied promptly, as of the end of each financial year of the Fund, on the basis of a reasonable estimate of the expenses of conducting the business of the Special Drawing Rights Department for the financial year, and the accounts of participants shall be debited with the amounts of the assessments.

Adopted September 18, 1969, amended April 1, 1978

NOTE TO RULES I-7(5)(b) and I-7(6):

Charges for amounts in excess of 200 per cent of quota purchased under stand-by arrangements or in excess of 140 per cent of quota under the extended Fund facility granted between April 21, 1978 and February 23, 1979, when the supplementary financial facility became effective, are levied under Executive Board Decision No. 5732-(78/65), adopted April 24, 1978, as amended by Executive Board Decision No. 5998-(79/1), adopted December 27, 1978, as set forth below:

1. Effective April 21, 1978, segments of a currency that would otherwise be subject to the schedule of charges in Rule I-7(5)(b) shall be subject to the following charges if they have been acquired by the Fund as a result of purchases under stand-by arrangements taking effect before the earlier of July 1, 1979 and the date on which the supplementary financing facility becomes effective and are in excess of 200 per cent of quota: the average yield to constant five-year maturity of U.S. Government securities in New York over the six months preceding the determination of the rate of charge, rounded upwards to the nearest 1/4 of 1 per cent, plus 1/4 of 1 per cent. The rate applicable under this paragraph 1 shall be calculated on July 1, 1978 and at intervals of six months thereafter. Each rate so calculated shall apply during the six months preceding the date of the calculation.

2. Effective April 21, 1978, segments of a currency that would otherwise be subject to Rule I-7(6) shall be subject to the rate in paragraph 1 above if they have been acquired by the Fund as a result of purchases under extended arrangements taking effect before the earlier of July 1, 1979 and the date on which the supplementary financing facility becomes effective, to the extent that the Fund's holdings of the member's currency resulting from purchases under that facility exceed 140 per cent of quota.

3. The charges payable pursuant to this decision shall be paid promptly after each June 30 and December 31.

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Executive Board Decisions

The decisions of the Executive Board reproduced here comprise those of a general nature, that is, those not relating to an individual member, that have been cited in Volumes I and II above. They are grouped according to broad subjects comparable to those covered in the Articles of Agreement after the Second Amendment and are presented in the order in which these subjects are treated in those Articles.

The decisions are listed below in numerical order with the page numbers on which they can be found.

Selected Decisions of the Executive Board

(January 1, 1972–December 31, 1978)

CONTENTS

Exchange Arrangements

Procedures for Reviews of External Policy

The Executive Directors concur in the statement of the Managing Director on procedures for reviews of external policies.

Decision No. 4076-(73/101)
October 31, 1973

Managing Director's Statement

On August 29, 1973 the Executive Directors considered a staff memorandum reviewing procedures for special consultations on exchange rate policies. At that meeting there was general agreement on the importance of Fund reviews of exchange rate policies and the need to develop appropriate procedures for such reviews. The staff had proposed that special consultations be held, in between the annual consultations, with members whose exchange rate policies have a major impact on the international monetary system. This proposal was supported by a number of Directors. Others preferred a more informal approach with ad hoc arrangements to be made by the Managing Director. An alternative suggested by one Executive Director envisaged "multicountry" consultations based on a staff report reviewing current exchange market and exchange policy matters in a number of countries. In concluding the meeting, the Acting Chairman had said that the staff would follow up suggestions made by Executive Directors and the subject would be brought back to the Board as soon as practicable after the Annual Meeting.

I have carefully considered the views expressed by the Executive Directors at the above meeting and in subsequent private discussions. I am mindful of the degree of consensus arrived at in the Committee of Twenty on the subject of special procedures in connection with adjustment in the reformed system. I strongly believe that we need to develop new procedures in the interim to ensure that exchange policies in general and exchange rate developments in particular are consistent with the general objectives of the Fund. I also believe that there are advantages at this time in following an approach that allows a measure of flexibility but that also is sufficiently broad-based to lead to a general review of exchange rate developments.

In the light of these considerations I propose, as a preliminary step, to ask senior staff members to hold, under my direction, informal discussions for two or three days with high officials of each of a number of countries that have a major impact on international currency relationships. There would not be a fixed list but in the first round of discussions I would consider including Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, the United Kingdom, and the United States. The discussions would be cen-

tered on balance of payments developments and policies having an important impact on exchange markets. Immediately upon their return to headquarters the staff would advise me of the results of these discussions and I would then consider what further action might be useful at that stage. In any event, with due care to safeguard the confidentiality of information and views on matters of a particularly sensitive nature, I would arrange for the Executive Directors to receive as soon as possible a unified account of developments and policies.

I believe that discussion of this subject by the Executive Directors should take place in the context of the review of general developments and prospects of the world economy deriving from the periodic exercise on the world economic outlook which should henceforth be undertaken three times each year, though not always on as elaborate a scale as in the past.

As a conclusion of the discussion by the Executive Directors, I envisage a statement by the Chairman summing up the views of the Directors on overall foreign exchange developments and policies.

If the Executive Directors agree with this procedure, I would propose that informal staff visits be arranged to begin in mid-November. This would allow Board discussion of the report to be scheduled before the meeting of the Deputies of the Committee of Twenty in January.

Central Rates and Wider Margins: A Temporary Regime—Revised Decision

Preamble

This decision is adopted by the Executive Directors in order to indicate practices that members may wish to follow in present circumstances consistently with Article IV, Section 4(*a*) and Board of Governors Resolution No. 26-9, which called on all members to collaborate with the Fund and with each other in order to maintain a satisfactory structure of exchange rates within appropriate margins. The decision is intended to enable members to observe the purposes of the Fund to the maximum extent possible during the temporary period preceding the resumption of effective par values with appropriate margins in accordance with the Articles.

Paragraph 1. Par Values and Wider Margins

(a) A member will be deemed to be acting in accordance with Article IV, Section 4(*a*) and Resolution No. 26-9 if it takes appropriate measures, consistent with the Articles, to permit spot exchange transactions between its currency and an intervention currency, the issuer of which operates on the basis of a par value or a central rate, only at rates within 2¼ per cent from the parity between the two currencies. If a central rate is in effect for the intervention currency, parity for the purpose of this paragraph shall be deemed to refer to the relationship between the par value of a member's currency and such central rate.

(b) A member that avails itself of wider margins under (a) above shall notify the Fund. Paragraphs 5 and 6 of this decision shall then apply to the member.

(c) A member's intervention currency means a currency which the member represents to the Fund that it stands ready to buy and sell in order to perform its obligations regarding exchange stability.

Paragraph 2. Central Rates

(a) A member which temporarily does not maintain rates based on a par value for its currency in accordance with Article IV, Section 3 and Decision No. 904-(59/32) but, by means of appropriate measures consistent with the Articles, maintains a stable rate in terms of an intervention currency as the basis for exchange transactions in its territories may communicate to the Fund a rate for its currency for the purposes of this decision. This rate or a rate subsequently communicated in accordance with this paragraph shall take effect as the central rate for the purposes of this decision unless the Fund finds it unsatisfactory.

(b) A central rate for a member's currency may be communicated in gold, units of special drawing rights, or another member's currency.

Paragraph 3. Central Rates with Wider Margins

A member that communicates a central rate under paragraph 2(a) and avails itself of the wider margins of paragraph 1(a) on the basis of its central rate shall notify the Fund, and if the Fund has not found the central rate unsatisfactory the member will be deemed to be acting in accordance with Article IV, Section 4(*a*) and Resolution No. 26-9 if it takes appropriate measures, consistent with the Articles, to permit spot exchange transactions between its currency and an intervention currency only with margins of 2¼ per cent of the central rate in terms of the intervention currency. In addition, paragraphs 5 and 6 shall apply.

Paragraph 4. Central Rates Without Wider Margins

If a member that communicates a central rate under paragraph 2(a) does not notify the Fund under paragraph 3 that it avails itself of the wider margins of that paragraph, the member shall take appropriate measures to ensure that spot exchange transactions within its territories between its currency and an intervention currency shall take place only within margins of 1 per cent of the central rate in terms of the intervention currency.

Paragraph 5. Multiple Currency Practices and Discriminatory Currency Arrangements

Notwithstanding paragraphs 1 and 3 above, no member shall permit, except as approved or authorized under Article VIII, Section 3 or Article XIV, Section 2:

a difference in excess of 2 per cent between any two buying or any two selling rates for spot exchange transactions between its currency and the currencies of other members; or

a spread in excess of 2 per cent between a buying and a selling rate for spot exchange transactions between its currency and the currency of another member.

Paragraph 6. Intervention

Appropriate measures for the purposes of paragraphs 1(a), 2(a), and 3 above shall include intervention by a member's authorities in the exchange markets within the member's territories in order to maintain rates for spot exchange transactions in accordance with this decision. In their intervention in exchange markets members shall refrain from actions incompatible with the purposes of the Fund.

Paragraph 7. Members Maintaining Narrow Margins Against an Intervention Currency

(a) A member will be deemed to be acting in accordance with Article IV, Section 4(*a*) and Board of Governors Resolution No. 26-9, if (a) the rate for its currency is maintained

consistently with the Articles or the member's Membership Resolution and (b) the member permits transactions between its currency and an intervention currency only within margins of 1 per cent of the said rate in terms of the intervention currency.

(b) Subparagraph (a) shall apply to a member in respect of the separate currency of a territory under Article XX, Section 2(*g*) for which margins of 1 per cent are maintained for transactions between the separate currency and the metropolitan currency.

Paragraph 8. Review

This decision shall be reviewed from time to time as necessary.

Decision No. 4083-(73/104)
November 7, 1973

GUIDELINES FOR THE MANAGEMENT OF FLOATING EXCHANGE RATES

The Executive Directors have discussed the attached memorandum entitled "Guidelines for the Management of Floating Exchange Rates." They recommend, pursuant to Article IV, Section 4(*a*), that, in present circumstances, members should use their best endeavors to observe the guidelines set forth and explained in the memorandum. Consultations with members with floating currencies will be based on the memorandum. These guidelines will be reviewed from time to time in order to make any adjustments that may be appropriate.

Decision No. 4232-(74/67)
June 13, 1974

Guidelines for the Management of Floating Exchange Rates

Introduction

There is widespread agreement that the behavior of governments with respect to exchange rates is a matter of international concern and a matter for consultation and surveillance in the Fund. This is no less true when rates are floating than when they are contained within fixed margins and are changed by par value and central rate adjustments.

The Fund cannot legally authorize floating but it can exercise surveillance over the manner in which members fulfill their undertaking, under Article IV, Section 4(*a*), "to collaborate with the Fund to promote exchange stability, to maintain orderly exchange arrangements with other members, and to avoid competitive exchange alterations." The following guidelines, though not exhausting the possibilities of action by the Fund under this Article, are intended to provide criteria that members would observe in performing their undertaking and that the Fund would observe in exercising surveillance in present circumstances.

These guidelines are based on the assumption that in any situation of floating it may be desirable (a) to smooth out very short-run fluctuations in market rates and (b) to offer a measure of resistance to market tendencies in the slightly longer run, particularly when they are leading to unduly rapid movements in the rate, and (c) to the extent that it is possible to form a reasonable estimate of the medium-term norm for a country's exchange rate, to resist movements in market rates that appear to be deviating substantially from that norm. Guidelines of this kind are necessary, inter alia, in order to arrive at a clear conception of what competitive exchange alteration is, and to provide safeguards against it.

The guidelines also take into account:

(a) that national policies, including those relating to domestic stabilization, should not be subjected to greater constraints than are clearly necessary in the international interest;

(b) that a degree of uncertainty necessarily attaches to any estimate of a medium-term normal exchange rate, that this uncertainty is particularly great in present circumstances, and that on occasion the market view may be more realistic than any official view whether of the country primarily concerned or of an international body; and

(c) that in view of the strength of short-term market forces it may at times be unavoidable to forego or curtail official intervention that would be desirable from the standpoint of exchange stability if such intervention should involve an excessive drain on reserves or an impact on the money supply which it is difficult to neutralize.

The guidelines are intended to provide the basis for a meaningful dialogue between the Fund and member countries with a view to promoting international consistency during a period of widespread floating. They are termed guidelines rather than rules to indicate their tentative and experimental character. They should be adaptable to changing circumstances. No attempt is here made to indicate the precise procedures through which they would be implemented. These will be considered later, but they must essentially rest on an intensification of the confidential interchange between the member and the Fund.

In the application of the guidelines it is to be expected that, in view of the emphasis laid by the Committee of Twenty at their fifth (Rome) meeting on the importance in present circumstances of avoiding competitive depreciation, particular attention would be attached to departures from the guidelines in the direction of depreciation. Special consideration will also be given to the manner in which the guidelines should be applied by developing countries, taking account of the stage of evolution of their exchange markets and intervention practices.

The guidelines should be understood in the light of the commentary which follows.

The Guidelines

(1) A member with a floating exchange rate should intervene on the foreign exchange market as necessary to prevent or moderate sharp and disruptive fluctuations from day to day and from week to week in the exchange value of its currency.

(2) Subject to (3)(b), a member with a floating rate may act, through intervention or otherwise, to moderate movements in the exchange value of its currency from month to month and quarter to quarter, and is encouraged to do so, if necessary, where factors recognized to be temporary are at work. Subject to (1) and (3)(a), the member should not normally act aggressively with respect to the exchange value of its currency (i.e., should not so act as to depress that value when it is falling, or to enhance that value when it is rising).

(3) (a) If a member with a floating rate should desire to act otherwise than in accordance with (1) and (2) above in order to bring its exchange rate within, or closer to, some target zone of rates, it should consult with the Fund about this target and its adaptation to changing circumstances. If the Fund considers the target to be within the range of reasonable estimates of the medium-term norm for the exchange rate in question, the member would be free, subject to (5), to act aggressively to move its rate towards the target zone, though within that zone (2) would continue to apply.

(b) If the exchange rate of a member with a floating rate has moved outside what the Fund considers to be the range of reasonable estimates of the medium-term norm for that exchange rate to an extent the Fund considers likely to be harmful to the interests of

members, the Fund will consult with the member, and in the light of such consultation may encourage the member, despite 2 above, (i) not to act to moderate movements toward this range, or (ii) to take action to moderate further divergence from the range. A member would not be asked to hold any particular rate against strong market pressure.

(4) A member with a floating exchange rate would be encouraged to indicate to the Fund its broad objective for the development of its reserves over a period ahead and to discuss this objective with the Fund. If the Fund, taking account of the world reserve situation, considered this objective to be reasonable and if the member's reserves were relatively low by this standard, the member would be encouraged to intervene more strongly under Guideline (2) to moderate a movement in its rate when the rate was rising than when it was falling. If the member's reserves were relatively high by this standard it would be encouraged to intervene more strongly to moderate a movement in its rate when the rate was falling than when it was rising. In considering target exchange rate zones under (3), also, the Fund would pay due regard to the desirability of avoiding an increase over the medium term of reserves that were recognized by this standard to be relatively high, and the reduction of reserves that were recognized to be relatively low.

(5) A member with a floating rate, like other members, should refrain from introducing restrictions for balance of payments purposes on current account transactions or payments and should endeavor progressively to remove such restrictions of this kind as may exist.

(6) Members with a floating rate will bear in mind, in intervention, the interests of other members including those of the issuing countries in whose currencies they intervene. Mutually satisfactory arrangements might usefully be agreed between the issuers and users of intervention currencies, with respect to the use of such currencies in intervention. Any such arrangements should be compatible with the purposes of the foregoing guidelines. The Fund will stand ready to assist members in dealing with any problems that may arise in connection with them.

Commentary

General

Certain of the terms used in the guidelines may be defined as follows:

(i) "A member with a floating exchange rate" means a member whose currency is floating independently in the sense that it is not pegged, within relatively narrow margins, to any other currency or composite of currencies. Members whose currencies are pegged to particular floating currencies, or to composites of such currencies, within these margins would be exempt from these guidelines, though not from any general principles relating to adjustment. Members which, though their currencies are pegged to another currency, change the peg frequently in the light of some formula relating, e.g., to price indices, would be expected to discuss this formula and any changes therein with the Fund. Members whose currencies are pegged to a composite of other currencies (e.g., members whose effective rates are fixed) would likewise be expected to discuss with the Fund the composite in question and any changes therein. Members whose currencies are floating jointly under mutual intervention arrangements with relatively narrow margins would be exempted from the intervention guidelines so far as intervention in each other's currencies is concerned, but would be held responsible to the Fund for their exchange market intervention vis-à-vis the rest of the world. As regards capital controls, official financing, and other measures to influence capital flows, each member belonging to such a group would be responsible for its measures judged in relation to its overall balance of payments situation.

(ii) "Exchange market intervention" would normally be measured by the movement of reserves, adjusted as appropriate for compensatory official borrowing. Consideration might also be given to including in the concept of intervention changes in official foreign exchange positions other than reserves.

(iii) "Action to influence an exchange rate" includes, besides exchange market intervention, other policies that exercise a temporary effect on the balance of payments and hence on exchange rates, and that have been adopted for that purpose. Such policies may take the form of official forward exchange market intervention, official foreign borrowing or lending, capital restrictions, separate capital exchange markets, various types of fiscal intervention, and also monetary or interest rate policies. Monetary or interest rate policies adopted for demand management purposes or other policies adopted for purposes other than balance of payments purposes would not be regarded as action to influence the exchange rate.

(iv) Where the terms "exchange rate" or "exchange value" are employed with respect to any currency it is assumed that these would normally be expressed in terms of effective rates, i.e., the value of the currency would be measured relative to a representative set of currencies rather than relative to its intervention currency alone. The set chosen for this purpose should, in principle, vary from country to country, and the currencies in the set should be weighted according to their importance to the country in question. The composition of the set might be based on trade and financial relationships or on trade relationships alone. If trade-weighted, it might be derived from the Multilateral Exchange Rate Model, or based on bilateral trade relationships. In some cases the basket used for the valuation of the SDR might be satisfactory for this purpose also. In some cases, finally, the rate vis-à-vis a single currency might provide a satisfactory approximation to an effective rate.

On Guideline (1)

Known large once-for-all or reversible transactions would be largely offset and their effects spread over time. In addition, intervention would be undertaken to moderate large day-to-day or week-to-week movements in rates due to speculative or other factors. Such intervention, if properly conducted, should tend to net out over time.

It is unlikely to be necessary for the issuer of the principal intervention currency itself to intervene from day to day in the manner described in this guideline.

On Guideline (3)

(i) The concept of a medium-term norm for an exchange rate is employed explicitly in (a) and implicitly in (b) of Guideline (3). By this is meant a rate that would tend to bring about equilibrium in the "underlying" balance of payments, i.e., in the overall balance in the absence of cyclical and other short-term factors affecting the balance of payments, including government policies which are, or, on internationally accepted principles, ought to be temporary. If the member concerned so proposes and the Fund agrees, "equilibrium" could allow for an internationally appropriate rate of increase or decrease in the member's reserves. The "medium-term" might be considered to refer to a period of about four years. Seasonal, speculative, and cyclical factors whose effects were reversible over such a period would be ignored.

(ii) An advantage of conceiving medium-term norms or target zones in terms of effective rates is that so long as the effective rate remains constant the balance of trade or current payments of the floating country would not be greatly affected by changes in the relative exchange rates of the currencies of other countries. This should reduce the

frequency with which it would be necessary to change zone boundaries, or the magnitude of the changes involved. It would be open to a member if it so desired to express its target rate or zone not as one that is constant over time but as one that is rising or falling at a certain rate or at a rate dependent, for example, on an index of relative price or cost levels.

(iii) Under Guideline (3)(b) the Fund would be authorized to take the initiative in situations where it considered that a member's rate was likely to become harmful to the interests of members whether as a result of market forces or of action by the member. Recommendations to a member under this provision would be made by the Executive Directors, on a proposal by the Managing Director, but the Managing Director would not make such a proposal except after consultation with the member.

(iv) The greater the degree of uncertainty regarding the balance of payments situation and prospects of a country the wider would be the range of reasonable estimates of the medium-term norm for its exchange rate, and the wider would be the deviation beyond this range which would occur before the Fund would make any suggestions under Guideline (3)(b). The Fund's right to make suggestions under this guideline will, in any case, be exercised with restraint.

(v) In any suggestions the Fund might make under Guideline (3)(b), it would give a preference to liberalizing as opposed to restricting ways of exercising a given effect on exchange rates, but would bear in mind the distinction between capital controls applied for temporary balance of payments reasons and those applied for other economic and social reasons.

On Guideline (6)

This guideline would imply that in their use of their customary reserve currencies members with a floating rate, while recognizing the need of issuing countries for reasonable freedom of exchange rate movement, should not be precluded from intervening in a manner conformable with the guidelines. Among the problems that might arise regarding the use of intervention currencies, in the resolution of which the Fund might be of service, are those regarding the circumstances in which a member might intervene in a currency other than its customary reserve currency, the problem of interventions that move the value of the currency of intervention in an undesirable direction, and the problem of mutually offsetting interventions.

Surveillance over Exchange Rate Policies

1. The Executive Board has discussed the implementation of Article IV of the proposed Second Amendment of the Articles of Agreement and has approved the attached document entitled "Surveillance over Exchange Rate Policies." The Fund shall act in accordance with this document when the Second Amendment becomes effective. In the period before that date the Fund shall continue to conduct consultations in accordance with present procedures and decisions.

2. The Fund shall review the document entitled "Surveillance over Exchange Rate Policies" at intervals of two years and at such other times as consideration of it is placed on the agenda of the Executive Board.

Decision No. 5392-(77/63)
April 29, 1977

Surveillance over Exchange Rate Policies

General Principles

Article IV, Section 3(*a*) provides that "The Fund shall oversee the international monetary system in order to ensure its effective operation, and shall oversee the compliance of each member with its obligations under Section 1 of this Article." Article IV, Section 3(*b*) provides that in order to fulfill its functions under 3(*a*), "the Fund shall exercise firm surveillance over the exchange rate policies of members, and shall adopt specific principles for the guidance of all members with respect to those policies." Article IV, Section 3(*b*) also provides that "The principles adopted by the Fund shall be consistent with cooperative arrangements by which members maintain the value of their currencies in relation to the value of the currency or currencies of other members, as well as with other exchange arrangements of a member's choice consistent with the purposes of the Fund and Section 1 of this Article. These principles shall respect the domestic social and political policies of members, and in applying these principles the Fund shall pay due regard to the circumstances of members." In addition, Article IV, Section 3(*b*) requires that "Each member shall provide the Fund with the information necessary for such surveillance, and, when requested by the Fund, shall consult with it on the member's exchange rate policies."

The principles and procedures set out below, which apply to all members whatever their exchange arrangements and whatever their balance of payments position, are adopted by the Fund in order to perform its functions under Section 3(*b*). They are not necessarily comprehensive and are subject to reconsideration in the light of experience. They do not deal directly with the Fund's responsibilities referred to in Section 3(*a*), although it is recognized that there is a close relationship between domestic and international economic policies. This relationship is emphasized in Article IV which includes the following provision: "Recognizing . . . that a principal objective [of the international monetary system] is the continuing development of the orderly underlying conditions that are necessary for financial and economic stability, each member undertakes to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates."

Principles for the Guidance of Members' Exchange Rate Policies

A. A member shall avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members.

B. A member should intervene in the exchange market if necessary to counter disorderly conditions which may be characterized inter alia by disruptive short-term movements in the exchange value of its currency.

C. Members should take into account in their intervention policies the interests of other members, including those of the countries in whose currencies they intervene.

Principles of Fund Surveillance over Exchange Rate Policies

1. The surveillance of exchange rate policies shall be adapted to the needs of international adjustment as they develop. The functioning of the international adjustment process shall be kept under review by the Executive Board and Interim Committee and the assessment of its operation shall be taken into account in the implementation of the principles set forth below.

2. In its surveillance of the observance by members of the principles set forth above, the Fund shall consider the following developments as among those which might indicate the need for discussion with a member:

(i) protracted large-scale intervention in one direction in the exchange market;

(ii) an unsustainable level of official or quasi-official borrowing, or excessive and prolonged short-term official or quasi-official lending, for balance of payments purposes;

(iii) (a) the introduction, substantial intensification, or prolonged maintenance, for balance of payments purposes, of restrictions on, or incentives for, current transactions or payments, or

(b) the introduction or substantial modification for balance of payments purposes of restrictions on, or incentives for, the inflow or outflow of capital;

(iv) the pursuit, for balance of payments purposes, of monetary and other domestic financial policies that provide abnormal encouragement or discouragement to capital flows; and

(v) behavior of the exchange rate that appears to be unrelated to underlying economic and financial conditions including factors affecting competitiveness and long-term capital movements.

3. The Fund's appraisal of a member's exchange rate policies shall be based on an evaluation of the developments in the member's balance of payments against the background of its reserve position and its external indebtedness. This appraisal shall be made within the framework of a comprehensive analysis of the general economic situation and economic policy strategy of the member, and shall recognize that domestic as well as external policies can contribute to timely adjustment of the balance of payments. The appraisal shall take into account the extent to which the policies of the member, including its exchange rate policies, serve the objectives of the continuing development of the orderly underlying conditions that are necessary for financial stability, the promotion of sustained sound economic growth, and reasonable levels of employment.

Procedures for Surveillance

I. Each member shall notify the Fund in appropriate detail within thirty days after the Second Amendment becomes effective of the exchange arrangements it intends to apply in fulfillment of its obligations under Article IV, Section 1. Each member shall also notify the Fund promptly of any changes in its exchange arrangements.

II. Members shall consult with the Fund regularly under Article IV. The consultations under Article IV shall comprehend the regular consultations under Articles VIII and XIV. In principle such consultations shall take place annually, and shall include consideration of the observance by members of the principles set forth above as well as of a member's obligations under Article IV, Section 1. Not later than three months after the termination of discussions between the member and the staff, the Executive Board shall reach conclusions and thereby complete the consultation under Article IV.

III. Broad developments in exchange rates will be reviewed periodically by the Executive Board, inter alia in discussions of the international adjustment process within the framework of the World Economic Outlook. The Fund will continue to conduct special consultations in preparing for these discussions.

IV. The Managing Director shall maintain close contact with members in connection with their exchange arrangements and exchange policies, and will be prepared to discuss on the initiative of a member important changes that it contemplates in its exchange arrangements or its exchange rate policies.

V. If, in the interval between Article IV consultations, the Managing Director, taking into account any views that may have been expressed by other members, considers that a member's exchange rate policies may not be in accord with the exchange rate principles, he shall raise the matter informally and confidentially with the member, and shall conclude promptly whether there is a question of the observance of the principles. If he concludes that there is such a question, he shall initiate and conduct on a confidential basis a discussion with the member under Article IV, Section 3(*b*). As soon as possible after the completion of such a discussion, and in any event not later than four months after its initiation, the Managing Director shall report to the Executive Board on the results of the discussion. If, however, the Managing Director is satisfied that the principles are being observed, he shall informally advise all Executive Directors, and the staff shall report on the discussion in the context of the next Article IV consultation; but the Managing Director shall not place the matter on the agenda of the Executive Board unless the member requests that this procedure be followed.

VI. The Executive Directors shall review annually the general implementation of the Fund's surveillance over members' exchange rate policies.

Notification of Exchange Arrangements Under Article IV, Section 2

1. The procedure set forth in Section 2 of SM/78/81 [attached] for the initial notification within 30 days after the date of the Second Amendment by each member of the exchange arrangements it intends to apply is approved.

2. The procedures set forth in Section IV of SM/77/277 [attached] are approved, and members shall be guided by the considerations in Section IV with respect to the prompt notification of any changes in their exchange arrangements.

3. This decision shall be subject to review not later than one year after its adoption.

Decision No. 5712-(78/41)
March 23, 1978

Attachments

Section 2 of SM/78/81

2. In accordance with these instructions a description of the exchange arrangements, as understood by the Fund staff, of each member country and nonmetropolitan territory, has been forwarded to the authorities of the respective member countries for comment and review. Copies of these descriptions and the covering letters were forwarded to the Executive Directors. Replies now being received from members indicate, in general, that the descriptions of exchange arrangements provided by the staff seem to have been of assistance in regard to their obligations under Section 2 of the amended Article IV. In light of this experience, it is proposed that the procedure, described as the "third approach" in SM/77/277, for the initial notification of exchange arrangements required by Article IV, Section 2(*a*) of the Second Amendment should be adopted. In implementing this procedure at the time of the Second Amendment, the Fund would communicate with members along the lines of the attachment to SM/77/277, which for convenience is attached to the Supplement.

Section IV of SM/77/277

IV. Issues Connected with Subsequent Notification

Once the procedures for initial notifications have been clarified, only a few issues remain to be dealt with in respect of subsequent notifications. One of these is the question

of what would constitute a change in an exchange arrangement requiring notification. Clearly, any official action involving the adoption of a different type of arrangement would require notification. Furthermore, in cases where a member pegs its currency, it would be appropriate to notify the Fund of all changes in the peg; this would include not only every change in the central point around which a member was maintaining margins, but also those involving a change in the composition of a composite, other than one occurring from a redistribution of currency weights on the basis of newly available trade or payments data.

For members with flexible exchange arrangements, it is more difficult to specify changes which will require notification to the Fund. For members classified as fixing the rate according to a set of indicators, it would seem an appropriate rule that they communicate to the Fund details of any discrete exchange rate changes that are not consistent with the changes produced by the set of indicators. It would also be expected, if the suggested approach outlined earlier in this paper is accepted, that all members maintaining flexible exchange arrangements be asked to notify the Fund whenever the authorities have taken a significant decision affecting such arrangements. This would involve, as a minimum, notification of such decisions whenever public policy statements have been issued. In addition, in any instance in which the Managing Director considered that a significant change had occurred in a member's exchange policy (including intervention arrangements), and no notification has been received from that member, he would consult with the member to request information on the background to such developments. If considered appropriate, a formal notification of the change would be sought from the member.

Members would be expected to inform the Fund of all actions involving exchange taxes and subsidies. Indeed, under Article VIII, Section 3, members will continue to be required to request prior Fund approval of any multiple currency practices that may be involved in such actions.

Upon receipt of notification of a change in exchange arrangements from a member the staff would circulate it to the Executive Board. If the Board wishes, it could continue to be the normal practice that whenever a change is significant, its communication to the Board would be followed promptly by a staff paper describing the context of the change in policy and giving the staff's assessment.

Use of the Fund's Resources

Increase in Credit Tranches Under the Fund's Tranche Policies

Until the effective date of the second amendment of the Articles:

(i) for the purpose of the Fund's credit tranche policies, each tranche shall be equal to 36.25 per cent of quota;

(ii) references to the "first credit tranche" in existing stand-by arrangements and letters of intent shall be understood to mean a tranche equal to 36.25 per cent of quota; and

(iii)† . . . .

Decision No. 4934-(76/5)
January 19, 1976

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† Reproduced on p. 506 below.

FACILITY TO ASSIST MEMBERS IN PAYMENTS DIFFICULTIES RESULTING FROM INITIAL IMPACT OF INCREASED COSTS OF IMPORTS OF PETROLEUM AND PETROLEUM PRODUCTS

1. For a period ending on December 31, 1975, the Fund will be prepared to make resources available to members in accordance with this decision in order to assist them to meet the impact on their balances of payments of increases in the prices of petroleum and petroleum products. Resources made available under this decision will be supplementary to any assistance that members may obtain under other policies on the use of the Fund's resources.

2. (a) Requests for purchases under this decision by a member will be met by the Fund, subject to the limits in (b) and (c) below, if the Fund is satisfied (i) that the member needs assistance because of increases in the cost of its imports of petroleum and petroleum products in 1974 and because it has a balance of payments need, and (ii) that the member is following policies not inconsistent with the understandings set forth in Paragraph 2 of the Rome Communiqué of the ad hoc Committee of the Board of Governors on Reform of the International Monetary System and Related Issues and in Executive Board Decision No. 4134-(74/4). The Fund shall assess each request in order to determine whether, and the extent to which, the member has such a balance of payments need. In making this assessment the Fund shall take into account the ability of the member to reduce this need, particularly through an inflow of capital, including an increase in aid on concessionary terms, or by increased exports to oil exporting countries, or to meet this need by some use of its reserves. For the purposes of this decision, any assistance made available to a member other than under this decision shall be deemed to finance first the part of the member's deficit that is not attributable to the increased cost of imports of petroleum and petroleum products.

(b) The total of a member's purchases outstanding under Paragraph 2 of this decision shall not exceed the smaller of (i) the increase in the cost of the member's net imports of petroleum and petroleum products over the cost of its imports of these commodities in 1972, calculated in accordance with Paragraph 1 of the Attachment to this decision, minus an amount equivalent to 10 per cent of the member's reserves at the end of 1973, adjusted for variability of exports in accordance with Paragraph 2 of the Attachment to this decision, and (ii) 75 per cent of the member's quota.

(c) The total of a member's purchases outstanding under Paragraph 2 of this decision shall not exceed 35 per cent of the amount referred to in (b) above prior to any decision that the Fund may take under Paragraph 8.

3. On the request of a member, the Fund may make an appropriate adjustment in the total amount of outstanding purchases that a member may make under Paragraph 2(b) above if the Fund is satisfied that this amount should be higher because the member's imports of petroleum and petroleum products in 1972 were abnormally low because of exceptional circumstances.

4. In order to carry out the purposes of this decision, the Fund will be prepared to grant any waiver of the conditions of Article V, Section 3(*a*)(iii) when necessary to permit purchases under this decision or to permit purchases under other policies that would raise the Fund's holdings of a member's currency above the limits referred to in that provision because of purchases outstanding under this decision. In addition, the Fund will apply its tranche policies to requests by a member for purchases other than gold tranche purchases as if the Fund's holdings of the member's currency did not include holdings resulting from any purchases outstanding under this decision.

5. (a) A member that has made a purchase under this decision will be expected to cooperate with the Fund in order to find appropriate solutions for its balance of payments

problem. For this purpose the member will consult with the Fund during the year and subsequently during the period in which it has purchases outstanding under this decision, thereby affording the Fund an opportunity to ascertain whether the member's policies are conducive to balance of payments adjustment and to repurchase in accordance with (d) below.

(b) Before submitting a request for a purchase under this decision for 1975, a member will be expected to consult the Fund on its balance of payments prospects and policies, including the effect on the balance of payments of the policies it has adopted or intends to adopt in relation to the oil problem.

(c) A member requesting a purchase under this decision will be expected to represent that it is following policies consistent with the understandings set forth in Paragraph 2 of the Rome Communiqué of the ad hoc Committee of the Board of Governors on Reform of the International Monetary System and Related Issues and that, while the purchase is outstanding, it will refrain (i) from imposing new, and from intensifying existing, restrictions on current international payments inconsistently with its obligations under the Fund's Articles of Agreement and (ii) from imposing new, or intensifying existing, restrictions on current international transactions without prior consultation with the Fund.

(d) A member requesting a purchase under this decision will be expected to represent that it will make a repurchase corresponding to the purchase, to the extent that it is still outstanding, as soon as the balance of payments problem for which the purchase was made has been overcome and, in any event, in sixteen equal quarterly installments to be completed not later than seven years after the purchase, and that it will make repurchases under this decision, other than those accruing under Article V, Section 7(*b*), in the media specified by the Fund at the time of the repurchase. The Fund will specify the media of repurchase consistently with the Articles and after consultation with members. The Fund will pay due regard to these consultations and will be guided by a policy of specifying for repurchase the media in which it will make repayments in accordance with the terms of borrowing agreements.

6. The Fund will indicate in an appropriate manner which purchases by a member are made pursuant to this decision.

7. The Fund will levy charges on holdings of a member's currency resulting from purchases outstanding under this decision in accordance with Executive Board Decision No. 4238-(74/67) of June 13, 1974.

8. Not later than September 15, 1974, the Executive Directors will review developments since the adoption of this decision in order to decide, in the light of the Fund's existing and prospective liquidity, (i) whether purchases under the decision in excess of the limit specified in 2(c) above shall be permitted and (ii) on any adaptations that should be made in the provisions of this decision, including changes in the period that is taken as the basis for calculating the amount of imports of petroleum and petroleum products and in the amount representing the increase in the cost of these products. A further review will be conducted not later than December 31, 1974 in order to decide whether and on what terms to permit purchases with respect to the impact on the balance of payments of the increased cost of imports of petroleum and petroleum products in 1975. The Executive Directors will review this decision at any other time if they consider it appropriate to do so.

Decision No. 4241-(74/67)
June 13, 1974

Attachment

1. The increase in the cost of a member's net imports of petroleum and petroleum products referred to in Paragraph 2(b)(i) of the decision will be taken to be equal to the SDR equivalent of US$5.50 (at 1 SDR equals US$1.20635) multiplied by the volume in barrels of the member's net imports (i.e., imports less exports) of these commodities in 1972.

2. The adjustment for variability of exports referred to in Paragraph 2(b)(i) of the decision will be made by deducting from the member's reserves at the end of 1973 an amount equal to twice the root mean squared proportional deviation of export values from a centered five-year moving average (using export series generally covering the period 1955–71), multiplied by the SDR value of exports in 1972. If the deduction results in a negative figure, the maximum amount that the member could purchase under Paragraph 2(b)(i) of the decision would equal the increase in the cost of its imports of petroleum and petroleum products, calculated in accordance with paragraph 1 of this attachment.

GOLD TRANCHE AND PURCHASES UNDER THE OIL FACILITY

Purchases may be made by a member under Executive Board Decision No. 4241-(74/67) only after the member has used any gold tranche that it may have.

Decision No. 4337-(74/102)
August 14, 1974

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1. The Executive Directors have reviewed Executive Board Decision No. 4241-(74/67), adopted June 13, 1974, in accordance with Paragraph 8 of that Decision.

2. The total of a member's purchases under Paragraph 2 of Executive Board Decision No. 4241-(74/67) shall not exceed, prior to any decision that the Fund may take under Paragraph 8 of that Decision pursuant to the review to be conducted not later than December 31, 1974, 90 per cent of the amount shown under Option D in Table 5 of SM/74/220, of September 11, 1974.

3. The Executive Directors shall review this Decision by December 2, 1974 and, taking account of the amounts then available under loan agreements, decide on the extent to which total purchases by a member under Paragraph 2 of Executive Board Decision No. 4241-(74/67) may be increased beyond the amount referred to in Paragraph 2 of this Decision, up to the amount shown under Option D in Table 4 of SM/74/220, of September 11, 1974.

Decision No. 4393-(74/121)
September 20, 1974

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1. The Executive Directors have reviewed Executive Board Decision No. 4393-(74/121), adopted September 20, 1974, in accordance with paragraph 3 of that Decision.

2. The Fund will be prepared to make resources available to members in accordance with Decision No. 4241-(74/67), with respect to their balance of payments deficits in 1974, in amounts that do not exceed the amount shown under Option D in Table 4 of

SM/74/220 of September 11, 1974, provided the Fund has received from a member before February 28, 1975 a statement of its intention to request a purchase.

Decision No. 4529 (74/153)
December 6, 1974

OIL FACILITY FOR 1975

1. (a) The Executive Directors have reviewed Executive Board Decision No. 4241-(74/67), adopted June 13, 1974, in accordance with Paragraph 8 of that decision, considered SM/75/72 Revision 1, and decided that the Fund will be prepared to make resources available to assist members to meet the impact of the balance of payments in 1975 of the increases in costs of imports of petroleum and petroleum products that occurred in recent years. Requests for purchases under this decision will be met, if they are in accordance with the terms of this decision and with paragraphs 2(a), 4, 5, and 6 of Decision No. 4241-(74/67).

(b) A member wishing to make a request under this decision shall submit, not later than the close of business on March 12, 1976, a statement of its intention to make the request.

2. (a) The total of a member's outstanding purchases with respect to the increased cost of petroleum and petroleum products in 1975 shall not exceed the amount shown in the table in Attachment II,† or the amount as recomputed with revised data on the basis of the formula set out in Attachment II.

(b) The total of a member's purchases outstanding under this decision shall not exceed 30 per cent of the amount referred to in paragraph 2(a) above as shown in the table in Attachment II prior to any increase that the Fund may adopt under paragraph 7.

3. On the request of a member, the Fund may make an appropriate adjustment in the amount referred to in paragraph 2(a) above if the Fund is satisfied that this amount should be higher because the member's imports of petroleum and petroleum products in 1972 or 1973 were abnormally low as the result of exceptional circumstances.

4. A member, when indicating its intention to request a purchase under the facility, shall describe its policies to achieve medium-term solutions to its balance of payments problems. Access to the facility will be subject to an assessment by the Fund of the adequacy of these policies. In addition, the member shall describe any measures to conserve oil or to develop alternative sources of energy that it has taken or proposes to take in the light of its economic situation.

5. Not earlier than April 1, 1976 the Fund, after consultation with a member, may recommend that the member make a repurchase with respect to purchases under this decision because its gross reserves at the end of 1975 exceed the level at the end of 1973 or 1974, whichever is lower, but for a member that did not make a purchase under the facility with respect to 1974, the level of gross reserves at the end of 1975 will be compared to the level at the end of 1974.

6. The Fund will levy charges on holdings of a member's currency resulting from purchases outstanding under this decision in accordance with Executive Board Decision No. 4637-(75/47), adopted April 4, 1975.

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† Not included in these volumes.

7. The Executive Directors intend to review this decision during July 1975 and at such other times as they may determine in order to decide whether changes should be made in this decision, including what further proportion of the amount referred to in paragraph 2(a) of this decision may be made available to members from time to time in light of the Fund's existing and prospective liquidity.

Decision No. 4634-(75/47),
April 4, 1975, as amended by
Decisions Nos. 4769-(75/133), July 28, 1975 and
4954-(76/16), February 11, 1976

Final Review

1. The Executive Directors have made the final review of Executive Board Decision No. 4634-(75/47), adopted April 4, 1975 in accordance with Executive Board Decision No. 4954-(76/16), adopted February 11, 1976.

2. In accordance with Decision No. 4954-(76/16) and taking account of the statements by members received before the close of business on March 12, 1976 of their intentions to request purchases, the Fund determines that for each such member the amount of the final purchase under Decision No. 4634-(75/47) shall not exceed the amount shown in column 6 of the table in the Attachment† to this Decision.

Decision No. 4986-(76/47)
March 18, 1976

PURCHASES UNDER THE OIL FACILITY FOR 1975: PRIOR USE OF GOLD TRANCHE

Executive Board Decision No. 4337-(74/102), adopted August 14, 1974 shall be amended by including after the words "Executive Board Decision No. 4241-(74/67)" the words "and Executive Board Decision No. 4634-(75/47)."

Decision No. 4638-(75/47)
April 4, 1975

SUBSIDY ACCOUNT

In order to help fulfill the purposes of the Fund as stated in Article I of the Articles of Agreement, including the promotion of cooperation between members and the Fund and among members on international monetary problems, the Fund will establish a Subsidy Account in cooperation with members to assist those members that are most seriously affected by the current situation to meet the cost of using resources made available through the Fund's oil facility for 1975. The Subsidy Account will be subject to the following provisions.

1. The Managing Director is authorized (i) to make arrangements to establish a Subsidy Account in the name of the International Monetary Fund with such depositories of the Fund as may be necessary, to be operated in accordance with the same administrative

† Not included in these volumes.

procedures as those that the Fund applies in operating its other accounts; and (ii) to take all measures necessary to implement this Decision.

2. The Subsidy Account will consist of currency deposited by donors on the basis of this Decision, securities in which currency in the Account is invested, currency representing the income of investment, and the proceeds of disinvestment. In contributing to the Subsidy Account, a donor may make a single deposit or may inform the Fund of its intention to make periodic deposits. The donor will specify the procedure that it intends to follow in making deposits and will consult the Fund on any subsequent changes.

3. (a) Payments will be made from the Subsidy Account to each of the members listed in Annex A that have made purchases under Executive Board Decision No. 4634-(75/47) (hereinafter referred to as the recipients).

(b) Payments, after meeting any expenses, will be made as soon as is practicable after the end of each financial year of the Fund and will be calculated as a percentage per annum of the average daily balances of the Fund's holdings of the currency of each recipient in excess of its quota outstanding under Executive Board Decision No. 4634-(75/47) during the year. The percentage applicable will be the same for all recipients during a given financial year. To the extent that it proves financially possible, the Fund will equalize the percentages payable to all recipients during the period of payments under this Decision.

4. Currency held in the Subsidy Account may be invested in government securities issued by members, subject to the approval of the government in whose securities the investment is made.

5. The assets and records of the Subsidy Account will be kept separate from the assets and records of all other Accounts of the Fund and will be audited at the time of the annual audit of the Fund by the committee selected under Section 20 of the Fund's By-Laws. The property and assets of the Fund held in other Accounts will not be used to discharge liabilities or meet losses arising out of administration of the Subsidy Account; nor will the assets in the Subsidy Account be used to discharge liabilities or meet losses incurred in the administration of other Accounts.

6. (a) If the Executive Directors find that the Subsidy Account is no longer necessary or that its purpose cannot be carried out, the Account will be terminated.

(b) If any assets remain in the Subsidy Account on the date of its termination, the amount will be divided among the donors that have made deposits in it in proportion to their contributions.

7. If the Fund amends paragraph 3 or Annex A of this Decision, a donor (i) will be entitled to request and obtain the return of an amount equivalent to that part of its contribution that has not been used, to the same extent that it could obtain repayment under paragraph 6(b) of this Decision in the event that the Subsidy Account were terminated; and (ii) may cancel any notice of intention to make further deposits that it has given in accordance with paragraph 2 of this Decision. Calculations under this paragraph will be made as of the date of receipt by the Fund of the request or cancellation.

8. The Executive Directors will review this Decision annually.

Decision No. 4773-(75/136)[†]
August 1, 1975

[†] See also E. B. Decision No. 5694-(78/35), below, p. 503.

Annex A

Afghanistan
Bangladesh
Burma
Burundi
Cameroon
Central African Republic
Chad
Dahomey
Egypt
El Salvador
Ethiopia
Ghana
Guinea
Guyana
Haiti
Honduras
India
Ivory Coast
Kenya
Khmer Republic
Laos
Lesotho
Malagasy Republic
Mali
Mauritania
Niger
Pakistan
Rwanda
Senegal
Sierra Leone
Somalia
Sri Lanka
Sudan
Tanzania
Uganda
Upper Volta
Western Samoa
Yemen Arab Republic
Yemen, People's Democratic Republic of

Together with such other countries on the list of May 1, 1975 of most seriously affected developing countries compiled by the Secretary-General of the United Nations that become members of the International Monetary Fund not later than February 27, 1976.

SUBSIDY ACCOUNT

a. *Annual Review and Payment of Subsidy for Fiscal Year 1976*

1. For the fiscal year ended April 30, 1976, a subsidy shall be paid to each member listed in Table 1 of EBS/76/271 at the rate of 5 per cent per annum of the average daily balances of the currency of the member held by the Fund in excess of quota outstanding under Executive Board Decision No. 4634-(75/47) during the year.

2. The payments shall be made in U.S. dollars based on the U.S. dollar/SDR exchange rate on July 19, 1976.

3. The payments shall be deemed to be made first from income earned from the investment of the contributions to the Subsidy Account and thereafter from the contributions.

4. No charge shall be levied for the services rendered by the Fund in the operation of the Subsidy Account for the fiscal year ended April 30, 1976.

5. The next review of Executive Board Decision No. 4773-(75/136) shall be conducted in May 1977.

Decision No. 5144-(76/102) SA
July 12, 1976

b. *Annual Review and Payment of Subsidy for Fiscal Year 1977*

In concluding their second review of Executive Board Decision No. 4773-(75/136) August 1, 1975, the Executive Directors adopt the following decision:

1. For the fiscal year ended April 30, 1977, a subsidy shall be paid to each member listed in Table 1 of EBS/77/164 at the rate of 5 per cent per annum on the average daily

balances of the currency of the member held by the Fund in excess of quota outstanding under Executive Board Decision No. 4634-(75/47) during the year.

2. The payment shall be made in U.S. dollars on June 16, 1977 based on the U.S. dollar/SDR exchange rate determined three working days prior to payment.

3. No charge shall be levied for the services rendered by the Fund in the administration and operation of the Subsidy Account for the fiscal year ended April 30, 1977.

4. The next review of Executive Board Decision No. 4773-(75/136) shall be conducted in May 1978.

Decision No. 5425-(77/79) SA
May 27, 1977

c. *Annual Review and Rate of Payment of Subsidy for Financial Year 1978*

1. For the financial year ended April 30, 1978, a subsidy shall be paid to each member listed in Table 1 of EBS/77/164 at the rate of 5 per cent per annum on the average daily balances of the currency of the member held by the Fund that are outstanding under Executive Board Decision No. 4634-(75/47) during the year and subject to charges. The precise amounts to be disbursed will be advised to the Executive Board when they are calculated in early May 1978.

2. The payment shall be made in U.S. dollars on May 31, 1978 based on the U.S. dollar/SDR exchange rate determined three working days prior to payment.

3. No charge shall be levied for the services rendered by the Fund in the administration and operation of the Subsidy Account for the financial year ended April 30, 1978.

4. The Managing Director is authorized to send the attached letter to donors requesting their views on the addition to the members listed in Table 1 of EBS/77/164 of Grenada, Malawi, Morocco, Papua New Guinea, the Philippines, Zaïre and Zambia and on the proposed distribution of any surplus in the Subsidy Account to these countries after the present beneficiaries have received a subsidy of 5 per cent per annum on all balances subject to charges.

5. After the supplementary review provided for in paragraph 4 above, the next review of Executive Board Decision No. 4773-(75/136) shall be conducted in May 1979.

Decision No. 5726-(78/59) SA
April 17, 1978

d. *Subsidy Account: Amendment of Decision*

With effect from the date of the Second Amendment of the Articles of Agreement, paragraph 3(b) of Executive Board Decision No. 4773-(75/136), adopted August 1, 1975, shall be amended by deleting the phrase "in excess of its quota" and replacing it with the phrase "subject to charges."

Decision No. 5694-(78/35)
March 17, 1978

EXTENDED FUND FACILITY

I.

(i) The Executive Directors have been considering the establishment of an extended facility for members that would enable the Fund to give medium-term assistance in the special circumstances of balance of payments difficulty that are indicated in this decision.

The facility, in its formulation and administration, is likely to be beneficial for developing countries in particular.

(ii) The Executive Directors have noted the studies prepared by the staff, including SM/74/58 ("Extended Fund Facility," March 8, 1974), and especially paragraphs 12 to 16 of that memorandum, in which certain situations to which an extended facility could apply are described as follows:

"(a) an economy suffering serious payments imbalance relating to structural maladjustments in production and trade and where prices and cost distortions have been widespread;

(b) an economy characterized by slow growth and an inherently weak balance of payments position which prevents pursuit of an active development policy."

(iii) The Executive Directors have noted the support for an extended facility by the Committee of the Board of Governors on the Reform of the International Monetary System and Related Issues.

(iv) Taking into account the considerations set forth above, and in particular the exceptional problems faced by some members, the Executive Directors have decided to establish a facility in accordance with the terms set forth in Section II of this decision for the purpose of giving such members medium-term assistance, consistently with Article I(v) and the other purposes of the Fund, under extended arrangements.

II.

1. The Fund will be prepared to give special assistance to members to meet balance of payments deficits for longer periods and in amounts larger in relation to quotas than has been the practice under existing tranche policies. Such assistance will be given in the form of extended arrangements in support of comprehensive programs that include policies of the scope and character required to correct structural imbalances in production, trade, and prices when it is expected that the needed improvement in the member's balance of payments can be achieved without policies inconsistent with the purposes of the Fund only over an extended period. The Fund will pay particular attention to the policy measures that the member intends to implement in order to mobilize resources and improve the utilization of them and to reduce reliance on external restrictions, the time required for these measures to have the intended effect on the balance of payments, and such other factors as the Fund considers relevant to the member's circumstances.

2. A member that contemplates making a request for an extended arrangement should consult the Managing Director before making a request under this decision. A request by a member for an extended arrangement in order to deal with a problem of the kind referred to in this decision will be met, subject to paragraphs 3 and 4 below, if the Fund is satisfied that:

(a) the solution of the member's balance of payments problem will require a longer period than the period for which the resources of the Fund are available under existing tranche policies, and

(b) the member has presented:

(i) a program, setting forth the objectives and policies for the whole period of the extended arrangement, and adequate for the solution of the member's problem; and

(ii) a detailed statement of the policies and measures for the first twelve months constituting an initiation of the program referred to in (i) considered substantial in the member's circumstances,

with the understanding that, for each subsequent twelve-month period, the member will present to the Fund a detailed statement of the progress made, and the policies and measures as in (ii) that will be followed, to further the realization of the objectives of the program referred to in (i) with such modifications in the member's policies as might reasonably be considered necessary to assist it to achieve its objectives in changing circumstances.

3. Extended arrangements under this decision will be limited to periods of not more than three years. Each arrangement will prescribe the total amount, and the annual installments within the total, available in accordance with the original or any modified terms of the arrangement. Purchases in respect of each installment will be phased over the period in which it is available and will be subject to suitable performance clauses related to the implementation of those policies that are necessary for achieving the objectives of the program that the member has adopted as the basis for an extended arrangement.

4. (a) Purchases outstanding under this decision will not exceed 140 per cent of the member's quota, or be allowed to raise the Fund's holdings of the member's currency above 265† per cent of the member's quota (excluding holdings obtained by the Fund as a result of purchases under its decisions on the facilities relating to compensatory financing, buffer stock financing, and the impact of the increased cost of imports of petroleum and petroleum products).

(b) In order to carry out the purposes of this decision, the Fund will be prepared to grant any waiver of the conditions of Article V, Section 3(*a*)(iii) when necessary to permit purchases under this decision or to permit purchases under other policies that would raise the Fund's holdings of a member's currency above the limits referred to in that provision because of purchases outstanding under this decision. In addition, subject to (a), the Fund will apply its tranche policies to requests by a member for purchases other than gold tranche purchases as if the Fund's holdings of the member's currency did not include holdings resulting from any purchases outstanding under this decision.

5. A member that has obtained an extended arrangement under this decision will make repurchases corresponding to purchases under the extended arrangement, to the extent that such purchases are still outstanding, as soon as its balance of payments problems have been overcome and, in any event, within an outside range of four to eight years after each purchase. Not later than four years after the first purchase under the extended arrangement the member will propose to the Fund a schedule of repurchases for all purchases outstanding under the extended arrangement. Normally, schedules under this paragraph will provide for repurchases in respect of each purchase in sixteen equal quarterly installments.

6. When purchases are made under extended arrangements granted pursuant to this decision, the Fund will so indicate in an appropriate manner.

7. The Fund will levy charges on holdings of a member's currency resulting from purchases outstanding under this decision in accordance with Executive Board Decision No. 4378-(74/114), adopted September 13, 1974.

8. Except as otherwise provided in this or in any subsequent related decisions, extended arrangements shall be subject to the Fund's decisions and policies on stand-by arrangements.

9. The Fund will review this decision in the light of experience and developing circumstances when the total amount of purchases that could be made under extended arrange-

† See also E. B. Decision No. 4934-(76/5), below, p. 506.

ments is equivalent to two billion special drawing rights and in any event not later than July 31, 1976.

Decision No. 4377-(74/114)
September 13, 1974

Until the effective date of the second amendment of the Articles:

(i)† . . . .

(ii)† . . . .

(iii) the reference to 265 per cent of the member's quota in paragraph 4(a) of Decision No. 4377-(74/114), adopted September 13, 1974, shall be replaced by "276.25 per cent of the member's quota."

Decision No. 4934-(76/5)
January 19, 1976

EXTENDED FUND FACILITY: REVIEW OF DECISION

1. The Executive Directors have reviewed Decision No. 4377-(74/114), adopted September 13, 1974, relating to the extended Fund facility, in accordance with paragraph 9 of that decision.

2. The Executive Directors have decided not to modify the decision at this time but they will review the adequacy of its provisions further at an appropriate time and in any event when the total amount of the purchases that could be made under extended arrangements is equivalent to SDR 2 billion.

Decision No. 5220-(76/144)
September 20, 1976

COMPENSATORY FINANCING OF EXPORT FLUCTUATIONS

Executive Board Decision No. 1477-(63/8), adopted February 27, 1963, as amended by Executive Board Decision No. 2192-(66/81), adopted September 20, 1966, is amended to read as follows:

1. The financing of deficits arising out of export shortfalls, notably those of primary exporting member countries, has always been regarded as a legitimate reason for the use of Fund resources, which have been drawn on frequently for this purpose. The Fund believes that such financing helps these members to continue their efforts to adopt adequate measures toward the solution of their financial problems and to avoid the use of trade and exchange restrictions to deal with balance of payments problems, and that this enables these members to pursue their programs of economic development with greater effectiveness.

2. The Fund has reviewed its policies to determine how it could more readily assist members, particularly primary exporters, encountering payments difficulties produced by temporary export shortfalls, and has decided that such members can continue to expect that their requests for drawings will be met where the Fund is satisfied that

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† Reproduced on p. 495, above.

(a) the shortfall is of a short-term character and is largely attributable to circumstances beyond the control of the member; and

(b) the member will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties.

3. Drawings outstanding under this decision may amount to 75 per cent of the member's quota provided that (i) except in the case of shortfalls resulting from disasters or major emergencies, such drawings will not be increased by a net amount of more than 50 per cent of the member's quota in any 12-month period, and (ii) requests for drawings which would increase the drawings outstanding under this decision beyond 50 per cent of the member's quota will be met only if the Fund is satisfied that the member has been cooperating with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties.

4. The existence and amount of an export shortfall for the purpose of any drawing under this decision shall be determined with respect to the latest 12-month period preceding the drawing request for which the Fund has sufficient statistical data, provided that the Fund may allow a member to draw in respect of a shortfall for a 12-month period ending not later than six months after the latest month for which the Fund has sufficient statistical data.

5. In order to identify more clearly what are to be regarded as export shortfalls of a short-term character, the Fund, in conjunction with the member concerned, will seek to establish reasonable estimates regarding the medium-term trend of the member's exports based partly on statistical calculation and partly on appraisal of export prospects.

6. The shortfall for the purposes of this Decision shall be the amount by which the member's export earnings in the shortfall year are less than the average of the member's export earnings for the five-year period centered on the shortfall year. In computing the five-year average, earnings in the two post-shortfall years will be deemed to be equal to earnings in the two pre-shortfall years multiplied by the ratio of the sum of earnings in the most recent three years *to* that in the three preceding years. If the Fund considers that the result of the computations *under the previous sentence* is not reasonable, the Fund, in conjunction with the member, will use an estimate based on a judgmental forecast. When the Fund allows a member to draw under the proviso in paragraph 4 above, the Fund may use such methods of estimating exports during the period for which sufficient statistical data are not available as it considers reasonable.

7. Any member requesting a drawing under this decision will be expected to represent that it will make a repurchase corresponding to the drawing in accordance with the principles of Executive Board Decision No. 102-(52/11), adopted February 13, 1952, as renewed by Executive Board Decision No. 270-(53/95), adopted December 23, 1953. Approximately one year and two years after a drawing by a member under this decision, the Fund, after consultation with the member, may recommend to the member that, in view of an improvement in its balance of payments and reserve position, it should make a repurchase in respect of a part or all of the outstanding drawing. The Fund will expect the member to repurchase in accordance with the recommendation.

8. A member requesting a drawing under the proviso in paragraph 4 above will also be expected to represent that, if the amount drawn on the basis of partially estimated data exceeds the amount that could have been drawn for the full 12-month period under paragraph 6 above, the member will make a prompt repurchase in respect of the outstanding drawing, in an amount equivalent to the excess.

9. Whenever the Fund's holdings of a member's currency resulting from a drawing under this decision are reduced by the member's repurchase or otherwise, the member's access to this facility, in accordance with its terms, will be restored *pro tanto*.

10. When drawings are made under this decision, the Fund will so indicate in an appropriate manner. Within 18 months from the date of any drawing made under the Fund's tranche policies or under the extended Fund facility, a member may request that all or part of the amount outstanding be reclassified and treated, for all purposes of this decision, as a drawing made under this decision. The Fund will agree to such a request if at the time of the drawing under the tranche policies or the extended Fund facility the member could have met the requirements for a drawing of an equal amount under this decision.

11. In order to implement the Fund's policies in connection with compensatory financing of export shortfalls, the Fund will be prepared to waive the limit on the Fund's holdings of 200 per cent of quota, where appropriate. In particular, the Fund will be prepared to waive this limit (i) where a waiver is necessary to permit compensatory drawings to be made under this decision or (ii) to the extent that drawings in accordance with this decision are still outstanding.

Moreover, the Fund will apply its tranche policies to drawing requests by a member as if the Fund's holdings of the member's currency were less than its actual holdings of that currency by the amount of any drawings outstanding under this decision.

12. The Fund will review the formula in paragraph 6 not later than March 31, 1977, and will review this decision as a whole when experience and developing circumstances make this desirable. The Fund will review this decision in any event whenever (i) drawings under this decision in any 12-month period exceed SDR 1.5 billion or (ii) outstanding drawings under this decision exceed SDR 3.0 billion.†

Decision No. 4912-(75/207)
December 24, 1975

1975 Decision on Compensatory Financing: Review

In view of the expectation that in the near future drawings under Executive Board Decision No. 4912-(75/207), adopted December 24, 1975, may exceed SDR 1.5 billion, the Fund has conducted the review required by paragraph 12 of the decision when drawings under the decision in any 12-month period exceed SDR 1.5 billion. Having concluded the review, it has decided to make no change in the decision.

Decision No. 5088-(76/77)
May 21, 1976

Compensatory Financing Facility: Review of Decision

The Fund has reviewed the formula in paragraph 6 of Executive Board Decision No. 4912-(75/207), adopted December 24, 1975 and the decision as a whole, and has decided to revise paragraph 12 of the decision as follows:

> The Fund will review this decision when experience and developing circumstances make this desirable and in any event not later than May 31, 1979, or whenever
>
> (i) drawings under this decision in any 12-month period exceed SDR 1.5 billion or
>
> (ii) outstanding drawings under this decision exceed SDR 4.0 billion.

Decision No. 5348-(77/33)
March 11, 1977

† See also E. B. Decision No. 5348-(77/33), this page.

Buffer Stock Financing Facility: The Problem of Stabilization of Prices of Primary Products

1. The Executive Board, having considered the staff study on "The Problem of Stabilization of Prices of Primary Products," decides that the Fund will be prepared to extend assistance to members in connection with the financing of international buffer stocks of primary products in accordance with the principles and subject to the quantitative limits set forth in Chapter III, Section 2, and Annex A of Part II of the study.

2. In accordance with paragraph 1 above, the total of purchases outstanding pursuant to paragraph 1 of this decision shall not exceed 50 per cent of quota.

3. In order to carry out the purposes of this decision, the Fund will be prepared to waive the limit on purchases that raise the Fund's holdings above 200 per cent of quota, where appropriate.

4. When purchases are made pursuant to paragraph 1 of this decision, the Fund will so indicate in an appropriate manner.

5. A member requesting a purchase pursuant to paragraph 1 of this decision will be expected to represent that it will make a repurchase corresponding to the purchase (i) in accordance with the principles of Executive Board Decision No. 102-(52/11) of February 13, 1952, as renewed by Executive Board Decision No. 270-(53/95) of December 23, 1953, or (ii) if the international buffer stock for the financing of which the purchase was made makes distributions in currency to the member at an earlier date, when these distributions are made and to the extent thereof.

6. In view of the Fund's purposes which include the facilitation of "the expansion and balanced growth of international trade," the Fund, in its consultations with members, will pay increased attention to their policies in the commodity field.

Decision No. 2772-(69/47),
June 25, 1969, as amended by
Decision No. 4913-(75/207),
December 24, 1975

Buffer Stock Financing Facility: International Cocoa Agreement

1. The Fund, having considered the text of the International Cocoa Agreement as adopted at the U.N. Cocoa Conference on October 20, 1972, finds that the terms of this Agreement relating to the international cocoa buffer stock to be established thereunder are consistent with Executive Board Decision No. 2772-(69/47), adopted June 25, 1969. For this purpose, that Decision and the principles referred to in it are understood as permitting the use of the Fund's resources in connection with loans to the International Cocoa Council under Article 37(5) of the Agreement by members participating in the Agreement in order to finance the operations of the cocoa buffer stock.

2. The Fund notes that under the arrangements pursuant to Articles 37, 38 and 39 of the Agreement, a part of the financial burden of the buffer stock operations would be assumed by members themselves by acceptance of phased payments for stocks delivered by them to the buffer stock and by any contributions that may be charged on cocoa under the Agreement. The Fund expects that, in order to maintain an adequate degree of self-financing throughout the period of the Agreement, provision would be made for the generation of resources from sources other than the Fund.

3. In view of paragraphs 1 and 2 above, the Fund will meet, subject to the provisions of Executive Board Decision No. 2772-(69/47), a member's requests for purchases for fi-

nancing the member's loan to the International Cocoa Council under Article 37(5) of the Agreement solely for the purpose of the buffer stock's acquisition of cocoa stocks from members other than stocks involved in diversion to nontraditional uses.

4. Repayment of the loan for the financing of which the member made purchases from the Fund shall be treated as "distributions in currency to the member" for the purpose of repurchases under paragraph 5 of Executive Board Decision No. 2772-(69/47). Moreover, the Fund expects that a member's loan to the Council financed by purchases from the Fund will be repaid by the Council *pari passu* with reductions in the buffer stock.

5. The staff will keep the Executive Directors informed on the operation of the buffer stock and other developments in connection with the International Cocoa Agreement by reports that will be made at least once a year, and the Fund may make such review of this Decision as is appropriate in the light of these reports.

Decision No. 3933-(73/42)
April 23, 1973

BUFFER STOCK FINANCING FACILITY: FIFTH INTERNATIONAL TIN AGREEMENT

1. The Fund, having considered the text of the Fifth International Tin Agreement, as adopted by the United Nations Tin Conference on June 21, 1975, finds that the terms of this Agreement relating to the international tin buffer stock to be established under the Agreement are consistent with the principles referred to in Executive Board Decision No. 2772-(69/47) of June 25, 1969.

2. In view of (1) above, the Fund will meet, subject to the provisions of Executive Board Decision No. 2772-(69/47) as amended by Executive Board Decision No. 4913-(75/207), a member's requests for purchases in connection with the financing by the member of its compulsory contributions to the buffer stock established under the Fifth International Tin Agreement.

3. The Fund decides that any contribution made in the form of tin metal under Article 21 of the Agreement shall be regarded as equivalent to a contribution in cash, valued at the floor price prevailing when the contribution is called up. Any transfer of metal from the buffer stock to a member will be treated as a distribution in currency, valued at the floor price prevailing when the transfer is made.

4. The staff will keep the Executive Directors informed on the operation of the buffer stock and other developments in connection with the Fifth International Tin Agreement by reports that will be made at least once a year, and the Fund may make such review of this decision as is appropriate in the light of these reports.

Decision No. 5127-(76/91)
June 23, 1976

BUFFER STOCK FINANCING FACILITY: 1977 INTERNATIONAL SUGAR AGREEMENT

1. It is decided that, for the purposes of Decision No. 2772-(69/47) as amended, a sugar buffer stock consisting of buffer stocks nationally owned but internationally controlled pursuant to the 1977 International Sugar Agreement, as established by the 1977 United Nations Sugar Conference, shall be deemed to be an international buffer stock if it otherwise meets all the criteria referred to in Decision No. 2772-(69/47) as amended.

2. The Fund, having considered the text of the International Sugar Agreement, 1977, as adopted by the United Nations Sugar Conference on October 7, 1977, recognizing the economically sound attributes of the Agreement and the price stabilization objective,

finds that the terms of this Agreement relating to the special stocks of sugar to be established under the Agreement are consistent with the principles referred to in Executive Board Decision No. 2772-(69/47), as amended, including the amendment in paragraph 1 above.

3. In view of paragraph 2 above, the Fund will meet, subject to the provisions of Executive Board Decision No. 2772-(69/47), as amended, and the limits specified in paragraphs 4 and 5 below, a member's requests for purchases in connection with the financing by the member of the special stocks established in accordance with Article 46 of the International Sugar Agreement, 1977. For the purposes of this decision, any special stock in sugar established in accordance with Article 46 of the International Sugar Agreement, 1977, shall cover an amount of sugar not exceeding the quantities for which certificates of existence issued by the Government of the member have been supplied to the International Sugar Organization and in respect of which agreement has been reached between the member and the International Sugar Organization regarding on-site verifications, as provided for in Article 47 of the 1977 International Sugar Agreement. A member may make a purchase under this decision if its request is received in the Fund not later than six months after (i) the end of the period in which the member has to fulfill its obligation to establish a special stock in accordance with Article 46.5 of the International Sugar Agreement or (ii) the date on which the export quotas are lifted, if this date is earlier.

4. A request for a purchase under this decision will be met if it will not cause the total of purchases outstanding under this decision to exceed the sum of the values of the quantities of sugar placed in the special stock, with each quantity valued on the basis of the lesser of (i) the floor price and (ii) the average market price during the month in which the quantity was acquired.

5. A request for a purchase under this decision by a member that has outstanding any loans in foreign exchange for which a special stock has been used as collateral will be met if, in addition to being consistent with the limit specified in paragraph 4 above, it does not cause the total of purchases outstanding under this decision to exceed the higher of (i) the sum referred to in paragraph 4 above minus the amount of any outstanding loans in foreign exchange for which the special stock has been used as collateral and (ii) the total value of the special stock on the basis of the average price during the latest calendar month before the request for a purchase under this decision minus the amount of any such loans. When requesting a purchase and while it has purchases outstanding under this decision, a member shall inform the Fund of any loans for which the special stock has been used as collateral.

6. A member that has outstanding purchases under this decision will be expected to repurchase in accordance with paragraph 1 of Decision No. 5703-(78/39) and shall complete repurchase in respect of these purchases in accordance with paragraph 1 of the same decision. The member will be expected to make a repurchase at an earlier date

(i) when, and to the extent that, stocks are released from the control of the International Sugar Organization, and

(ii) when the member obtains a loan in foreign exchange for which the special stock is used as collateral, to the extent that the amount of this loan, together with the amount of purchases outstanding exceeds the amount that the member may purchase in accordance with paragraphs 4 and 5 above.

7. The staff will keep the Executive Directors informed on the operation of the buffer stocks and other developments in connection with the International Sugar Agreement,

1977, by reports that will be made at least once a year, and the Fund may make such review of this decision as is appropriate in the light of these reports.

Decision No. 5597-(77/171)
December 16, 1977

ESTABLISHMENT OF A SUPPLEMENTARY FINANCING FACILITY

1. (a) The Fund will be prepared to provide, in accordance with this decision, supplementary financing in conjunction with use of the other resources of the Fund (hereinafter referred to as "ordinary resources") to members facing serious payments imbalances that are large in relation to their quotas. Supplementary financing for the purpose of this decision means financing that the Fund will provide under a stand-by or extended arrangement with resources the Fund obtains by replenishment under Article VII, Section 2 and Decision No. 5509-(77/127), adopted August 29, 1977.

(b) Resources available to members under other policies of the Fund will remain available in accordance with the terms of those policies.

2. A member contemplating use of the Fund's resources in the three credit tranches beyond the first credit tranche (hereinafter referred to as the "upper credit tranches") that would include supplementary financing shall consult the Managing Director before making a request under this decision. A request by a member will be met under this decision only if the Fund is satisfied: (i) that the member needs financing from the Fund that exceeds the amount available to it in the four credit tranches and its problem requires a relatively long period of adjustment and a maximum period for repurchase longer than the three to five years under the credit tranche policies; and (ii), on the basis of a detailed statement of the economic and financial policies the member will follow and the measures it will apply during the period of the stand-by or extended arrangement, that the member's program will be adequate for the solution of its problem and is compatible with the Fund's policies on the use of its resources in the upper credit tranches or under the Extended Fund Facility.

3. The Fund may approve a stand-by or extended arrangement that provides for supplementary financing at any time within two years from the effective date of this decision. The Fund will review this period when conducting a review under 12 below. Any extension of the period shall not exceed one year.

4. (a) Supplementary financing will be available only if the program referred to in 2(ii) above is one in support of which the Fund approves a stand-by arrangement in the upper credit tranches or beyond or an extended arrangement. The stand-by or extended arrangement will be in accordance with the Fund's policies, including inter alia its policies on conditionality, phasing, and performance criteria, provided however that any right of augmentation exercised by a member in connection with a repurchase in respect of a purchase made with supplementary financing shall be subject to the same period of repurchase that applied to the purchase in respect of which the repurchase was made.

(b) The period of a stand-by arrangement approved under this decision will normally exceed one year, and may extend up to three years in appropriate cases. The period of an extended arrangement will be in accordance with Decision No. 4377-(74/114), adopted September 13, 1974.

(c) A request for a purchase in accordance with a stand-by or extended arrangement approved under this decision will be met from ordinary resources and supplementary financing in the proportions determined under 5 and 6 below when the arrangement is approved.

5. The amounts available to a member under a stand-by arrangement approved under this decision will be apportioned between ordinary resources and supplementary financing as follows:

(a) While each credit tranche is 36.25 per cent of quota under the Fund's policies, supplementary financing will be equivalent to 34 per cent of quota in respect of each of the upper credit tranches.

(b) After each credit tranche becomes 25 per cent of quota under the Fund's policies, supplementary financing will be equivalent to 12.5 per cent of quota in respect of the first credit tranche and 30 per cent of quota in respect of the upper credit tranches.

(c) If a member has used all or part of its credit tranches before a stand-by arrangement is approved under this decision, the arrangement approved under this decision will provide that the amount of supplementary financing that would have been used under (a) and (b) above if all earlier purchases in the credit tranches had been made in conjunction with supplementary financing will be used, subject to 4(a) above, before purchases are made under (a) or (b) above.

(d) If a purchase in a credit tranche is less than the amount of a full credit tranche, the supplementary financing to be used in conjunction with the purchase will be in the same proportion of the amount of supplementary financing referred to in (a) and (b) above as the purchase in the credit tranche bears to the amount available in that tranche when the arrangement was approved.

(e) From time to time, the Fund will review the proportions of supplementary financing to be used in conjunction with the upper credit tranches, and may substitute modified proportions for those in effect pursuant to this decision. The modified proportions shall apply only to stand-by arrangements approved after the date of the decision to modify the proportions, provided that a member that has an existing stand-by arrangement may request that, subject to 4(a) and 5(c) above, any increased proportions be made available to it under a new or revised arrangement.

(f) In special circumstances, a stand-by arrangement may be approved under this decision that provides for purchases beyond the credit tranches and supplementary financing available under (a), (b), and (c) above. The arrangement will provide that all purchases under it will be made with supplementary financing. The Fund, taking into account the criteria in 2 above, will prescribe in each arrangement the amount of supplementary financing that will be available.

6. (a) Supplementary financing will be available, in combination with ordinary resources, for purchases under an extended arrangement approved under this decision in an amount not exceeding the equivalent of 140 per cent of quota. Purchases under an extended arrangement will be made with ordinary resources and with supplementary financing in the ratio of one to one.

(b) Supplementary financing available to a member in accordance with the ratio in (a) above will be increased by an amount determined by the ratio of one to one in respect of that part of the upper credit tranches that is no longer available to the member as the result of earlier uses of the Fund's resources. Purchases will be made with supplementary financing, subject to 4(a) above, to the extent of the amount of this increase before purchases are made in accordance with (a) above.

(c) The principles of 5(e) and (f) shall apply to extended arrangements approved under this decision.

7. (a) Repurchases in respect of outstanding purchases under this decision will be made in accordance with the terms of the stand-by or extended arrangement under which the purchases were made.

(b) The terms will include a provision that the member will be expected to repurchase in respect of purchases, whether made with ordinary resources or with supplementary financing, as its balance of payments and reserve position improves, and will make such repurchases if, after consultation with the member, the Fund represents that repurchase should be made because of an improvement.

(c) The terms will also provide that with respect to purchases financed with ordinary resources repurchase will be made in accordance with the Fund's policies on the credit tranches or under the Extended Fund Facility; and that with respect to purchases made with supplementary financing repurchase will be made in equal semiannual installments that begin not later than three and one-half years and are completed not later than seven years after the purchase.

(d) A repurchase attributed to a purchase made with supplementary financing in advance of this schedule of equal semiannual installments must be accompanied by a repurchase in respect of the purchase financed with ordinary resources made at the same time if any part of the latter purchase is still outstanding. The amounts of the two repurchases will be in the same proportions in which ordinary resources and supplementary financing were used in the purchases, provided, however, that the repurchase in respect of the purchase financed with ordinary resources will not exceed the amount of the purchase still outstanding.

(e) Repurchases will be made in the media prescribed by the Articles of Agreement and specified by the Fund at the time of the repurchase after consultation with members. The Fund will be guided by a policy of specifying for repurchase the media in which it will make repayments as a result of the repurchases, and will take this policy into account in preparing its currency budgets.

8. In order to carry out the purposes of this decision, the Fund will be prepared to grant a waiver of the conditions of Article V, Section 3(*a*)(iii) (or Article V, Section 3(*b*)(iii) after the Second Amendment of the Articles) that is necessary to permit purchases under this decision or to permit purchases under other policies that would raise the Fund's holdings of a member's currency above the limits referred to in that provision because of purchases outstanding under this decision.

9. The Fund will apply its credit tranche policies as if the Fund's holdings of a member's currency did not include holdings resulting from purchases outstanding under this decision that have been made with supplementary financing. After the effective date of the Second Amendment of the Articles of Agreement purchases under this decision and holdings resulting from purchases outstanding under this decision will be excluded under Article XXX(*c*).

10. The Fund will state which purchases by a member are made under this decision and the amounts of ordinary resources and supplementary financing used in each purchase.

11. The Fund will levy charges in accordance with the decision of the Executive Board on holdings of a member's currency resulting from purchases outstanding under this decision to the extent that they are made with supplementary financing.

12. The Fund will review this decision not later than two years after its effective date or when the Seventh General Review of Quotas becomes effective, if that occurs within the two years. One year after the effective date of this decision the Fund will report on the use of the supplementary financing facility. The report will deal also with other important aspects of the facility.

13. The effective date of this decision will be the date on which agreements are completed under Decision No. 5509-(77/127), adopted August 29, 1977, for a total amount

not less than SDR 7.75 billion, including at least six agreements each of which provides for an amount not less than SDR 500 million.

Decision No. 5508-(77/127)
August 29, 1977

TEXT OF STAND-BY AND EXTENDED ARRANGEMENTS: BEFORE AND AFTER SECOND AMENDMENT

The following decision, with attachments, is approved.

1. The form of the stand-by arrangement in Attachment A and the form of the extended arrangement in Attachment B shall be used by the Fund for arrangements granted after the date of the Second Amendment.

2. Stand-by and extended arrangements outstanding at the date of the Second Amendment shall be applied from that date subject to the following understandings:

(a) the reference to the "gold tranche" shall be understood as a reference to the "reserve tranche";

(b) purchases under the arrangements may be made in special drawing rights if, on the request of the member, the Fund agrees to provide them at the time of the purchase;

(c) repurchases under the arrangements may be made in special drawing rights; and

(d) the citation in the arrangements of provisions of the Articles of Agreement shall be understood as including the citation of the provisions as renumbered in the amended Articles of Agreement.

3. After the date of the Second Amendment, outstanding amounts of a member's currency that are subject to charges under the amended Article V, Section 8(*b*) and that result from purchases made under an arrangement granted after October 1, 1977 shall be subject to repurchase in accordance with the provisions of the amended Articles of Agreement and the policies of the Fund that apply at the time of the repurchase.

Decision No. 5546-(77/138)
September 14, 1977

Attachment A

Stand-By Arrangement

1. Annexed hereto is a letter dated ______ from (Minister of Finance and/or President of Central Bank) setting forth the objectives and policies which the (government) (authorities) of (member) will pursue.

2. The International Monetary Fund grants this stand-by arrangement to support these objectives and policies.

3. (Member) will remain in close consultation with the Fund during the period of the stand-by arrangement and, in particular, will consult with the Fund in accordance with paragraph(s) ____ of the annexed letter. These consultations may include correspondence and visits of officials of the Fund to (member) or of representatives of (member) to the Fund. For the purposes of these consultations, (member) will provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the (member's) objectives and policies set forth in the annexed letter.

4. For a period of [one year] from .. , (member) will have the right, after making full use of any reserve tranche that it may have at the time of making a request for a purchase under the stand-by arrangement, to make purchases from the Fund in an amount equivalent to SDR .... [provided that

(i) purchases under the stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR ______ until _____ and the equivalent of SDR ______ until ______; and

(ii) the right of (member) to make purchases under this stand-by arrangement shall be subject to paragraph ____ of the annexed letter to the extent that such purchases would increase the Fund's holdings of (member's) currency beyond the first credit tranche.

If at any time any limit in (i) above would prevent a purchase under the stand-by arrangement that would not increase the Fund's holdings of (member's) currency beyond the first credit tranche, the limit will not apply to that purchase.]

5. Purchases under the stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in special drawing rights if, on the request of (member), the Fund agrees to provide them at the time of the purchase. Purchases shall be made in exchange for the currency of (member).

6. (Member) will pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

7. [Subject to paragraph 4 above,] (member) will have the right to engage in the transactions covered by this stand-by arrangement without further review by the Fund. This right can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of (member). When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 7, purchases under this stand-by arrangement will be resumed only after consultation has taken place between the Fund and (member) and understandings have been reached regarding the circumstances in which such purchases can be resumed.

8. (a) Repurchase of the outstanding amount of (member's) currency that results from a purchase under this arrangement and is subject to charges under Article V, Section 8(*b*)

(i) may be made at any time;

(ii) will be expected normally as the balance of payments and reserve position of (member) improves;

(iii) shall be made in accordance with the representation of the Fund if, after consultation with (member), the Fund represents that under its policies at the time of the repurchase (member) should repurchase because of an improvement in its balance of payments and reserve position; and

(iv) shall be completed five years after the date of the purchase, provided that the repurchase shall be made in equal quarterly installments during the period beginning three years and ending five years after the date of the purchase unless the Fund approves a different schedule.

(b) Any reductions in the (member's) currency held by the Fund shall reduce the amounts subject to repurchases under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

(c) Repurchase shall be made with special drawing rights, or with the currencies specified by the Fund at the time of the repurchase in accordance with the policies and procedures of the Fund at the time of the repurchase.

Attachment B

Extended Arrangement

1. Annexed hereto is a letter dated ______ from the (Minister of Finance and/or the President of Central Bank) setting forth:

(a) The objectives and policies that the authorities of (member) will pursue for the period of the extended arrangement;

(b) The policies and measures that the authorities of (member) will pursue for the first year of the extended arrangement; and

(c) Understandings of (member) with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of (member) will pursue for the second and third years of the extended arrangement.

2. The International Monetary Fund grants this extended arrangement to support these objectives, policies, and understandings.

3. (Member) will remain in close consultation with the Fund during the period of the extended arrangement and, in particular, will consult the Fund in accordance with paragraph(s) ____ of the annexed letter. These consultations may include correspondence and visits of officials of the Fund to (member) or of representatives of (member) to the Fund. For the purposes of these consultations, (member) will provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the (member's) objectives and policies set forth in the annexed letter.

4. For a period of three years from ______, (member) will have the right, after making full use of any reserve tranche that it may have at the time of making a request for a purchase under the extended arrangement, to make purchases from the Fund in an amount equivalent to SDR ______ as follows:

(a) Until (end of first year) purchases under this extended arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR ______, provided that:

(i) Purchases shall not exceed the equivalent of SDR ______ until ______, and the equivalent of SDR ______ until ______; and

(ii) The right of (member) to make purchases during the first year under this arrangement shall be subject to paragraph ____ of the annexed letter.

(b) Until (end of second year) and (end of third year) purchases under this extended arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR ______ and SDR ______, respectively, and the right of (member) to make purchases shall be subject to:

(i) Such phasing during each of these years as shall be determined; and

(ii) Suitable performance clauses to be established in consultation with the Fund before the beginning of the second year and the beginning of the third year of the extended arrangement, respectively, as contemplated in paragraph ____ of the annexed letter.

5. Purchases under the extended arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in special drawing rights if, on the request of (member), the Fund agrees to provide them at the time of the purchase. Purchases shall be made in exchange for the currency of (member).

6. (Member) will pay a charge for this extended arrangement in accordance with the decisions of the Fund.

7. Subject to paragraph 4 above, (member) will have the right to engage in transactions covered by this extended arrangement. This right can be suspended only with respect to requests received by the Fund after (a) formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or limit the eligibility of (member). When notice of a decision to consider a proposal is given pursuant to this paragraph 7, purchases under the extended arrangement will be resumed only after consultation has taken place between (member) and the Fund and understandings have been reached regarding the circumstances in which such purchases can be resumed.

8. (a) Repurchase of the outstanding amount of (member's) currency that results from a purchase under this arrangement and is subject to charges under Article V, Section 8(*b*)

(i) may be made at any time;

(ii) will be expected normally as the balance of payments and reserve position of (member) improves;

(iii) shall be made in accordance with the representation of the Fund if, after consultation with (member), the Fund represents that under its policies at the time of the repurchase (member) should repurchase because of an improvement in its balance of payments and reserve position; and

(iv) shall be completed eight years after the date of the purchase, provided that the repurchase shall be made in equal quarterly installments during the period beginning four years and ending eight years after the date of the purchase unless the Fund approves a different schedule.

(b) Any reductions in the (member's) currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

(c) Repurchase shall be made with special drawing rights, or with the currencies specified by the Fund at the time of the repurchase in accordance with the policies and procedures of the Fund at the time of the repurchase.

Implementation of the Supplementary Financing Facility; Text of Stand-By and Extended Arrangements

The form of the stand-by arrangement in Attachment A, and the form of the extended arrangement in Attachment B, shall be used by the Fund for arrangements that provide for supplementary financing.

Decision No. 5585-(77/161)
November 30, 1977

Attachment A

Stand-By Arrangement

1. *Alternative A*

Annexed hereto is a letter dated ______ from (Minister of Finance and/or President of Central Bank) setting forth the objectives and policies which the (government) (authorities) of (member) will pursue.

Alternative B

Annexed hereto is a letter dated ______ from (Minister of Finance and/or President of Central Bank) setting forth

(a) The objectives and policies that the (government) (authorities) of (member) will pursue for the period of the stand-by arrangement;

(b) The policies and measures that the (government) (authorities) of (member) will pursue for [the first year] of the stand-by arrangement; and

(c) Understandings of (member) with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the (government) (authorities) of (member) will pursue for the period of the stand-by arrangement after the first year.

2. *Alternative A*

The International Monetary Fund grants this stand-by arrangement to support these objectives and policies.

Alternative B

The International Monetary Fund grants this stand-by arrangement to support these objectives, policies, and understandings.

3. (Member) will remain in close consultation with the Fund during the period of the stand-by arrangement and, in particular, will consult with the Fund in accordance with paragraph(s) ____ of the annexed letter. These consultations may include correspondence and visits of officials of the Fund to (member) or of representatives of (member) to the Fund. For the purposes of these consultations, (member) will provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the (member's) objectives and policies set forth in the annexed letter.

4. *Alternative A*

For a period of [__ years] from ______, (member) will have the right, after making full use of any reserve tranche that it may have at the time of making a request for purchase under the stand-by arrangement, to make purchases from the Fund in an amount equivalent to SDR ______, provided that

(a) (i) purchases under the stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR ______ until ...., and the equivalent of SDR ______ until ______; and

(ii) the right of (member) to make purchases under this stand-by arrangement shall be subject to paragraph ____ of the annexed letter to the extent that such pur-

chases would increase the Fund's holdings of (member's) currency beyond the first credit tranche plus 12.5 per cent of quota.

Alternative B

For a period of [.......... years] from .... (member) will have the right, after making full use of any reserve tranche that it may have at the time of making a request for purchase under the stand-by arrangement, to make purchases from the Fund in an amount equivalent to SDR ______ as follows:

(a) (i) Until (end of first year) purchases under the stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR ______, provided that purchases shall not exceed the equivalent of SDR ______ until ______, and the equivalent of SDR ______ until ______;

(ii) After (end of first year) the Fund shall determine the phasing of purchases for the remaining period of the stand-by arrangement, and suitable performance clauses for such periods shall be established in consultation with the Fund before (end of first year), as contemplated in paragraph ____ of the annexed letter; and

(iii) The right of (member) to make purchases under this stand-by arrangement shall be subject to paragraph ____ of the annexed letter to the extent that such purchases would increase the Fund's holdings of (member's) currency beyond the first credit tranche plus 12.5 per cent of quota.

(b) *Alternative A*

If at any time any limit in (a)(i) above would prevent a purchase under the stand-by arrangement that would not increase the Fund's holdings of (member's) currency beyond the first credit tranche plus 12.5 per cent of quota, the limit will not apply to that purchase.

Alternative B

If at any time any limit in (a)(i) above, or pursuant to (a)(ii) above, would prevent a purchase under the stand-by arrangement that would not increase the Fund's holdings of (member's) currency beyond the first credit tranche plus 12.5 per cent of quota, the limit will not apply to that purchase.

(c) Purchases under the stand-by arrangement shall be made [text to be added].

5. Purchases under the stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in special drawing rights if, on the request of (member), the Fund agrees to provide them at the time of the purchase. Purchases shall be made in exchange for the currency of (member).

6. (Member) will pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

7. Subject to paragraph 4 above, (member) will have the right to engage in the transactions covered by this stand-by arrangement without further review by the Fund. This right can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of (member). When notice

of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 7, purchases under this stand-by arrangement will be resumed only after consultation has taken place between the Fund and (member) and understandings have been reached regarding the circumstances in which such purchases can be resumed.

8. (a) Repurchase of the outstanding amount of (member's) currency that results from a purchase under this arrangement and is subject to charges under Article V, Section 8(*b*)

(i) may be made at any time;

(ii) will be expected normally as the balance of payments and reserve position of (member) improves;

(iii) shall be made in accordance with the representation of the Fund if, after consultation with (member), the Fund represents that under its policies at the time of the repurchase (member) should repurchase because of an improvement in its balance of payments and reserve position; [and]

(iv) [with respect to purchases from ordinary resources, shall be completed five years after the date of the purchase, provided that the repurchase shall be made in equal quarterly installments during the period beginning three years and ending five years after the date of the purchase unless the Fund approves a different schedule; and

(v) with respect to purchases with supplementary financing,] shall be completed seven years after the purchase, provided that the repurchase shall be made in equal semiannual installments during the period beginning three and one-half years and ending seven years after the purchase.

(b) Any reductions in the (member's) currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction [, provided, however, that a repurchase attributed to a purchase with supplementary financing in advance of the schedule in (a)(v) above shall be accompanied by a repurchase in respect of the purchase from ordinary resources made at the same time if any part of the latter purchase is still outstanding. The amounts of the two repurchases shall be in the same proportions in which ordinary resources and supplementary financing were used in the purchases, provided, however, that the repurchase in respect of the purchase from ordinary resources shall not exceed the amount of the purchase still outstanding].

(c) Repurchase shall be made with special drawing rights, or with the currencies specified by the Fund at the time of the repurchase in accordance with the policies and procedures of the Fund at the time of the repurchase.

Attachment B

Extended Arrangement

1. Annexed hereto is a letter dated ______ from the (Minister of Finance and/or the President of Central Bank) setting forth:

(a) The objectives and policies that the authorities of (member) will pursue for the period of the extended arrangement;

(b) The policies and measures that the authorities of (member) will pursue for the first year of the extended arrangement; and

(c) Understandings of (member) with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures

that the authorities of (member) will pursue for the second and third years of the extended arrangement.

2. The International Monetary Fund grants this extended arrangement to support these objectives, policies, and understandings.

3. (Member) will remain in close consultation with the Fund during the period of the extended arrangement and, in particular, will consult the Fund in accordance with paragraph(s) ______ of the annexed letter. These consultations may include correspondence and visits of officials of the Fund to (member) or of representatives of (member) to the Fund. For the purposes of these consultations, (member) will provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the (member's) objectives and policies set forth in the annexed letter.

4. For a period of three years from ______, (member) will have the right, after making full use of any reserve tranche that it may have at the time of making a request for a purchase under the extended arrangement, to make purchases from the Fund in an amount equivalent to SDR ______ as follows:

(a) Until (end of first year) purchases under this extended arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR ______, provided that:

(i) Purchases shall not exceed the equivalent of SDR ______ until ______, and the equivalent of SDR .... until ....; and

(ii) The right of (member) to make purchases during the first year under this arrangement shall be subject to paragraph .... of the annexed letter.

(b) Until (end of second year) and (end of third year) purchases under this extended arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR ______ and SDR ______, respectively, and the right of (member) to make purchases shall be subject to:

(i) Such phasing during each of these years as shall be determined; and

(ii) Suitable performance clauses to be established in consultation with the Fund before the beginning of the second year and the beginning of the third year of the extended arrangement, respectively, as contemplated in paragraph ____ of the annexed letter.

(c) Purchases under this extended arrangement shall be made [text to be added].

5. Purchases under the extended arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in special drawing rights if, on the request of (member), the Fund agrees to provide them at the time of the purchase. Purchases shall be made in exchange for the currency of (member).

6. (Member) will pay a charge for this extended arrangement in accordance with the decisions of the Fund.

7. Subject to paragraph 4 above, (member) will have the right to engage in transactions covered by this extended arrangement. This right can be suspended only with respect to requests received by the Fund after (a) formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or limit the eligibility of (member). When notice of a decision to consider a proposal is given pursuant to this paragraph 7, purchases under the extended arrangement will be resumed only after consultation has taken place between (member) and the Fund and un-

derstandings have been reached regarding the circumstances in which such purchases can be resumed.

8. (a) Repurchase of the outstanding amount of (member's) currency that results from a purchase under this arrangement and is subject to charges under Article V, Section 8(*b*)

(i) may be made at any time;

(ii) will be expected normally as the balance of payments and reserve position of (member) improves;

(iii) shall be made in accordance with the representation of the Fund if, after consultation with (member), the Fund represents that under its policies at the time of the repurchase (member) should repurchase because of an improvement in its balance of payments and reserve position; [and]

(iv) [with respect to purchases from ordinary resources, shall be completed eight years after the date of the purchase, provided that the repurchase shall be made in equal quarterly installments during the period beginning four years and ending eight years after the date of the purchase unless the Fund approves a different schedule; and

(v) with respect to purchases with supplementary financing,] shall be completed seven years after the purchase, provided that the repurchase shall be made in equal semiannual installments during the period beginning three and one-half years and ending seven years after the purchase.

(b) Any reductions in the (member's) currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction [, provided, however, that a repurchase attributed to a purchase with supplementary financing in advance of the schedule in (a)(v) above shall be accompanied by a repurchase in respect of the purchase from ordinary resources made at the same time if any part of the latter purchase is still outstanding. The amounts of the two repurchases shall be in the same proportions in which ordinary resources and supplementary financing were used in the purchases, provided, however, that the repurchase in respect of the purchase from ordinary resources shall not exceed the amount of the purchase still outstanding].

(c) Repurchase shall be made with special drawing rights, or with the currencies specified by the Fund at the time of the repurchase in accordance with the policies and procedures of the Fund at the time of the repurchase.

Repurchases

Gold Payments Under Article V, Section 7(*b*) Amounting to Less Than One Bar

If a payment due under Article V, Section 7(*b*) includes an amount of gold equal to less than one standard bar, such amount shall not be collected.

Decision No. 4087-(73/105)
November 9, 1973

Repurchase

1. (a) Repurchases of the outstanding amount of a member's currency that results from a purchase under the credit tranches and is subject to charges under Article V, Section 8(*b*), or under the decision on Compensatory Financing of Export Fluctuations (Deci-

sion No. 4912-(75/207), as amended) or the decision on The Problem of Stabilization of Prices of Primary Products (Decision No. 2772-(69/47), as amended), shall be completed, pursuant to Article V, Section 7(*c*), five years after the date of the purchase, provided that the repurchase shall be made in equal quarterly installments during the period beginning three years and ending five years after the date of the purchase unless the Fund approves a different schedule.

(b) A member that has outstanding purchases under the decision on The Problem of Stabilization of Prices of Primary Products (Decision No. 2772-(69/47), as amended) will be expected to make a repurchase at an earlier date than would be required under (a) above when, and to the extent that, the international buffer stock for the financing of which the purchase was made makes distributions in currency to the member.

2. Decisions with respect to the timing of repurchases shall be understood to permit a member to combine all repurchases to be made within a calendar month and to complete them not later than the last business day of the month, provided however that the maximum period for use of the Fund's resources according to the policy under which a repurchase is to be made shall not be exceeded.

3. If a member that has an outstanding obligation to pay gold in repurchase has made an equivalent repurchase with special drawing rights in discharge of a commitment the member shall be regarded as having discharged its obligation in accordance with Schedule B, paragraph 2.

4. If a member that has an outstanding obligation to pay gold in repurchase has made an equivalent repurchase with currencies of other members in discharge of a commitment, the member shall be regarded as having discharged its obligation in accordance with Schedule B, paragraph 2, provided that if the currencies paid are not acceptable in repurchase as of the date of the Second Amendment, the member shall substitute an equivalent amount of the currencies of other members specified by the Fund in accordance with Article V, Section 7(*i*).

5. If a member that has an outstanding obligation to pay gold in repurchase has not made an equivalent repurchase with special drawing rights or with the currencies of other members in discharge of a commitment, within two months after the date of the Second Amendment of the Articles of Agreement the member shall make a repurchase equivalent to the outstanding obligation in gold with special drawing rights or, at its option, with the currencies of other members specified by the Fund in accordance with Article V, Section 7(*i*). The repurchase shall be regarded as a discharge of the member's obligation in accordance with Schedule B, paragraph 2.

6. The dates for the payment of special drawing rights or currencies of other members in discharge of any obligation to pay gold to the Fund in repurchase, and for any substitution under paragraph 5 above, after the date of the Second Amendment of the Articles of Agreement shall be determined in accordance with Schedule B, paragraph 1.

7. Repurchase under Schedule B, paragraph 4 shall be completed four years after the date of the Second Amendment of the Articles of Agreement. If the Fund's holdings of a member's currency that are subject to paragraph 4(ii) are in excess of 10 per cent of the member's quota on the date of the Second Amendment, the member shall be requested to agree to make the repurchase in four equal installments beginning not later than one year after that date.

Decision No. 5703-(78/39)
March 22, 1978, effective April 1, 1978

EARLY REPURCHASES

1. In applying the first sentence of Article V, Section 7(*b*) of the Second Amendment the Fund will be guided by the Summary of Guidelines attached to this decision.

2. This decision will be reviewed after one year from the date of its adoption.

Summary of Guidelines

The following paragraphs are intended to provide members with the assurance that if they repurchase the amount indicated by the agreed guidelines they will be meeting the expectation of Article V, Section 7(*b*). These guidelines would need to be reviewed from time to time in the light of experience.

a. A member's balance of payments and reserve position would normally be deemed to have improved sufficiently for repurchases to be expected under Article V, Section 7(*b*), if the member's position is judged sufficiently strong in the context of a quarterly designation plan and currency budget. However, a member that makes a purchase in the credit tranches or under a special facility would not be expected to make repurchases under Article V, Section 7(*b*) until the quarter following the second full quarter after its purchase, provided that at that time its balance of payments and reserve position was judged sufficiently strong.

b. During the quarter following the decisions on the designation plan and currency budget, it would be expected that the member's outstanding purchases would be reduced by a specified amount, either by repurchases or by sales of the member's currency, or by some combination of the two. The method employed would be at the option of the member.

c. Subject to paragraphs (d) and (e) below, the specified amount for the expected quarterly repurchase would be 1.5 per cent of the member's latest gross reserves plus (minus) 5 per cent of the increase (decrease) in gross reserves over the latest six-month period for which data are available. The quarterly amount would be subject to a limit of 4 per cent of a member's latest gross reserves, and the amount of a quarterly repurchase would be limited to an amount that would not reduce the member's latest gross reserves below 250 per cent of the member's quota.

d. The specified amount would represent the minimum reduction in the Fund's holdings of the member's currency expected during the quarter. Repurchases under Article V, Section 7(*c*) and (*d*), and Schedule B, and sales of the member's currency, would count toward meeting that minimum. If the minimum is exceeded in one quarter, the excess amount shall be deducted from expected repurchases in the subsequent quarter or quarters.

e. If, during the six months prior to the date when a member is added to the list of those members whose positions are considered sufficiently strong, a member makes repurchases in amounts in excess of amounts it was obliged or expected to make during those six months, these excess amounts shall be deducted from expected repurchases in the subsequent quarter or quarters.

f. If a member opted to have its currency sold, the specified amount (less any other expected reductions in the Fund's holdings) would also serve as the amount of the currency the Fund might sell in the quarter under Article V, Section 3(*d*). If the Fund did not sell the currency in the specified amount before the end of the second month of the quarter,

the member would be expected to repurchase any balance remaining before the end of the quarter.

Decision No. 5704-(78/39)
March 22, 1978, effective April 1, 1978

A member shall discharge any repurchase obligation that accrued in gold before the date of the Second Amendment with special drawing rights or, at its option, with the currencies of other members specified by the Fund in accordance with Article V, Section 7(*i*).

Decision No. 5809-(78/88)
June 12, 1978

ATTRIBUTION OF REDUCTIONS IN FUND'S HOLDINGS OF CURRENCIES

A member shall be free to attribute a reduction in the Fund's holdings of its currency to any of its obligations to repurchase.

Decision No. 5705-(78/39)
March 22, 1978

Charges

CHARGES: MEDIA OF PAYMENT IN GENERAL RESOURCES ACCOUNT

1. A member that is unable to pay charges in SDRs because it is not a participant in the Special Drawing Rights Department and has not been prescribed as an other holder may pay all charges payable under Article V, Section 8 in the currencies of other members. Such currencies shall be selected by the Managing Director from those currencies that the Fund would receive in accordance with the operational budget in effect at the time of payment.

2. A member whose holdings of SDRs are insufficient for the payment of the total of charges due and payable by it may (a) obtain SDRs from the General Resources Account up to the amount of the balance of SDRs needed for the payment, or (b) pay the balance of the charges in the currencies of other members. The currencies for which the SDRs would be sold under (a) or that would be paid under (b) shall be selected by the Managing Director from those currencies that the Fund would receive in accordance with the operational budget in effect at the time of payment.

Decision No. 5702-(78/39) G/S
March 22, 1978, effective April 1, 1978

Rates for Computations and Maintenance of Value

1. The exchange rate for computations by the Fund relating to the currency of a member in the General Resources Account

(a) on the occasion of the use of that currency in an operation or transaction between the Fund and another member shall be the rate as of three business days before the

value date of the operation or transaction, and, if this rate cannot be used, the rate of the preceding day closest thereto that is practicable;

(b) on all other occasions shall be the rate at which the currency is held by the Fund.

2. The Fund shall adjust its holdings of the currency of a member in the General Resources Account

(a) whenever a computation relating to the currency is made in accordance with paragraph 1(a) above,

(b) at the end of the Fund's financial year,

(c) when the member requests the Fund to adjust the Fund's holdings of its currency,

(d) with respect to the U.S. dollar, on the last business day of each month, and

(e) on such other occasions as the Fund may decide.

3. Adjustments under paragraph 2 shall be made on the basis of the exchange rate of the currency under Rule O-2 for the day of the adjustment and shall take effect on that day, provided that if an exchange rate under Rule O-2 is not communicated for the currency with respect to paragraph 2(b) above, the rate of the preceding day closest thereto for which a rate is communicated shall be used.

4. Whenever the Fund adjusts its holdings of a member's currency in accordance with paragraph 3 above, the Fund shall establish an account receivable or an account payable, as the case may be, in respect of the amount of the currency payable by or to the member under Article V, Section 11.

5. For the purpose of adjustments, the Fund's holdings of a member's currency in the General Resources Account shall consist of the total of the balances of the member's currency in the General Resources Account, plus the balance in any account receivable, or minus the balance in any account payable, in the currency, as of the date of the adjustment. The total of the balances of the member's currency in the General Resources Account shall be as recorded on the Fund's books if the member agrees with this procedure.

6. For the purpose of applying the provisions of the Articles as of any date, the Fund's holdings of a currency shall consist of its actual holdings plus the balance in any account receivable or minus the balance in any account payable on that date.

7. Settlements of accounts receivable or payable by or to a member shall be made promptly after the end of a financial year of the Fund and at other times when requested by the Fund or the member.

Decision No. 5590-(77/163)
December 5, 1977, effective April 1, 1978

Borrowing

General Arrangements to Borrow: Amendment to Conform with Second Amendment of Articles

Preamble

In order to enable the International Monetary Fund to fulfill more effectively its role in the international monetary system in the new conditions of widespread convertibility, including greater freedom for short-term capital movements, the main industrial countries have agreed that they will, in a spirit of broad and willing cooperation, strengthen the

Fund by general arrangements under which they will stand ready to lend their currencies to the Fund up to specified amounts under Article VII, Section 1 of the Articles of Agreement when supplementary resources are needed to forestall or cope with an impairment of the international monetary system in the aforesaid conditions. In order to give effect to these intentions, the following terms and conditions are adopted under Article VII, Section 1 of the Articles of Agreement.

Paragraph 1. *Definitions*

As used in this Decision the term:

(i) "Articles" means the Articles of Agreement of the International Monetary Fund;

(ii) "credit arrangement" means an undertaking to lend to the Fund on the terms and conditions of this Decision;

(iii) "participant" means a participating member or a participating institution;

(iv) "participating institution" means an official institution of a member that has entered into a credit arrangement with the Fund with the consent of the member;

(v) "participating member" means a member of the Fund that has entered into a credit arrangement with the Fund;

(vi) "amount of a credit arrangement" means the maximum amount expressed in units of its currency that a participant undertakes to lend to the Fund under a credit arrangement;

(vii) "call" means a notice by the Fund to a participant to make a transfer under its credit arrangement to the Fund's account;

(viii) "borrowed currency" means currency transferred to the Fund's account under a credit arrangement;

(ix) "drawer" means a member that purchases borrowed currency from the Fund in an exchange transaction or in an exchange transaction under a stand-by arrangement;

(x) "indebtedness" of the Fund means the amount it is committed to repay under a credit arrangement.

Paragraph 2. *Credit Arrangements*

A member or institution that adheres to this Decision undertakes to lend its currency to the Fund on the terms and conditions of this Decision up to the amount in units of its currency set forth in the Annex to this Decision or established in accordance with Paragraph 3(b).

Paragraph 3. *Adherence*

(a) Any member or institution specified in the Annex may adhere to this Decision in accordance with Paragraph 3(c).

(b) Any member or institution not specified in the Annex that wishes to become a participant may at any time, after consultation with the Fund, give notice of its willingness to adhere to this Decision, and, if the Fund shall so agree and no participant object, the member or institution may adhere in accordance with Paragraph 3(c). When giving notice of its willingness to adhere under this Paragraph 3(b) a member or institution shall specify the amount, expressed in terms of its currency, of the credit arrangement which it is willing to enter into, provided that the amount shall not be less than the equivalent at the date of adherence of one hundred million special drawing rights.

(c) A member or institution shall adhere to this Decision by depositing with the Fund an instrument setting forth that it has adhered in accordance with its law and has taken all steps necessary to enable it to carry out the terms and conditions of this Decision. On the deposit of the instrument the member or institution shall be a participant as of the date of the deposit or of the effective date of this Decision, whichever shall be later.

Paragraph 4. *Entry into Force*

This Decision shall become effective when it has been adhered to by at least seven of the members or institutions included in the Annex with credit arrangements amounting in all to not less than the equivalent of five and one-half billion United States dollars of the weight and fineness in effect on July 1, 1944.

Paragraph 5. *Changes in Amounts of Credit Arrangements*

The amounts of participants' credit arrangements may be reviewed from time to time in the light of developing circumstances and changed with the agreement of the Fund and all participants.

Paragraph 6. *Initial Procedure*

When a participating member or a member whose institution is a participant approaches the Fund on an exchange transaction or stand-by arrangement and the Managing Director, after consultation, considers that the exchange transaction or stand-by arrangement is necessary in order to forestall or cope with an impairment of the international monetary system, and that the Fund's resources need to be supplemented for this purpose, he shall initiate the procedure for making calls under Paragraph 7.

Paragraph 7. *Calls*

(a) The Managing Director shall make a proposal for calls for an exchange transaction or for future calls for exchange transactions under a stand-by arrangement only after consultation with Executive Directors and participants. A proposal shall become effective only if it is accepted by participants and the proposal is then approved by the Executive Board. Each participant shall notify the Fund of the acceptance of a proposal involving a call under its credit arrangement.

(b) The currencies and amounts to be called under one or more of the credit arrangements shall be based on the present and prospective balance of payments and reserve position of participating members or members whose institutions are participants and on the Fund's holdings of currencies.

(c) Unless otherwise provided in a proposal for future calls approved under Paragraph 7(a), purchases of borrowed currency under a stand-by arrangement shall be made in the currencies of participants in proportion to the amounts in the proposal.

(d) If a participant on which calls may be made pursuant to Paragraph 7(a) for a drawer's purchases under a stand-by arrangement gives notice to the Fund that in the participant's opinion, based on the present and prospective balance of payments and reserve position, calls should no longer be made on the participant or that calls should be for a smaller amount, the Managing Director may propose to other participants that substitute amounts be made available under their credit arrangements, and this proposal shall be subject to the procedure of Paragraph 7(a). The proposal as originally approved under Paragraph 7(a) shall remain effective unless and until a proposal for substitute amounts is approved in accordance with Paragraph 7(a).

(e) When the Fund makes a call pursuant to this Paragraph 7, the participant shall promptly make the transfer in accordance with the call.

Paragraph 8. *Evidence of Indebtedness*

(a) The Fund shall issue to a participant, on its request, non-negotiable instruments evidencing the Fund's indebtedness to the participant. The form of the instruments shall be agreed between the Fund and the participant.

(b) Upon repayment of the amount of any instrument issued under Paragraph 8(a) and all accrued interest, the instrument shall be returned to the Fund for cancellation. If less than the amount of any such instrument is repaid, the instrument shall be returned to the Fund and a new instrument for the remainder of the amount shall be substituted with the same maturity date as in the old instrument.

Paragraph 9. *Interest and Charges*

(a) The Fund shall pay a charge of one-half of one per cent on transfers made in accordance with Paragraph 7(e).

(b) The Fund shall pay interest on its indebtedness at the rates at which it levies charges on segments of its holdings of currency resulting from purchases for which it borrowed and incurred the indebtedness, provided that the rate of interest shall be not less than four per cent per annum on any part of the Fund's indebtedness. Interest shall be paid as soon as possible after July 31, October 31, January 31, and April 30.

(c) Interest and charges shall be paid, as determined by the Fund, in special drawing rights, or in the participant's currency, or in other currencies that are actually convertible.

Paragraph 10. *Use of Borrowed Currency*

The Fund's policies and practices under Article V, Sections 3 and 7 on the use of its general resources and stand-by arrangements, including those relating to the period of use, shall apply to purchases of currency borrowed by the Fund.

Paragraph 11. *Repayment by the Fund*

(a) Subject to the other provisions of this Paragraph 11, the Fund, five years after a transfer by a participant, shall repay the participant an amount equivalent to the transfer calculated in accordance with Paragraph 12. If the drawer for whose purchase participants make transfers is committed to repurchase at a fixed date earlier than five years after its purchase, the Fund shall repay the participants at that date. Repayment under this Paragraph 11(a) or under Paragraph 11(c) shall be, as determined by the Fund, in the participant's currency whenever feasible, or in special drawing rights, or, after consultation with the participant, in other currencies that are actually convertible. Repayments to a participant under Paragraph 11(b) and (e) shall be credited against transfers by the participant for a drawer's purchases in the order in which repayment must be made under this Paragraph 11(a).

(b) Before the date prescribed in Paragraph 11(a), the Fund, after consultation with a participant, may make repayment to the participant, in part or in full, with any increases in the Fund's holdings of the participant's currency that exceed the Fund's working requirements, and participants shall accept such repayment.

(c) Whenever a reduction in the Fund's holdings of a drawer's currency is attributed to a purchase of borrowed currency, the Fund shall promptly repay an equivalent amount.

(d) Repayment under Paragraph 11(c) shall be made in proportion to the Fund's indebtedness to the participants that made transfers in respect of which repayment is being made.

(e) Before the date prescribed in Paragraph 11(a) a participant may give notice representing that there is a balance of payments need for repayment of part or all of the Fund's indebtedness and requesting such repayment. The Fund shall give the overwhelming benefit of any doubt to the participant's representation. Repayment shall be made after consultation with the participant in the currencies of other members that are actually convertible, or made in special drawing rights, as determined by the Fund. If the Fund's holdings of currencies in which repayment should be made are not wholly adequate, individual participants shall be requested, and will be expected, to provide the necessary balance under their credit arrangements. If, notwithstanding the expectation that the participants will provide the necessary balance, they fail to do so, repayment shall be made to the extent necessary in the currency of the drawer for whose purchases the participant requesting repayment made transfers. For all of the purposes of this Paragraph 11 transfers under this Paragraph 11(e) shall be deemed to have been made at the same time and for the same purchases as the transfers by the participant obtaining repayment under this Paragraph 11(e).

(f) All repayments to a participant in a currency other than its own shall be guided, to the maximum extent practicable, by the present and prospective balance of payments and reserve position of the members whose currencies are to be used in repayment.

(g) The Fund shall at no time reduce its holdings of a drawer's currency below an amount equal to the Fund's indebtedness to the participants resulting from transfers for the drawer's purchases.

(h) When any repayment is made to a participant, the amount that can be called for under its credit arrangement in accordance with this Decision shall be restored pro tanto but not beyond the amount of the credit arrangement.

(i) The Fund shall be deemed to have discharged its obligations to a participating institution to make repayment in accordance with the provisions of this Paragraph or to pay interest and charges in accordance with the provisions of Paragraph 9 if the Fund transfers an equivalent amount in special drawing rights to the member in which the institution is established.

Paragraph 12. *Rates of Exchange*

(a) The value of any transfer shall be calculated as of the date of the dispatch of the instructions for the transfer. The calculation shall be made in terms of the special drawing right in accordance with Article XIX, Section 7(*a*) of the Articles, and the Fund shall be obliged to repay an equivalent value.

(b) For all of the purposes of this Decision, the value of a currency in terms of the special drawing right shall be calculated by the Fund in accordance with Rule O-2 of the Fund's Rules and Regulations.

Paragraph 13. *Transferability*

A participant may not transfer all or part of its claim to repayment under a credit arrangement except with the prior consent of the Fund and on such terms and conditions as the Fund may approve.

Paragraph 14. *Notices*

Notice to or by a participating member under this Decision shall be in writing or by rapid means of communication and shall be given to or by the fiscal agency of the participating member designated in accordance with Article V, Section 1 of the Articles and Rule G-1 of the Rules and Regulations of the Fund. Notice to or by a participating institution shall be in writing or by rapid means of communication and shall be given to or by the participating institution.

Paragraph 15. *Amendment*

This Decision may be amended during the period prescribed in Paragraph 19(a) only by a decision of the Fund and with the concurrence of all participants. Such concurrence shall not be necessary for the modification of the Decision on its renewal pursuant to Paragraph 19(b).

Paragraph 16. *Withdrawal of Adherence*

A participant may withdraw its adherence to this Decision in accordance with Paragraph 19(b) but may not withdraw within the period prescribed in Paragraph 19(a) except with the agreement of the Fund and all participants.

Paragraph 17. *Withdrawal from Membership*

If a participating member or a member whose institution is a participant withdraws from membership in the Fund, the participant's credit arrangement shall cease at the same time as the withdrawal takes effect. The Fund's indebtedness under the credit arrangement shall be treated as an amount due from the Fund for the purpose of Article XXVI, Section 3, and Schedule J of the Articles.

Paragraph 18. *Suspension of Exchange Transactions and Liquidation*

(a) The right of the Fund to make calls under Paragraph 7 and the obligation to make repayments under Paragraph 11 shall be suspended during any suspension of exchange transactions under Article XXVII of the Articles.

(b) In the event of liquidation of the Fund, credit arrangements shall cease and the Fund's indebtedness shall constitute liabilities under Schedule K of the Articles. For the purpose of Paragraph 1(*a*) of Schedule K, the currency in which the liability of the Fund shall be payable shall be first the participant's currency and then the currency of the drawer for whose purchases transfers were made by the participants.

Paragraph 19. *Period and Renewal*

(a) This Decision shall continue in existence for four years from its effective date.

(b) This Decision may be renewed for such period or periods and with such modifications, subject to Paragraph 5, as the Fund may decide. The Fund shall adopt a decision on renewal and modification, if any, not later than twelve months before the end of the period prescribed in Paragraph 19(a). Any participant may advise the Fund not less than six months before the end of the period prescribed in Paragraph 19(a) that it will withdraw its adherence to the Decision as renewed. In the absence of such notice, a participant shall be deemed to continue to adhere to the Decision as renewed. Withdrawal of adherence in accordance with this Paragraph 19(b) by a participant, whether or not included in the Annex, shall not preclude its subsequent adherence in accordance with Paragraph 3(b).

(c) If this Decision is terminated or not renewed, Paragraphs 8 through 14, 17 and 18(b) shall nevertheless continue to apply in connection with any indebtedness of the Fund under credit arrangements in existence at the date of the termination or expiration of the Decision until repayment is completed. If a participant withdraws its adherence to this Decision in accordance with Paragraph 16 or Paragraph 19(b), it shall cease to be a participant under the Decision, but Paragraphs 8 through 14, 17 and 18(b) of the Decision as of the date of the withdrawal shall nevertheless continue to apply to any indebtedness of the Fund under the former credit arrangement until repayment has been completed.

Paragraph 20. *Interpretation*

Any question of interpretation raised in connection with this Decision which does not fall within the purview of Article XXIX of the Articles shall be settled to the mutual satisfaction of the Fund, the participant raising the question, and all other participants. For the purpose of this Paragraph 20 participants shall be deemed to include those former participants to which Paragraphs 8 through 14, 17 and 18(b) continue to apply pursuant to Paragraph 19(c) to the extent that any such former participant is affected by a question of interpretation that is raised.

ANNEX

Participants and Amounts of Credit Arrangements

		Units of Participant's Currency
1. United States of America	US$	2,000,000,000
2. Deutsche Bundesbank	DM	4,000,000,000
3. United Kingdom	£	357,142,857
4. France	F	2,715,381,428
5. Italy	Lit	343,750,000,000
6. Japan	Yen	340,000,000,000
7. Canada	Can$	216,216,000
8. Netherlands	f.	724,000,000
9. Belgium	BF	7,500,000,000
10. Sveriges Riksbank	SKr	517,320,000

Decision No. 1289-(62/1)
January 5, 1962, last amended by
Decision No. 5792-(78/79)
June 2, 1978

The amendment to the General Arrangements to Borrow entered into force on August 11, 1978.

Third Renewal

A. Executive Board Decision No. 1289-(62/1), as amended, on the General Arrangements to Borrow, is hereby renewed for a period of five years from October 24, 1975 subject to the following modifications:

1. Paragraph 9(b) shall be made to read as follows:

The Fund shall pay interest on its indebtedness at the rates at which it levies charges on segments of its holdings of currency resulting from purchases for which it borrowed

and incurred the indebtedness, provided that the rate of interest shall be not less than four per cent per annum on any part of the Fund's indebtedness. Interest shall be paid as soon as possible after July 31, October 31, January 31, and April 30.

2. Paragraph 9(c) shall be made to read as follows:

Interest and charges shall be paid, as determined by the Fund, in gold, or in special drawing rights, or in the participant's currency, or in other currencies that are actually convertible.

3. The third sentence of Paragraph 11(a) shall be made to read as follows:

Repayment under this Paragraph 11(a) or under Paragraph 11(c) shall be, as determined by the Fund, in the participant's currency whenever feasible, or in gold, or special drawing rights, or, after consultation with the participant, in other currencies that are actually convertible.

4. The third sentence of Paragraph 11(f) shall be made to read as follows:

Repayment shall be made after consultation with the participant in the currencies of other members that are actually convertible, or made in gold, or special drawing rights, as determined by the Fund.

5. The following shall be inserted in the Decision as Paragraph 11(j):

The Fund shall be deemed to have discharged its obligations to a participating institution to make repayment in accordance with the provisions of this Paragraph or to pay interest and charges in accordance with the provisions of Paragraph 9 if the Fund transfers an equivalent amount in special drawing rights to the member in which the institution is established.

B. Reference in Executive Board Decision No. 1289-(62/1), as amended, to "the period prescribed in Paragraph 19(a)" shall be understood to include the period of the renewal under this Decision.

C. The modifications of Executive Board Decision No. 1289-(62/1), as amended, that are set forth in section A above shall become effective prior to October 24, 1975 as amendments pursuant to Paragraph 15 of the Decision upon receipt of the concurrence of all participants in these modifications in accordance with that Paragraph.

Decision No. 4421-(74/132)
October 23, 1974

Third Extension of Association of Switzerland

The Fund agrees to the extension until October 23, 1980 of the Agreement of June 11, 1964 between the Swiss Federal Council and the International Monetary Fund and authorizes the Managing Director to exchange with the Ambassador of Switzerland to the United States, letters in the form [below].

Decision No. 4858-(75/172)
November 5, 1975

Exchange of letters between the Ambassador of Switzerland to the United States and the Managing Director of the Fund

November 5, 1975

Sir:

I have the honor to refer to the agreement for the association of the Swiss Confederation with the Fund's General Arrangements to Borrow under the exchange of letters of June 11, 1964, which was subsequently extended until October 23, 1970 and April 30, 1974.

It is my understanding that, in view of the third renewal of the General Arrangements to Borrow for a period of five years from October 24, 1975 and the Federal Decree of March 20, 1975 authorizing the continuation of the association of the Swiss Confederation, the Swiss authorities are prepared to extend the period of the agreement between the Federal Council and the Fund concerning the association of the Swiss Confederation with the General Arrangements to Borrow. Accordingly, I have been authorized to propose, on behalf of the Fund, that the agreement be extended until October 23, 1980.

If such an extension is acceptable to the Swiss Federal Council, I propose that this letter and your reply indicating the concurrence of the Swiss Federal Council should constitute an agreement between the Swiss Federal Council and the International Monetary Fund.

Accept, Sir, the assurances of my highest consideration.

Very truly yours,
/s/
H. JOHANNES WITTEVEEN
Managing Director

His Excellency
Felix Schnyder
Ambassador of Switzerland
2900 Cathedral Avenue, N.W.
Washington, D.C. 20008

Washington, D.C.
November 5, 1975

Sir:

I am pleased to acknowledge receipt of your letter of November 5, 1975.

I have been authorized by the Swiss Federal Council to inform you that the Swiss Federal Council, on behalf of the Swiss Confederation, agrees to the extension until October 23, 1980 of the agreement for the association of the Swiss Confederation with the International Monetary Fund's General Arrangements to Borrow under the exchange of letters of June 11, 1964, as proposed in your letter. Accordingly, your letter and this reply constitute an agreement between the International Monetary Fund and the Swiss Federal Council.

Accept, Sir, the assurances of my highest consideration.

Very truly yours,
/s/
FELIX SCHNYDER
The Ambassador of Switzerland

The Managing Director
International Monetary Fund
19th and H Streets, N.W.
Washington, D.C. 20431

General Arrangements to Borrow: Increase in Amount of Credit Arrangement for Japan

1. Japan has indicated its willingness to increase from 90 billion yen to 340 billion yen the amount of its credit arrangement under the General Arrangements to Borrow (Executive Board Decision No. 1289-(62/1) of January 5, 1962, as amended). The Fund agrees to this increase in the amount of Japan's credit arrangement under Paragraph 5 of the General Arrangements.

2. The increase will become effective when the Fund has received the agreement of the participants in the General Arrangements to the proposed increase.[1]

Decision No. 5249-(76/154)
November 5, 1976

Borrowing in Connection with Oil Facility

1. The International Monetary Fund deems it appropriate in accordance with Article VII, Section 2(i) to replenish its holdings of currencies by borrowing to the extent that resources are needed in respect of purchases under the facility established by Executive Board Decision No. 4241-(74/67), adopted June 13, 1974.

2. A number of members, or institutions within their territories, have indicated their intention to lend to the Fund for the purposes of the facility. In order to enable the Fund to borrow in accordance with these intentions, the draft letter set out in the Annex to this Decision is adopted as the basis for terms and conditions to be incorporated in the agreement with each lender under Article VII, Section 2(i) of the Articles of Agreement. The terms and conditions may be adapted for good reason, such as domestic legal requirements or the character of the lending institution. Each letter setting forth the terms and conditions to be proposed shall be submitted to the Executive Directors for their approval.

3. In determining the amounts to be called, the Fund will take into account the proportion of the unutilized balance of each lender's commitment to the total of unutilized balances under the agreements and the balance of payments and reserve position and prospects of a lender or of the member country in which it is situated.

4. If the Fund decides to make repayments in accordance with Paragraph 5(b)(i)(B) of the draft letter set out in the Annex to this Decision, repayments will be made to lenders in proportion to the amounts the Fund is committed to repay to each lender.

5. The Fund shall use its best efforts to ensure that currencies borrowed in accordance with this Decision will be transferred on the same day to purchasers under the facility referred to in Paragraph 1 above and that amounts corresponding to repurchases identified in accordance with Paragraph 5(b)(i)(A) of the draft letter set out in the Annex to this Decision will be repaid to lenders on the same day as the repurchase.

Decision No. 4242-(74/67)†
June 13, 1974

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[1] The increase became effective on November 23, 1976.

† See also E. B. Decision No. 4635-(75/47), below, p. 539.

ANNEX

[Your Excellency] [Dear Sir]

In accordance with Article VII, Section 2(i) of the Articles of Agreement of the International Monetary Fund, hereinafter referred to as "the Articles," and pursuant to Executive Board Decision No. 4241-(74/67), adopted June 13, 1974, Executive Board Decision No. 4242-(74/67), adopted June 13, 1974, and Executive Board Decision No. [borrowing-individual lender], adopted ______, I have been authorized to propose on behalf of the International Monetary Fund, hereinafter referred to as "the Fund," that [the lender] agree to lend to the Fund at call during the period ending December 31, 1975 [currency of the lender] [United States dollars] in amounts that in total do not exceed the equivalent of ______ million special drawing rights (SDR ______) on the following terms and conditions:

1. All amounts under this agreement shall be expressed in terms of special drawing rights. For all the purposes of this agreement, the value of a currency in terms of special drawing rights shall be calculated at the rate for the currency as determined by the Fund in accordance with Rule O-3 of the Fund's Rules and Regulations in effect when the calculation is made, unless Paragraph 7 applies.

2. (a) Calls under this agreement shall be made only (i) in respect of purchases under the facility established by Executive Board Decision No. 4241-(74/67), adopted June 13, 1974, hereinafter referred to as "the facility," or (ii) in order to repay a borrowing by the Fund from another lender in connection with the facility when repayment is requested by that lender because of a balance of payments need.

(b) When a call is made, [the lender] shall transfer to the Fund's account with [the lender] [the depository for the currency of the lender] [the Federal Reserve Bank of New York] within two business days after the call an amount of [its currency] [United States dollars] equivalent to the amount of the call at the rate for the currency as determined by the Fund in accordance with Rule O-3 of the Fund's Rules and Regulations. [On request, [the lender] shall convert its currency when sold by the Fund into United States dollars at the rates for the two currencies as determined by the Fund in accordance with Rule O-3 of the Fund's Rules and Regulations.]

3. The Fund shall issue to [the lender] on its request a non-negotiable instrument evidencing the amount, expressed in special drawing rights, that the Fund is committed to repay under this agreement. Upon repayment of the amount of any instrument and all accrued interest, the instrument shall be returned to the Fund for cancellation. If less than the amount of any such instrument is repaid, the instrument shall be returned to the Fund and a new instrument for the remainder of the amount shall be substituted with the same maturity date as in the old instrument.

4. The Fund shall pay interest quarterly at an annual rate of seven per cent on the amount it is committed to repay under this agreement.

5. (a) Subject to the other provisions of this Paragraph 5, the Fund shall repay [the lender] an amount equivalent to any transfer pursuant to a call under Paragraph 2(b) in eight equal semiannual installments to commence after three years and to be completed not later than seven years after the date of the transfer.

(b) The Fund may repay [the lender] in advance of the repayments required by Paragraph 5(a): (i) to the extent that (A) a repurchase is identified as made in respect of a purchase under the facility for which the Fund has borrowed from [the lender], or (B) repayment is necessary in the opinion of the Fund in order to enable repurchases to be made by members with currency, or (C) [the lender] agrees to receive repayment; or (ii)

before a decision to make uniform proportionate changes in the par values of the currencies of all members becomes effective.

(c) If at any time [the lender] represents that there is a balance of payments need for repayment of part or all of the amount the Fund is committed to repay under this agreement and requests such repayment, the Fund, in deciding whether to make repayment, shall give the overwhelming benefit of any doubt to the representation.

(d) Repayments under Paragraph 5(b) and (c) shall discharge the installments prescribed by Paragraph 5(a) in the order in which they become due.

6. The Fund shall consult [the lender] in order to agree the means in which payment of interest and repayment will be made, but, if agreement is not reached, the Fund shall have the option to make payment or repayment in the currency of the lender, the currency borrowed, or [special drawing rights or United States dollars, or both].

7. If the Fund decides to make a change in the way in which the value of the unit of special drawing rights is determined, (i) [the lender] shall have the option to have the unit of value of the special drawing right in effect under Rule O-3 before the change continue to apply for the purposes of this agreement; (ii) the Fund shall have the option to repay any amounts it is committed to repay, and to make repayment on the basis of the unit of value of the special drawing right in effect under Rule O-3 before the change.

8. [The lender] may transfer all or part of its claim to repayment under this agreement with the prior consent of the Fund and on terms and conditions acceptable to the Fund.

9. [If [the lender] withdraws from the Fund, [the lender's] agreement to lend shall terminate and the amount that the Fund is committed to repay under this agreement shall be repaid in accordance with the terms of this agreement, provided that repayment shall be made, at the option of the Fund, in the currency of [the lender] or in United States dollars, or in such other currency as may be agreed with [the lender].] [If the member country in which [the lender] is situated withdraws from the Fund, [the lender's] agreement to lend shall terminate, and the amount that the Fund is committed to repay under this agreement shall be repaid in accordance with the terms of this agreement, provided that repayment shall be made, at the option of the Fund, in the currency of that member or in United States dollars, or in such other currency as may be agreed with [the lender].]

10. In the event of liquidation of the Fund the amounts the Fund is committed to repay to [the lender] shall be immediately due and payable as liabilities of the Fund under Paragraph 1 of Schedule E of the Articles. For the purpose of Paragraph 1(a) of Schedule E the currency in which the liability is payable shall be, at the option of the Fund, [the currency borrowed] [the currency of the lender if it differs from that currency] or United States dollars or any other currency agreed with [the lender].

11. Any question of interpretation of this agreement that does not fall within the purview of Article XVIII of the Articles shall be settled to the mutual satisfaction of [the lender] and the Fund.

If the foregoing proposal is acceptable to [the lender], this communication and your reply shall constitute an agreement between [the lender] and the Fund, which shall enter into force on the date on which the Fund receives your reply.

Very truly yours,

H. JOHANNES WITTEVEEN
Managing Director

BORROWING IN CONNECTION WITH OIL FACILITY FOR 1975

1. The International Monetary Fund deems it appropriate in accordance with Article VII, Section 2(i) to replenish its holdings of currency by borrowing, in addition to the amounts committed during 1974 and still unused, amounts not in excess of the equivalent of SDR 5 billion to the extent that purchases are made under the facility established by Executive Board Decision No. 4241-(74/67), adopted June 13, 1974, as extended by Executive Board Decision No. 4634-(75/47), adopted April 4, 1975.

2. The provisions of Paragraphs 2, 3, 4, and 5 of Executive Board Decision No. 4242-(74/67) shall continue to apply except as modified by Paragraphs 3 and 4 below.

3. The following changes shall be made in the draft standard letter set out in the Annex to Decision No. 4242-(74/67):

(a) In the preambular paragraph,

(i) reference shall be made to the 1975 decisions on the oil facility and borrowing for 1975;

(ii) the words "during the period ending December 31, 1975" shall be replaced by "during the period ending March 31, 1976."

(b) In the first sentence of Paragraph 2(b) the words "two business days" shall be replaced by "three business days."

(c) In Paragraph 4,

(i) the annual rate of interest of "seven per cent" shall be replaced by "seven and one-quarter per cent";

(ii) the following sentence shall be added: "No other fee, charge, or commission shall be paid to, or imposed by, [the lender] with respect to any aspect of a call under this agreement including a transfer or a conversion pursuant to a call under Paragraph 2(b)."

4. All unutilized balances under commitments agreed during 1974 shall be called before any calls are made under agreements made during 1975.

Decision No. 4635-(75/47)
April 4, 1975

AMENDMENTS OF AGREEMENTS WITH LENDERS FOR THE OIL FACILITY

a. *Borrowing*

The following change shall be made in the draft standard letter set out in the Annex to Decision No. 4242-(74/67), as amended by Decision No. 4635-(75/47), adopted April 4, 1975. In the preambular paragraph the words "during the period ending March 31, 1976" shall be replaced by "during the period ending May 31, 1976."

Decision No. 4916-(75/208)
December 24, 1975

b. *Authorization to Make Calls*

The Managing Director is authorized to make calls under agreements to borrow entered into pursuant to Executive Board Decision No. 4635-(75/47), adopted April 4, 1975, in accordance with paragraph 3 of Executive Board Decision No. 4242-(74/67), adopted

June 13, 1974, to meet requests to purchase that are authorized by the Executive Directors under the facility established by Executive Board Decision No. 4241-(74/67), adopted June 13, 1974. The Managing Director shall inform the Executive Directors promptly of any calls that he has made.

Decision No. 4741-(75/120)
July 11, 1975

Executive Board Decision No. 4741-(75/120), adopted July 11, 1975 is amended by including after the words "Executive Board Decision No. 4635-(75/47), adopted April 4, 1975" the words "and Executive Board Decision No. 4916-(75/208), adopted December 24, 1975."

Decision No. 4917-(75/208)
December 24, 1975

c. *Order of Use*

Calls shall continue to be made under outstanding agreements in accordance with paragraph 3 of Executive Board Decision No. 4242-(74/67) of June 13, 1974, except that calls shall be made first on amounts available only through March 31, 1976 if necessary in order to utilize all these amounts before that date.

Decision No. 4918-(75/208)
December 24, 1975

d. *Payment of Interest*

The Managing Director shall make arrangements for consultations to agree the means in which payment of interest will be made under the agreements to borrow entered into pursuant to Executive Board Decision No. 4242-(74/67), adopted June 13, 1974. Payment of interest shall be made in accordance with the policy and procedure set forth [below]. The Executive Directors shall be informed promptly of the interest paid and the assets used.

Decision No. 4490-(74/140)
November 6, 1974

Policy and Procedure

1. This memorandum deals with (i) the timing of interest payments on the amounts of currency borrowed by the Fund in connection with financing transactions under the oil facility; (ii) the establishment of a policy on what assets would be offered by the Fund when it consults with the lenders to agree the means of payment of interest; and (iii) the determination of the necessary authority to consult with the lenders and to make the offer and to agree on the means by which interest shall be paid. Paragraph 6 of the borrowing agreements also deals with repayment of the loans, but it is not necessary to deal with this topic in the present memorandum.

2. Interest payments on the amounts of currency borrowed by the Fund in connection with financing transactions under the oil facility are to be paid quarterly at an annual rate of seven per cent. It is suggested that such quarterly interest payments be made as of the dates at the end of the Fund's fiscal quarters—namely, July 31, October 31, January 31, and April 30—and that interest be paid as soon as possible after these dates.

The amount of interest to be paid to the lenders with respect to the quarter ending October 31 amounts to the equivalent of about SDR 4.7 million. Full use of the existing commitments to lend (about SDR 2.8 billion) would involve annual interest payments of about SDR 200 million over the first three years of the loans, with declining payments thereafter as repayments of the loans are effected. Total interest payments over the full seven years can be estimated to be about SDR 1 billion. It may be assumed that users of the oil facility will pay charges largely with SDRs while the Fund may not be able to use SDRs for payments under the borrowing arrangements and might thus have to pay currency, in particular U.S. dollars, in substantial amounts.

3. Each of the borrowing agreements provides that the Fund shall consult the lender in order to agree the means in which payment of interest will be made. If agreement is not reached between the Fund and the lender, the Fund has an option to pay in the assets specified in the borrowing agreements. In the discussions of the Executive Directors on the terms and conditions of the borrowing agreements, it was understood that the Fund would try to reach agreement with the lenders on the means of payment of interest. The options given the Fund in each of the borrowing agreements include the means of payment of interest that the lender would be willing to accept if agreement were not reached on something else.

It is proposed that the policy to guide the selection of the means of payment to be offered should be as follows:

(a) The lender would be offered its own currency, one or more currencies selected from the currency budget, and SDRs. The lender could choose to receive payment in any one or more of these assets, but SDRs, of course, could not be offered to a nonparticipant in the Special Drawing Account. The Fund normally would express a preference that the lender choose its own currency first, then the currency selected from the currency budget, and lastly SDRs. If the Fund's holdings of the currency of a lender should fall to a relatively low level, the extent to which it would be offered would be examined in connection with the quarterly consultations with Executive Directors on the currency budgets.

(b) If the lender has been offered under (a) above the means of payment specified in Paragraph 6 of its borrowing agreement, it is assumed that it will choose one of these means of payments. If the lender would not be willing to accept any of the assets mentioned in (a) above, then the matter will be submitted to the Executive Directors for decision except in those cases in which there is only one means of payment mentioned in Paragraph 6 of that lender's borrowing agreement. Such a decision is necessary because the Fund might wish to use at its discretion an asset which had been offered under (a) above and refused or a currency that it would not otherwise be using in accordance with the currency policy of the Fund.

The procedure and policy outlined above is designed to permit the Fund to offer a selection of assets for the payment of interest that may be broader than those listed in the respective Paragraph 6 of the borrowing agreements. The lender, however, retains its right to receive the assets of its choice in payment of interest. The policy on the means of payment to be offered is broadly consistent with the considerations underlying the currency budgets of the Fund, in particular the considerations of Fund liquidity and the relative strength of currencies to be used in making payments. On these grounds it would be preferable for lenders to choose the means of payment suggested by the Fund in order to avoid the need to pay U.S. dollars at times when this would not otherwise be consistent with the Fund's policy on currencies to be used.

4. Under the currency budget proposed for the quarter ending January 31, 1975, U.S. dollars would be suggested as the currency selected from the budget to be offered as one

of the means for the payment of interest. Future currency budgets would indicate which of the currencies in the budget would be offered in payment, and also the order of preference, if any, in which the various assets would be offered.

5. In executing the policy described above, it is proposed that the Managing Director be instructed to make arrangements for the necessary consultations with the lenders in order to agree the means to pay interest and to make these payments in accordance with the policy and procedure outlined above. The Executive Directors would be informed promptly of the interest payments made and the assets used in making the payments.

....

Executive Board Decision No. 4490-(74/140), adopted November 6, 1974 shall be amended by including after the words "Executive Board Decision No. 4242-(74/67), adopted June 13, 1974" the words "and Executive Board Decision No. 4635-(75/47), adopted April 4, 1975."

Decision No. 4636-(75/47)
April 4, 1975

Executive Board Decision No. 4490-(74/140), adopted November 6, 1974, as amended, shall be further amended by including after the words "and Executive Board Decision No. 4635-(75/47), adopted April 4, 1975" the words "and as amended by Executive Board Decision No. 4918-(75/208), adopted December 24, 1975."

Decision No. 4919-(75/208)
December 24, 1975

OIL FACILITY: MEDIA OF REPAYMENTS OF BORROWING

The Managing Director shall make arrangements for (i) consultation with the lenders to agree the means of repayment under the borrowing agreements concluded in accordance with Executive Board Decision No. 4242-(74/67) adopted June 13, 1974 in those cases where repurchases are identified as being in respect of purchases under the oil facility, and (ii) consultations in accordance with paragraph 5(d) of Executive Board Decision No. 4241-(74/67), adopted June 13, 1974, with members making the repurchases. Repayment shall be made in accordance with the policy and procedure set forth in EBS/77/187. Executive Directors shall be advised promptly of the repayments and the assets used.

Decision No. 5441-(77/84)
June 10, 1977

OIL FACILITY: TRANSFERABILITY OF CLAIMS

1. The Executive Board has reviewed paragraph 8 of the form letter in the Annex to Executive Board Decision No. 4242-(74/67), adopted June 13, 1974, as amended.

2. The holders of claims to repayment by the Fund arising under agreements to borrow entered into by the Fund pursuant to Executive Board Decision No. 4242-(74/67) and Executive Board Decisions No. 4635-(75/47) and No. 4916-(75/208) for the purpose of financing the 1974 and 1975 Oil Facilities are authorized to transfer all or part of the claims to repayment on the terms and conditions set forth below:

(a) For value agreed between transferor and transferee, transfers may be made at any time of all or part of a claim to repayment in accordance with the following provisions:

(i) Transfers may be made to any member, a member's national official financial institution (hereinafter referred to as an "institution of the member"), or any institution that performs functions of a central bank for more than one member, or to any lender to the Fund under the decisions cited in the preamble to this paragraph 2.

(ii) The transferor of a claim shall inform the Fund promptly of the claim that is being transferred, the transferee, the amount of the transfer, the agreed value for the transfer, and the value date. The transfer shall be registered by the Fund if it is in accordance with the terms and conditions of this decision. The transfer shall be effective as of the value date agreed between the transferor and transferee.

(iii) If all or part of a claim is transferred during a quarterly period as described in the standard paragraph 4 of the agreement as set forth in the Annex to Executive Board Decision No. 4242-(74/67), the Fund shall pay interest on the amount of the claim transferred for the whole of that period to the transferee.

(iv) The claim of a transferee shall be the same in all respects as the claim of the transferor and subject to the same provisions, except that:

a. The provision for encashment by the Fund set forth in paragraph 5(c) of the Annex to Executive Board Decision No. 4242-(74/67) shall apply only if, at the time of the transfer, the transferee is a member, or the institution of a member, that is in a net creditor position in the Fund and in the opinion of the Fund the member's currency could be used in net sales in the Fund's operational budgets for the foreseeable future;

b. In place of paragraph 6 of the original agreement on the means of repayment and payment of interest, the following test shall apply:

"6. The Fund shall consult the transferee in order to agree on the means in which payment of interest and repayment will be made, but, if agreement is not reached, the Fund shall have the option to make payment or repayment in the currency of the transferee or any freely usable currency or currencies, or some combination of these currencies. In addition, if the transferee is a participant in the Special Drawing Rights Department, or a prescribed holder of special drawing rights, the Fund may make payment or repayment, in whole or in part, in SDRs."

3. In accordance with paragraph 8 of the form letter in the Annex to Executive Board Decision No. 4242-(74/67) adopted June 13, 1974, as amended, transfers other than those subject to paragraph 2 above may be made on such terms and conditions and to such transferees as the Fund may prescribe.

4. On request, the Fund shall assist in seeking to arrange transfers.

Decision No. 5974-(78/190)
December 4, 1978

Borrowing Agreement with Swiss National Bank, 1976

The Executive Directors approve the letter [below] from the Managing Director to Dr. Fritz Leutwiler, President of the Directorate of the Swiss National Bank, which proposes the terms and conditions on which the Fund would borrow from the Swiss National Bank.

Decision No. 5288-(76/167)
December 22, 1976

Letter from the Managing Director of the Fund to the President of the Directorate of the Swiss National Bank

December 22, 1976

Sir:

In accordance with the Articles of Agreement of the International Monetary Fund, hereinafter referred to as "the Articles," and pursuant to Executive Board Decision No. 5288-(76/167), adopted December 22, 1976, I have been authorized to propose on behalf of the International Monetary Fund, hereinafter referred to as "the Fund," that the Swiss National Bank, hereinafter referred to as "the Bank," agree to lend to the Fund at call during the period of the stand-by arrangement for the United Kingdom United States dollars in amounts that in total do not exceed the equivalent of three hundred million special drawing rights (SDR 300,000,000), provided that if the total amount of a proposal for future calls approved by the Executive Directors pursuant to Paragraph 7(a) of the General Arrangements to Borrow to finance the stand-by arrangement for the United Kingdom is reduced below the equivalent of two billion five hundred sixty million special drawing rights (SDR 2,560,000,000), the Swiss National Bank shall have the option to reduce the amount of three hundred million special drawing rights (SDR 300,000,000) by the same proportion, on the following terms and conditions:

1. (a) All amounts under this agreement shall be expressed in terms of the special drawing right. For all the purposes of this agreement, the value of a currency in terms of the special drawing right shall be calculated at the rate of the currency as determined by the Fund in accordance with Rule O-3 of the Fund's Rules and Regulations in effect when the calculation is made, subject to Paragraph 1(b). A copy of the present Rule O-3 is attached.† The Fund will inform the Bank immediately of all its decisions relating to the valuation of the special drawing right.

(b) If the Fund decides to make a change in the way in which the value of the unit of special drawing rights is determined, (i) the Bank shall have the option to have the unit of value of the special drawing right in effect under Rule O-3 before the change continue to apply for the purposes of this agreement; (ii) the Fund shall have the option to repay any amounts it is committed to repay, and to make repayment on the basis of the unit of value of the special drawing right in effect under Rule O-3 before the change.

2. (a) Calls under this agreement shall be made only for exchange transactions under the stand-by arrangement for the United Kingdom referred to above, and shall be such proportion of SDR 300,000,000 as the purchase under the stand-by arrangement bears to the total of the stand-by arrangement.

(b) With the concurrence of the Bank, the Fund may make a call, under the terms of this agreement, in an amount larger than the proportion stipulated in Paragraph 2(a).

(c) When a call is made, the Bank shall transfer to the Fund's account with the Federal Reserve Bank of New York within three business days after the call an amount of United States dollars equivalent to the amount of the call.

3. The Fund shall issue to the Bank, on its request, non-negotiable instruments expressed in special drawing rights evidencing the Fund's indebtedness to the Bank. Upon repayment of the amount of any instrument and all accrued interest, the instrument shall be returned to the Fund for cancellation. If less than the amount of any such instrument

† Corresponds to Rule O-2 of the Rules and Regulations as of August 1, 1979, which are reproduced above, pp. 457–81.

is repaid, the instrument shall be returned to the Fund and a new instrument for the remainder of the amount shall be substituted with the same maturity date as in the old instrument.

4. (a) The Fund shall pay a charge of one-half of one per cent on transfers under Paragraph 2.

(b) The Fund shall pay interest on its indebtedness under this agreement in accordance with the provisions of Paragraph 9(b) of the General Arrangements to Borrow in effect at the time payment is made, subject to Paragraph 4(c). A copy of the present Paragraph 9(b) is attached.† The Fund will inform the Bank of any amendment of Paragraph 9(b).

(c) If amendments of Paragraph 9(b) of the General Arrangements to Borrow are adopted, the Bank shall have the option to have the provision prescribing the rate or rates of interest, including any minimum rate, in effect before the amendment continue to apply for the purpose of the payment of interest under this agreement.

(d) If the Fund has to repay pursuant to a request by the Bank under Paragraph 5(d) part or all of the Fund's indebtedness under this agreement,

(i) the annual rate of interest over the period from the date of the transfer to the date of repayment on the amount to be repaid shall be reduced by one-half of one per cent; and

(ii) the rate of the charge paid under Paragraph 4(a) on the amount to be repaid shall be reduced to such proportion of one-half of one per cent as the period from the date of the transfer to the date of repayment bears to five years.

The amount of interest and charge to be returned to the Fund shall be withheld from the amount to be repaid under Paragraph 5.

5. (a) Subject to the other provisions of this Paragraph 5, the Fund, five years after a transfer by the Bank pursuant to a call under Paragraph 2, shall repay the Bank an amount equivalent to the transfer. Repayment to the Bank under the subsequent provisions of this Paragraph 5 shall be credited against transfers by the Bank in the order in which repayment is to be made under this Paragraph 5(a).

(b) If the United Kingdom makes a repurchase in respect of all or part of a purchase for which a transfer was made under Paragraph 2, the Fund shall repay the Bank an amount equivalent to the same proportion of the repurchase as the transfer under Paragraph 2 bore to the purchase except when the repurchase augments the right of the United Kingdom to make purchases under the stand-by arrangement. If the United Kingdom does not exercise its augmented rights in full, the Fund shall promptly repay on the expiration of the stand-by arrangement such proportion of the amount not repaid to the Bank in accordance with the preceding sentence as the augmented rights not utilized by the United Kingdom bear to the total augmented rights.

(c) The Fund may repay the Bank in advance of the repayments required by Paragraph 5(a) or (b).

(d) If at any time the Bank requests the Fund to repay all or part of the Fund's indebtedness because in the opinion of the Bank the balance of payments and reserve position of Switzerland requires such repayment, then the Fund will repay the Bank not later than thirty days after the Bank requests repayment.

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† Reproduced above, p. 530.

6. The Fund shall consult the Bank in order to agree the means in which payment of interest and repayment will be made, but, if agreement is not reached, the Fund shall make payment or repayment in United States dollars.

7. The Bank may transfer all or part of its claim to repayment under this agreement with the prior consent of the Fund and on terms and conditions acceptable to the Fund.

8. In the event of liquidation of the Fund the amounts the Fund is committed to repay to the Bank shall be immediately due and payable as liabilities of the Fund under Paragraph 1 of Schedule E of the Articles. For the purpose of Paragraph 1(*a*) of Schedule E the currency in which the liability is payable shall be, at the option of the Fund, United States dollars or any other currency agreed with the Bank.

9. Any question of interpretation of this agreement shall be settled to the mutual satisfaction of the Bank and the Fund.

If the foregoing proposal is acceptable to the Bank, this communication and your reply shall constitute an agreement between the Bank and the Fund, which shall enter into force on the date on which the Fund receives your reply.

Very truly yours,
/s/
H. JOHANNES WITTEVEEN
Managing Director

Dr. Fritz Leutwiler
President of the Directorate
Swiss National Bank
Börsenstrasse 15
8022 Zurich
Switzerland

Note: The reply by the Swiss National Bank was received by the Fund on December 30, 1976.

BORROWING AGREEMENT WITH SWISS NATIONAL BANK: MEDIUM OF PAYMENT OF TRANSFER CHARGES

The Managing Director is authorized to offer U.S. dollars to the Swiss National Bank in settlement of transfer charges payable by the Fund under paragraph 4(a) of the borrowing agreement with the Swiss National Bank provided the U.S. dollar is usable in purchases under the currency budget.

Decision No. 5306-(77/2)
January 3, 1977

BORROWING AGREEMENT WITH SWISS NATIONAL BANK: MEDIA OF PAYMENT OF INTEREST

Under paragraph 6 of the borrowing agreement with the Swiss National Bank, the Managing Director is authorized to offer to the Swiss National Bank in settlement of interest payable by the Fund under paragraph 4 of that agreement either a currency, or currencies, selected for payment of interest in the currency budget, or United States dollars.

Decision No. 5331-(77/15)
January 31, 1977

BORROWING AGREEMENT WITH SWISS NATIONAL BANK, 1977

The Executive Board approves the letter [below] from the Managing Director to Dr. Fritz Leutwiler, President of the Directorate of the Swiss National Bank, which proposes the terms and conditions on which the Fund would borrow from the Swiss National Bank.

Decision No. 5387-(77/61)
April 25, 1977

Letter from the Managing Director of the Fund to the President of the Directorate of the Swiss National Bank

April 25, 1977

Sir:

In accordance with the Articles of Agreement of the International Monetary Fund, hereinafter referred to as "the Articles," and pursuant to Executive Board Decision No. 5387-(77/61), adopted April 25, 1977, I have been authorized to propose on behalf of the International Monetary Fund, hereinafter referred to as "the Fund," that the Swiss National Bank, hereinafter referred to as "the Bank," agree to lend to the Fund at call during the period of the stand-by arrangement for Italy United States dollars in amounts that in total do not exceed the equivalent of thirty-seven million five hundred thousand special drawing rights (SDR 37,500,000), provided that if the total amount of a proposal for future calls approved by the Executive Directors pursuant to Paragraph 7(a) of the General Arrangements to Borrow to finance the stand-by arrangement for Italy is reduced below the equivalent of three hundred and thirty-seven million five hundred thousand special drawing rights (SDR 337,500,000), the Swiss National Bank shall have the option to reduce the amount of thirty-seven million five hundred thousand special drawing rights (SDR 37,500,000) by the same proportion, on the following terms and conditions:

1. (a) All amounts under this agreement shall be expressed in terms of the special drawing right. For all the purposes of this agreement, the value of a currency in terms of the special drawing right shall be calculated at the rate for the currency as determined by the Fund in accordance with Rule O-3 of the Fund's Rules and Regulations in effect when the calculation is made, subject to Paragraph 1(b). A copy of the present Rule O-3 is attached.† The Fund will inform the Bank immediately of all its decisions relating to the valuation of the special drawing right.

(b) If the Fund decides to make a change in the way in which the value of the unit of special drawing rights is determined, (i) the Bank shall have the option to have the unit of value of the special drawing right in effect under Rule O-3 before the change continue to apply for the purposes of this agreement; (ii) the Fund shall have the option to repay any amounts it is committed to repay, and to make repayment on the basis of the unit of value of the special drawing right in effect under Rule O-3 before the change.

2. (a) Calls under this agreement shall be made only for exchange transactions under the stand-by arrangement for Italy referred to above, and shall be such proportion of SDR 37,500,000 as the purchase under the stand-by arrangement bears to the total of the stand-by arrangement.

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† Corresponds to Rule O-2 of the Rules and Regulations as of August 1, 1979, which are reproduced above, pp. 457-81.

(b) With the concurrence of the Bank, the Fund may make a call, under the terms of this agreement, in an amount larger than the proportion stipulated in Paragraph 2(a).

(c) When a call is made, the Bank shall transfer to the Fund's account with the Federal Reserve Bank of New York within three business days after the call an amount of United States dollars equivalent to the amount of the call.

3. The Fund shall issue to the Bank, on its request, non-negotiable instruments expressed in special drawing rights evidencing the Fund's indebtedness to the Bank. Upon repayment of the amount of any instrument and all accrued interest, the instrument shall be returned to the Fund for cancellation. If less than the amount of any such instrument is repaid, the instrument shall be returned to the Fund and a new instrument for the remainder of the amount shall be substituted with the same maturity date as in the old instrument.

4. (a) The Fund shall pay a charge of one-half of one per cent on transfers under Paragraph 2.

(b) The Fund shall pay interest on its indebtedness under this agreement in accordance with the provisions of Paragraph 9(b) of the General Arrangements to Borrow in effect at the time payment is made, subject to Paragraph 4(c). A copy of the present Paragraph 9(b) is attached.† The Fund will inform the Bank of any amendment of Paragraph 9(b).

(c) If amendments of Paragraph 9(b) of the General Arrangements to Borrow are adopted, the Bank shall have the option to have the provision prescribing the rate or rates of interest, including any minimum rate, in effect before the amendment continue to apply for the purpose of the payment of interest under this agreement.

(d) If the Fund has to repay pursuant to a request by the Bank under Paragraph 5(d) part or all of the Fund's indebtedness under this agreement,

- (i) the annual rate of interest over the period from the date of the transfer to the date of the repayment on the amount to be repaid shall be reduced by one-half of one per cent; and
- (ii) the rate of the charge paid under Paragraph 4(a) on the amount to be repaid shall be reduced to such proportion of one-half of one per cent as the period from the date of the transfer to the date of repayment bears to five years.

The amount of interest and charge to be returned to the Fund shall be withheld from the amount to be repaid under Paragraph 5.

5. (a) Subject to the other provisions of this Paragraph 5, the Fund, five years after a transfer by the Bank pursuant to a call under Paragraph 2, shall repay the Bank an amount equivalent to the transfer. Repayment to the Bank under the subsequent provisions of this Paragraph 5 shall be credited against transfers by the Bank in the order in which repayment is to be made under this Paragraph 5(a).

(b) If Italy makes a repurchase in respect of all or part of a purchase for which a transfer was made under Paragraph 2, the Fund shall repay the Bank an amount equivalent to the same proportion of the repurchase as the transfer under Paragraph 2 bore to the purchase except when the repurchase augments the right of Italy to make purchases under the stand-by arrangement. If Italy does not exercise its augmented rights in full, the Fund shall promptly repay on the expiration of the stand-by arrangement such proportion of the

† Reproduced above, p. 530.

amount not repaid to the Bank in accordance with the preceding sentence as the augmented rights not utilized by Italy bear to the total augmented rights.

(c) The Fund may repay the Bank in advance of the repayments required by Paragraph 5(a) or (b).

(d) If at any time the Bank requests the Fund to repay all or part of the Fund's indebtedness because in the opinion of the Bank the balance of payments and reserve position of Switzerland requires such repayment, then the Fund will repay the Bank not later than thirty days after the Bank requests repayment.

6. The Fund shall consult the Bank in order to agree the means in which payment of interest, payment of the charge under Paragraph 4(a), and repayment will be made, but, if agreement is not reached, the Fund shall make payment or repayment in United States dollars.

7. The Bank may transfer all or part of its claim to repayment under this agreement with the prior consent of the Fund and on terms and conditions acceptable to the Fund.

8. In the event of liquidation of the Fund the amounts the Fund is committed to repay to the Bank shall be immediately due and payable as liabilities of the Fund under Paragraph 1 of Schedule E of the Articles. For the purpose of Paragraph 1(*a*) of Schedule E the currency in which the liability is payable shall be, at the option of the Fund, United States dollars or any other currency agreed with the Bank.

9. Any question of interpretation of this agreement shall be settled to the mutual satisfaction of the Bank and the Fund.

If the foregoing proposal is acceptable to the Bank, this communication and your reply shall constitute an agreement between the Bank and the Fund, which shall enter into force on the date on which the Fund receives your reply.

Very truly yours,
/s/
H. Johannes Witteveen
Managing Director

Dr. Fritz Leutwiler
President of the Directorate
Swiss National Bank
Börsenstrasse 15
8022 Zurich
Switzerland

Note: The reply by the Swiss National Bank was received by the Fund on May 11, 1977.

Borrowing Agreement with Swiss National Bank: Media of Payment of Transfer Charges and Interest

1. The Managing Director is authorized to offer U.S. dollars to the Swiss National Bank in settlement of transfer charges payable by the Fund under paragraph 4(e) of the borrowing agreement with the Swiss National Bank, provided the U.S. dollar is usable in purchases under the currency budget.

2. Under paragraph 6 of the above-mentioned borrowing agreement the Managing Director is authorized to offer to the Swiss National Bank in settlement of interest payable by the

Fund either a currency, or currencies, selected for the payment of interest in the currency budget, or United States dollars.

Decision No. 5488-(77/116)
August 1, 1977

REPLENISHMENT IN CONNECTION WITH SUPPLEMENTARY FINANCING FACILITY

1. The International Monetary Fund deems it appropriate in accordance with Article VII of the Articles of Agreement to replenish its holdings of currencies to the extent that purchases are to be made with supplementary financing under Executive Board Decision No. 5508-(77/127), adopted August 29, 1977.

2. A number of members and institutions have expressed their intention to make resources available to the Fund for the purpose stated in paragraph 1 above. In order to enable the Fund to replenish its resources in accordance with these intentions, the draft letter set out in the Annex to this Decision is adopted as the basis for terms and conditions to be incorporated in the agreement with each contracting party under Article VII of the Articles of Agreement. The terms and conditions will be uniform to the maximum extent possible. Each letter setting forth the terms and conditions to be proposed will be submitted to the Executive Directors for their approval.

3. At any time within the period in which the Fund can replenish its resources in order to provide supplementary financing, it may enter into agreements for this purpose with the contracting parties referred to in paragraph 2 above and with any other member or with its national official financial institutions, provided that the member is in a sufficiently strong balance of payments and reserve position, or with any institution that performs functions of a central bank for more than one member. The Fund will consider a member to be in the position referred to above if it is in a net creditor position in the Fund and if its currency could be used in net sales in the Fund's currency budgets for the foreseeable future, but the Fund may take other circumstances into account in deciding whether to enter into an agreement with a member or with its national official financial institutions.

4. The amounts to be called by the Fund will be in broad proportion to the unutilized balance under each agreement to the total of unutilized balances under all agreements, subject to such operational flexibility as the Fund may find necessary.

5. The Fund will use its best efforts to ensure that the currencies it receives in accordance with this Decision will be transferred on the same day to purchases under Executive Board Decision No. 5508-(77/127), adopted August 29, 1977, and that amounts corresponding to repurchases attributed in accordance with Paragraph 5(b)(i) of the draft letter set out in the Annex to this Decision will be repaid to contracting parties on the same day as the repurchase is completed, provided, however, that the Fund will not make such repayment, unless it decides otherwise, if the repurchase entitles the purchaser to augmented rights under its stand-by or extended arrangement. If such repayment has not been made, the Fund will repay promptly on the expiration of the arrangement an amount equivalent to the amount of the augmented rights that have not been exercised.

Decision No. 5509-(77/127)
August 29, 1977

ANNEX

[Your Excellency] [Dear Sir]:

In accordance with Article VII of the Articles of Agreement of the International Monetary Fund, hereinafter referred to as "the Articles," and pursuant to Executive Board De-

cision No. 5509-(77/127), adopted August 29, 1977, and Executive Board Decision No. ______ [authorizing agreement with individual contracting party, X] adopted ______, I have been authorized to propose on behalf of the International Monetary Fund, hereinafter referred to as "the Fund," that [X] agree to make available to the Fund at call during the period of five years from the effective date of Executive Board Decision No. 5508-(77/127), adopted August 29, 1977, [currency of X] [specified currency or currencies deemed by the Fund to be freely usable] in amounts that in total do not exceed the equivalent of ______ million special drawing rights (SDR ______) in exchange for readily repayable claims on the following terms and conditions:

1. All amounts under this agreement shall be expressed in terms of the special drawing right. For all purposes of this agreement, the value of a currency in terms of the special drawing right shall be calculated at the rate for the currency as determined by the Fund in accordance with the Fund's Rules and Regulations in effect when the calculation is made, subject to Paragraph 7(a).

2. (a) Calls under this agreement shall be made only (i) in respect of purchases to be made with supplementary financing under the facility established by Executive Board Decision No. 5508-(77/127), adopted August 29, 1977, which is hereinafter referred to as "the facility," or (ii) by agreement with [X], in order to enable the Fund to repay a claim under another agreement connected with the facility when repayment is made under that agreement because of a balance of payments need.

(b) The Fund shall give [X] as much advance notice as possible of the Fund's intention to make calls.

(c) [X] may represent that its balance of payments and reserve position does not justify calls or further calls under this agreement. The Fund, in considering the representation, shall give [X] the overwhelming benefit of any doubt. After consultation with [X], in which the Fund shall give [X] the overwhelming benefit of any doubt, the Fund may make calls or further calls at a later date when in the opinion of the Fund the balance of payments and reserve position of [X] improves sufficiently to justify calls or further calls.

(d) When a call is made, [X] shall deposit to the Fund's account with [X] [the Fund's depository for the currency of [X]] [the Fund's depository for the currency of ______] within three business days after the call an amount of [its currency] [the currency or currencies specified in the preamble] equivalent to the amount of the call at the rate for the currency as determined by the Fund in accordance with the Fund's Rules and Regulations. On request, [X] shall exchange its currency [if not deemed by the Fund to be freely usable] when sold by the Fund for a freely usable currency at the rates for the two currencies as determined by the Fund in accordance with its Rules and Regulations.

3. The Fund shall issue to [X] on its request an instrument evidencing the amount, expressed in special drawing rights, that the Fund is committed to repay under this agreement. Upon repayment of the amount of any instrument and all accrued interest, the instrument shall be cancelled. If less than the amount of any such instrument is repaid, the instrument shall be cancelled and a new instrument for the remainder of the amount shall be substituted with the same maturity dates as in the old instrument. If all or part of the amount of a claim is transferred under 8 below, a new instrument or instruments shall be substituted on request for the old instrument with the same maturity dates as in that instrument.

4. (a) The Fund shall pay interest on the amount that the Fund is committed to repay under this agreement in accordance with the following provisions:

(i) The initial rate of interest on all outstanding claims shall be seven per cent per annum. This rate shall apply until June 30, 1978.

(ii) Six months after June 30, 1978, and at intervals of six months thereafter, the Fund shall calculate, in the manner set forth in (iii) below, the rate of interest to be paid on outstanding claims for the period of six months prior to the calculation.

(iii) The interest rate on outstanding claims for a period of six months shall be the average of the daily yields during that period on actively traded U.S. Government securities, determined on the basis of a constant maturity of five years, as published each week by the Federal Reserve Board, Washington, D.C. in statistical release H-15 or any substitute publication, or if such publication shall cease as certified by the U.S. Treasury, provided that this average shall be rounded up to the nearest one-eighth of one per cent.

(iv) Interest shall be paid promptly after June 30 and December 31 of each year on the average daily balances outstanding during the preceding six months of the amounts the Fund is committed to repay under this agreement.

(b) No other fee, charge, or commission shall be imposed by [X] with respect to a deposit or an exchange pursuant to a call under Paragraph 2(d) or with respect to any other aspect of a call.

5. (a) Subject to the other provisions of this Paragraph 5, the Fund shall repay [X] an amount equivalent to any deposit pursuant to a call under Paragraph 2 in eight equal semiannual installments to commence three and one-half years, and to be completed not later than seven years, after the date of the deposit.

(b) The Fund may repay [X] in advance of the repayments required by Paragraph 5(a) to the extent that: (i) a repurchase is attributed, in accordance with the Fund's practice, to a purchase under the facility for which the Fund has received resources from [X] under this agreement, or (ii) [X] agrees to receive repayment.

(c) If at any time [X] represents that there is a balance of payments need for repayment of part or all of the amount the Fund is committed to repay under this agreement and requests such repayment, the Fund, in considering the representation and deciding whether to make repayment, shall give [X] the overwhelming benefit of any doubt.

(d) Repayments under Paragraph 5(b) and (c) shall discharge the installments prescribed by Paragraph 5(a) in the order in which they become due.

6. The Fund shall consult [X] in order to agree with it on the means in which payments of interest and repayment shall be made, but, if agreement is not reached, the Fund shall [have the option to] make payment or repayment in [the currency of [X], or] the currency received by the Fund from [X], [or] [special drawing rights] [or any currency deemed by the Fund to be freely usable or any currency that can be exchanged at the time of the payment or repayment for a freely usable currency at a rate of exchange that would yield value equal in terms of the special drawing right to payment or repayment in a freely usable currency,] [or any combination of these means of payment or repayment].

7. (a) If the Fund decides to make a change in the method of valuation of the special drawing right, [X] shall have the option to require immediate repayment of all outstanding claims on the basis of the method of valuation in effect before the change.

(b) If [X] exercises its option under Paragraph 7(a), it shall have the further option to cancel this agreement.

8. (a) For value agreed between transferor and transferee, transfers may be made at any time of all or part of a claim to repayment under this agreement in accordance with the following provisions:

(i) Transfers may be made to any contracting party, any member, a member's national official financial institution (hereinafter referred to as a member's "institution"), or any institution that performs functions of a central bank for more than one member.

(ii) Transfers may be made to transferees other than those referred to in (i) above with the prior consent of the Fund and on such terms and conditions as it may prescribe.

(b) The transferor of a claim shall inform the Fund promptly of the claim that is being transferred, the transferee, the amount of the transfer, the agreed value for the transfer, and the value date. The transfer will be registered by the Fund if it is in accordance with this agreement. The transfer shall be effective for the purposes of this agreement as of the value date agreed between the transferor and transferee.

(c) If all or part of a claim is transferred during a period of six months as described in Paragraph 4, the Fund shall pay interest on the amount of the claim transferred for the whole of that period to the transferee.

(d) Subject to (c) and to any terms and conditions prescribed under (a)(ii), the claim of a transferee shall be the same in all respects as the claim of the transferor, except that Paragraph 5(c) shall apply only if, at the time of the transfer, the transferee is a member, or the institution of a member, that is in a net creditor position in the Fund and in the opinion of the Fund the member's currency could be used in net sales in the Fund's currency budgets for the foreseeable future.

(e) If requested, the Fund shall assist in arranging transfers.

9. [If [X] withdraws from the Fund, this agreement shall terminate and the amount that the Fund is committed to repay under this agreement shall be repaid in accordance with the terms of this agreement, provided that repayment shall be made, at the option of the Fund, in the currency of [X] [or in a currency deemed by the Fund to be freely usable], or in such other currency as may be agreed with [X].] [If the member country of which [X] is an institution withdraws from the Fund, [X's] agreement shall terminate, and the amount that the Fund is committed to repay under this agreement shall be repaid in accordance with the terms of this agreement, provided that repayment shall be made, at the option of the Fund, in the currency of that member [or in a currency deemed by the Fund to be freely usable], or in such other currency as may be agreed with [X].]

10. In the event of liquidation of the Fund the amounts the Fund is committed to repay to [X] shall be immediately due and payable as liabilities of the Fund under the provisions of the Articles on liquidation of the Fund. For the purposes of these provisions the currency in which the liability is payable shall be, at the option of the Fund, [the currency received by the Fund under this agreement] [the currency of [X] if it differs from that currency], [a currency deemed by the Fund to be freely usable,] or any other currency agreed with [X].

11. Any question of interpretation that arises under this agreement that does not fall within the purview of the provisions of the Articles on interpretation shall be settled to the mutual satisfaction of [X] and the Fund.

If the foregoing proposal is acceptable to [X], this communication and your duly authenticated reply shall constitute an agreement between [X] and the Fund, which shall enter into force on the date on which the Fund receives your reply.

Very truly yours,
/s/
H. JOHANNES WITTEVEEN
Managing Director

Restrictions on Trade and Payments

CONSULTATIONS ON MEMBERS' POLICIES IN PRESENT CIRCUMSTANCES

1. The Committee on Reform of the International Monetary System and Related Issues on January 18, 1974 reviewed important recent developments and agreed that, in the present difficult circumstances, all members, in managing their international payments, must avoid the adoption of policies which would merely aggravate the problems of other members. Accordingly, the Committee stressed the importance of avoiding competitive depreciation and the escalation of restrictions on trade and payments; and emphasized the importance of pursuing policies that would sustain appropriate levels of economic activity and employment, while minimizing inflation. It was also recognized that recent developments would create serious payments difficulties for many developing countries. The Committee agreed that there should be the closest international cooperation and consultation in pursuit of these objectives.

2. The Executive Directors call on all members to collaborate with the Fund in accordance with Article IV, Section 4(*a*), with a view to attaining these objectives. The consultations of the Fund on the policies that members are following in present circumstances will be conducted with a view to the attainment of these objectives.

Decision No. 4134-(74/4)
January 23, 1974

Voluntary Declaration on Trade and Other Current Account Measures

1. The ad hoc Committee of the Board of Governors on Reform of the International Monetary System and Related Issues, in the detailed statement issued at the end of its sixth and final meeting in Washington on June 12-13, 1974, stressed the importance of avoiding the escalation of restrictions on trade and payments for balance of payments purposes and invited members to subscribe on a voluntary basis to the Declaration concerning trade and other current account measures for balance of payments purposes annexed to its statement. The Executive Directors associate themselves with this invitation.

2. The letter from the Managing Director to members requesting them to inform the Fund whether they subscribe to the Declaration concerning trade and other current account measures for balance of payments purposes, as set forth [below] shall be sent without delay to all members.

Decision No. 4254-(74/75)
June 26, 1974

Letter to Members

Sir:

The ad hoc Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System and Related Issues, in a statement issued at the end of its sixth and final meeting in Washington on June 12-13, 1974, has stressed the importance of avoiding the escalation of restrictions on trade and payments for balance of payments purposes and has invited members of the Fund "to subscribe on a voluntary basis to the Declaration concerning trade and other current account measures for balance of payments purposes" annexed to the Committee's statement.

The Executive Directors of the Fund associate themselves with the invitation of the ad hoc Committee and have asked that I send the text of the Declaration for consideration by the authorities of all members.

The text of the Declaration is enclosed with this letter.

I shall be grateful if members will consider subscribing to this Declaration and will inform me whether they do subscribe to it.

Very truly yours,
H. JOHANNES WITTEVEEN
Managing Director

Declaration

A. A member of the Fund that subscribes to this Declaration represents thereby that, in addition to observing its obligations with respect to payments restrictions under the Articles of Agreement of the Fund, it will not on its own discretionary authority introduce or intensify trade or other current account measures for balance of payments purposes that are subject to the jurisdiction of the GATT, or recommend them to its legislature, without a prior finding by the Fund that there is balance of payments justification for trade or other current account measures.

B. A member that subscribes to this Declaration will notify the Fund as far in advance as possible of its intention to impose such measures. If circumstances preclude the Fund from making the finding referred to in A above promptly after such notification, the member may nevertheless impose such measures, but will withdraw the measures, within such a period as may be fixed by the Fund in consultation with the member concerned, if the Fund finds that there is no balance of payments justification for trade or other current account measures.

C. In arriving at the findings referred to above, the Executive Directors are requested to take into account the special circumstances of developing countries.

D. In connection with this Declaration arrangements will be made for continuing close coordination between the Fund and the GATT.

E. This Declaration shall become effective among subscribing members when members having 65 per cent of the total voting power of members of the Fund have accepted it, and shall expire two years from the date on which it becomes effective unless it is renewed.

Special Drawing Rights

GENERAL ACCOUNT: ACCOUNTING IN SPECIAL DRAWING RIGHTS

a. *Amendment of Section 20(b) of the By-Laws*

1. Following the realignment of the exchange rates of members' currencies the Fund has reviewed its accounting practices. In view of the fixed gold value of special drawing rights, their international character, and their role as an international reserve asset, the Executive Directors have concluded that it would be appropriate for the accounts of the General Account to be summarized in special drawing rights.

2. Accordingly, the Executive Directors of the Fund have approved the submission of the following draft Resolution to the Board of Governors of the Fund for a vote without meeting pursuant to Section 13 of the By-Laws. . . .

DRAFT RESOLUTION†

Amendment of Section 20(b) of the By-Laws of the Fund

RESOLVED:

That the first sentence of the fifth paragraph of Section 20(b) of the By-Laws shall be amended, effective March 20, 1972, to read as follows:

"All accounts of the General Account shall be summarized in special drawing rights of the value prescribed in Article XXI, Section 2. The currencies of members shall be converted at their par values, or in accordance with decisions of the Fund."

Decision No. 3577-(72/16)
February 25, 1972

METHOD OF VALUATION

1. Effective July 1, 1978, the value of one special drawing right shall be the sum of the values of specified amounts of the currencies listed in 2 below, the amounts of these currencies to be determined on June 30, 1978 in a manner that will ensure that, at the average exchange rates for the three-month period ending on that date, the shares of the currencies in the value of the special drawing right correspond to the weights specified for each currency in 2 below.

2. The currencies and the weights referred to in 1 above shall be as follows:

U.S. dollar	33
Deutsche mark	12 1/2
Japanese yen	7 1/2
French franc	7 1/2
Pound sterling	7 1/2
Italian lira	5
Netherlands guilder	5
Canadian dollar	5
Belgian franc	4
Saudi Arabian riyal	3
Swedish krona	2
Iranian rial	2
Australian dollar	1 1/2
Spanish peseta	1 1/2
Norwegian krone	1 1/2
Austrian schilling	1 1/2

3. The list of the currencies that determine the value of the special drawing right, and the amounts of these currencies, shall be revised with effect on July 1, 1983 and on the first day of each subsequent period of five years in accordance with the following formula, unless the Fund decides otherwise in connection with a revision:

(a) The currencies determining the value of the special drawing rights shall be the currencies of the sixteen members whose exports of goods and services during the five-year period ending eighteen months before the effective date of the revi-

† Resolution No. 27-3, adopted by the Board of Governors effective March 20, 1972.

sion had the largest value, provided that a currency shall not replace another currency included in the list at the time of the determination unless the value of the exports of goods and services of the issuer of the former currency during the relevant period exceeds that of the issuer of the latter currency by at least one per cent.

(b) The amounts of the sixteen currencies referred to in (a) above shall be determined on the last working day preceding the effective date of the relevant revision in a manner that will ensure that, at the average exchange rates for the three-month period ending on that date, the shares of these currencies in the value of the special drawing right correspond to percentage weights for these currencies, which shall be established for each currency in the proportion that the sum of the value of the balances of that currency held by the monetary authorities of other members and the value of the exports of goods and services of the issuer of the currency bears to the total sum of the same values for all sixteen currencies during the relevant period, rounded to the nearest one-half of one per cent.

4. The determination of the amounts of the currencies in accordance with 1 and 3 above shall be made in a manner that will ensure that the value of the special drawing right in terms of currencies on the last working day preceding the five-year period for which the determination is made will be the same under the valuation in effect before and after revision.

Decision No. 5718-(78/46) G/S
March 31, 1978

RECONSTITUTION: REDUCTION IN THE MINIMUM AVERAGE HOLDINGS OF SDRs

I. The Executive Board, having reviewed the rules for reconstitution in accordance with Article XIX, Section 6(*b*), decides as follows with respect to the five-year periods ending after the date of the first allocation of special drawing rights in the third basic period:

1. The requirement under Schedule G, Paragraph 1(*a*)(i) regarding the maintenance of a minimum average of total daily holdings of special drawing rights shall be 15 per cent instead of 30 per cent.

2. For the purposes of calculations under Schedule G, Paragraph 1(*a*)(ii) that are made after the resolution on allocations becomes effective but before the date of the first allocation of special drawing rights in the third basic period, the minimum average daily holdings of special drawing rights required under Schedule G, Paragraph 1(*a*)(i) shall be 15 per cent.

3. For the purposes of calculations under Schedule G, Paragraph 1(*a*)(ii) it shall be assumed that no allocations or cancellations of special drawing rights will be made after the third basic period.

II. The Executive Board will consider further in the light of experience the requirement under Schedule G, Paragraph 1(*a*)(i), as amended by this decision.

Decision No. 5936-(78/168) S
October 25, 1978, effective December 11, 1978

USE OF SDRs IN SETTLEMENT OF FINANCIAL OBLIGATIONS

A. In accordance with Article XIX, Section 2(*c*), the Fund prescribes that:

1. A participant, by agreement with another participant, may use SDRs to settle a financial obligation to the other participant, other than an obligation to make a donation, if

(a) the obligation is denominated in

(i) SDRs, or

(ii) the currency of a member, or

(iii) the currency of a nonmember or another unit of account that is composed of currencies and is applied under an intergovernmental agreement, in respect of which arrangements have been completed for determination by the Fund of equal value in terms of the SDR on the basis of Article XIX, Section 7(*a*) and Rule O-2; and

(b) the amount of SDRs to be used in the settlement of an obligation referred to in (a)(ii) or (a)(iii) above is equal in value, in terms of the SDR, at the time of settlement, to the amount of the obligation.

2. The calculations under 1(b) above shall be made at the exchange rate of the third business day preceding the value date or of the second business day preceding the value date if agreed between the parties.

3. Participants intending to use or aquire SDRs under 1(a) above shall inform the Fund of the denomination and amount of the obligation and the intended value date of the operation. As required by Rule P-7 the lender and the borrower shall declare that the intended use of SDRs will be in accordance with this prescription.

4. Transfers of SDRs under this prescription shall be made only upon the receipt by the Fund of instructions from the transferor and the transferee.

B. The Fund shall record operations under this prescription in accordance with Rule P-9.

C. The Fund shall review this decision prior to June 30 of each year.

Decision No. 6000-(79/1) S
December 28, 1978

USE OF SDRs IN LOANS

A. In accordance with Article XIX, Section 2(*c*), the Fund prescribes that:

1. A participant, by agreement with another participant, may make a loan of SDRs to the other participant if

(a) the principal amount of the loan is denominated in

(i) SDRs, or

(ii) the currency of a member, or

(iii) the currency of a nonmember or another unit of account that is composed of currencies and is applied under an intergovernmental agreement, in respect of which arrangements have been completed for determination by the Fund of equal value in terms of the SDR on the basis of Article XIX, Section 7(*a*) and Rule O-2; and

(b) the amount of SDRs used in a loan referred to in (a)(ii) or (a)(iii) above is equal in value, in terms of the SDR, at the time of the use, to the amount of the loan; and

(c) the borrower has undertaken the following obligations under the loan agreement:

(i) if the loan is denominated in SDRs, to repay with the same amount of SDRs, or the equivalent, at the time of repayment, in the currency of a member on the basis of Article XIX, Section 7(*a*) and Rule O-2, or in the currency of a nonmember or another unit of account under (a)(iii) above in accordance with the arrangements for valuation referred to therein;

(ii) if the loan is denominated in the Currency of a member and is to be repaid in SDRs, to repay with the equivalent in SDRs, at the time of repayment, on the basis of Article XIX, Section 7(*a*) and Rule O-2;

(iii) if the loan is under (a)(iii) above and is to be repaid in SDRs, to repay with the equivalent in SDRs, at the time of repayment, in accordance with the arrangements for valuation referred to in (a)(iii) above.

2. The calculations under 1(b) and (c) above shall be made at the exchange rate of the third business day preceding the value date or of the second business day preceding the value date if agreed between the parties.

3. Repayment and the payment of interest with SDRs shall be made in accordance with the prescription of the use of SDRs in the settlement of financial obligations.

4. Participants intending to lend or borrow SDRs under this prescription shall inform the Fund of the amount and value date of the loan, the denomination, rate of interest, maturity, and means of repayment agreed between the parties. As required by Rule P-7 the lender and the borrower shall declare that the intended use of SDRs will be in accordance with this prescription.

5. Transfers of SDRs under this prescription shall be made only upon the receipt by the Fund of instructions from the transferor and the transferee.

B. The Fund shall record operations under this prescription in accordance with Rule P-9.

C. The Fund shall review this decision prior to June 30 of each year.

Decision No. 6001-(79/1) S
December 28, 1978

Amendment of the Articles of Agreement

BOARD OF GOVERNORS RESOLUTION No. 29-10: REPORT OF EXECUTIVE DIRECTORS AND PROPOSED SECOND AMENDMENT TO THE ARTICLES OF AGREEMENT †

I. Pursuant to Resolution No. 29-10 of the Board of Governors at the 1974 Annual Meeting the Executive Directors:

(a) adopt the Report of the Executive Directors to the Board of Governors on the Proposed Second Amendment of the Articles of Agreement of the International Monetary Fund;

† The resolution and the report are reproduced above, pp. 208–10 and pp. 317–76, respectively.

(b) propose the introduction in the Articles of Agreement of the modifications included in the Proposed Second Amendment attached to the Resolution in Part IV of the Report; and

(c) recommend the adoption by the Board of Governors of the Resolution in Part IV of the Report.

. . . .

Decision No. 5049-(76/51)
March 24, 1976

Exclusion of Purchases and Holdings

EXCLUSION OF PURCHASES UNDER OIL FACILITY FOR PURPOSE OF DEFINITION OF "RESERVE TRANCHE PURCHASE"

With effect on the date of the Second Amendment of the Articles of Agreement, the Fund's holdings of currencies acquired in purchases under Executive Board Decision No. 4241-(74/67), June 13, 1974 and Executive Board Decision No. 4634-(75/47), April 4, 1975, shall be excluded pursuant to Article XXX(*c*)(iii) for the purpose of the definition of "reserve tranche purchase."

Decision No. 5371-(77/51)
April 8, 1977, effective April 1, 1977

EXCLUSION OF PURCHASES AND HOLDINGS UNDER BUFFER STOCK FACILITY

With effect from the date of the Second Amendment of the Fund's Articles, purchases after that date under the Buffer Stock Facility (Decision No. 2772-(69/47), June 25, 1969, as amended), and holdings resulting from all purchases under the Facility, shall be excluded pursuant to Article XXX(*c*)(ii) for the purpose of the definition of "reserve tranche purchase."

Decision No. 5591-(77/163)
December 5, 1977

Freely Usable Currencies

Pursuant to Article XXX(*f*), and after consultation with the members concerned, the Fund determines that until further notice the deutsche mark, French franc, Japanese yen, pound sterling, and U.S. dollar are freely usable currencies.

Decision No. 5719-(78/46)
March 31, 1978

General

Sales of the Fund's Gold

TIMING OF GOLD AUCTIONS

The Executive Directors agree to proceed with the gold auctions on the basis of the arrangements described under Option 2 in the Managing Director's statement, with attachment [below].

Decision No. 5273-(76/163) TR
December 7, 1976

TIMING OF SALES OF GOLD FOR THE PURPOSE OF DISTRIBUTION

The Executive Directors agree to undertake the first restitution operation on the basis of the arrangements described under Option 2 in the Managing Director's statement, with attachment [below].

Decision No. 5274-(76/163)
December 7, 1976

Option 2 in the Managing Director's Statement with Attachment

(2) A second possibility would be to hold the sixth auction on January 26, 1977 for another 780,000 ounces. This would represent the last auction under the present schedule. Beginning early in March, auctions would then be held on the first Wednesday of each month and 525,000 ounces (rounded up from 521,333) would be offered in each of 15 monthly auctions. This schedule would facilitate the completion of the first restitution operations, and the amount to be offered in each of the first two years of the sales program would be approximately equal as shown in column 2 of the annexed table. If the sixth auction were not to be the last under the present schedule so that 780,000 ounces would not be offered, but would be the first of monthly auctions, the amounts to be offered would be the same as under the first possibility. In addition, a monthly auction on the fourth Wednesday of each month would later require an adjustment in the dates in order to avoid an auction during the 1977 Christmas holiday season.

Attachment

Timing and Amounts of Auctions and Timing of Restitution

(Amounts in fine ounces)

	(1)	(2)	(3)
Sixth auction	January 12	January 26	February 2
Amount to be offered	510,000	780,000	540,000
Seventh auction	February 9	March 2	March 2
Monthly amount	510,000	525,000	540,000
Gold offered in year ending May 31, 1977	6,450,000	6,255,000	6,060,000
Gold offered in second year	6,120,000	6,300,000	6,480,000
Gold offered in first two years	12,570,000	12,555,000	12,540,000
Restitution			
Notification to Fund by members	December 27, 76	December 27, 76	January 3, 77
Delivery of restituted gold	Jan. 10–14, 77	Jan. 10–14, 77	Jan. 17–21, 77
Delivery of gold from sixth auction (approximate dates)	January 24, 77 onward	February 9, 77 onward	February 16, 77 onward

GOLD DISTRIBUTION: POSTPONEMENT

1. The Fund notes the requests from Barbados, Burundi, Grenada, Liberia, Panama, Philippines, Sierra Leone, Zaïre, and Zambia to allow these members to postpone their participation in the first gold restitution operation on the ground of balance of payments need.

2. Lebanon, Lesotho, Malawi, Sudan, and Uganda have requested the Fund to allow them to postpone their participation in the first gold restitution operation on the ground of balance of payments need. The Fund agrees to these requests.

3. Postponement, in accordance with paragraphs 1 and 2 above, shall continue until not later than 30 days after the date of the second amendment of the Articles of Agreement.

Decision No. 5314-(77/6)
January 10, 1977

GOLD AUCTIONS: NONCOMPETITIVE BIDS

1. Introduction

The Fund will entertain noncompetitive bids by members that informed the Fund by May 22, 1978 that they wish to have the option described in Section 1 of the Summary of Conclusions on Gold Auctions and Restitution (EBS/76/198, Rev. 1, 5/6/76). Until further notice, the terms and conditions set out in the following paragraphs shall apply to such bids.

2. Amount and Timing of Noncompetitive Bids

A member wishing to exercise its right to submit noncompetitive bids must do so before May 31, 1979. The gold auctions are scheduled to take place on the first Wednesday of each month, and members entitled to do so may submit bids at one or more of the auctions. Each eligible member may submit bids not exceeding in total that part of 25 million ounces that corresponds to its share in total Fund quotas on August 31, 1975 plus the quota of Papua New Guinea.

3. Weight and Quality

The gold will be in bars containing between 350 and 430 fine ounces of gold each and is said to be 995 in 1000 parts or better in fineness. It will be available at the depository at which gold is delivered in the auction in which the bids are submitted or, if a Fund gold depository is located in the territory of the member submitting a bid, at that gold depository.

4. Submission

Bids may be submitted by mail, cable, telegram, or telex. They must be for a number of fine troy ounces in multiples of 400 troy ounces. Bids for the total amount of the member's entitlement will be rounded up to the nearest standard bar. Bids submitted by mail must be dated and signed by the bidder; those submitted by cable, telegram, or telex must contain the usual test number. All bids must be clearly marked "Noncompetitive Bid" and must be received at the Fund in Washington by 11:00 a.m. EDT or EST, as the case may be, on the day of the auction. Bids may be withdrawn or modified only before that time.

5. Notification, Payment and Delivery

(a) The Fund will notify noncompetitive bidders promptly by cable, telegram, or telex upon completion of the auction of the average auction price. The exact amount of gold awarded and the amount due to the Fund will be communicated to the bidders promptly following the selection of bars.

(b) Payment of the amount due to the Fund must be made within seven business days after dispatch of the notification. An amount equivalent to SDR 35 an ounce shall be paid in currencies specified by the Fund, and the remainder in U.S. dollars.

(c) It is expected that the purchaser will make arrangements with the appropriate Fund gold depository to take delivery of the gold awarded within ten business days after the last date for completion of payment.

Decision No. 5779-(78/74) TR
May 19, 1978

Trust Fund

1. The Executive Directors of the International Monetary Fund (the "Fund") adopt the Instrument to Establish the Trust Fund (the "Instrument") that is annexed to this Decision.

2. The objective of the Trust Fund (the "Trust") will be to provide balance of payments assistance on concessional terms to the members listed in Annex A to the Instrument that qualify for assistance in either or both of the periods July 1, 1976 through June 30, 1978 and July 1, 1978 through June 30, 1980.

3. The Fund will review the Instrument, and in particular the list, and the criteria of eligibility for inclusion, in Annex A, before January 1, 1978. The following provisions of the Instrument may not be modified: Section I, Paragraphs 1 and 2(c); Section II, Paragraphs 4(d) and 5(a); Section III, Paragraphs 1, 2, and 3; Section IV, Paragraph 1; and Section V, Paragraph 2. Any modification will affect only loans made after the effective date of the modification, provided that the Fund may decide that any modification that is favorable to eligible members will apply to the future performance of obligations under loans already made.

4. The amounts in excess of the capital value that are available from the sales of gold made after the second amendment pursuant to paragraph 7(*b*) of Schedule B of the Articles, as amended, will continue to be used to provide balance of payments assistance in accordance with the Instrument for the benefit of the members listed in Annex A.

5. The audit committee selected under Section 20 of the Fund's By-Laws will audit the financial records and transactions of the Trust. The audit will relate to the period representing the fiscal year of the Fund.

6. The expenses of conducting the business of the Trust will be paid by the Fund from the General Account, which will be reimbursed annually by the Trust on the basis of a reasonable estimate of these expenses by the Fund.

7. The Fund may decide that the Trustee will undertake other activities in connection with the distribution of the profits from the sale of gold for the benefit of developing countries in accordance with paragraph 6(3) of the Communiqué of the Interim Committee of the Board of Governors of the Fund on the International Monetary System dated Au-

gust 31, 1975 that can appropriately be carried out through the Trust, provided that the activities are consistent with the purposes of the Fund and are not inconsistent with any provision of the Instrument.

Decision No. 5069-(76/72)
May 5, 1976

Instrument to Establish the Trust Fund

Introductory Section

In order to help fulfill the purposes of the International Monetary Fund (the "Fund") as stated in Article I of the Articles of Agreement, including the promotion of cooperation on international monetary matters between its members and the Fund and among the members of the Fund, there shall be established a Trust Fund (the "Trust"), which shall be administered by the Fund as Trustee. The Trust shall be governed by and administered in accordance with the provisions of this Instrument.

Section I. Purposes and Resources of the Trust

Paragraph 1. *Purposes*

The Trust shall assist in fulfilling the purposes of the Fund by providing additional balance of payments assistance on concessional terms to support the efforts of eligible members that qualify for assistance to carry out programs of balance of payments adjustment.

Paragraph 2. *Resources*

(a) The resources of the Trust shall consist of gold and currencies sold, donated, or lent to the Trust, income from investments and loans, and the proceeds of repayment of loans or of disinvestment.

(b) A transferor may make a single transfer of resources to the Trust or transfers of resources from time to time during the period in which the Trust is providing balance of payments assistance. The Trustee shall invite transferors of resources to inform it of the form in which, and the procedures by which, they will make transfers.

(c) A transferor of resources that makes a transfer associated with the sale of gold by the Fund shall be understood to have agreed that the transfer is an irrevocable transfer within the meaning of Section IV, Paragraph 1 and Section V, Paragraph 2.

Section II. Operations of the Trust

Paragraph 1. *Form of balance of payments assistance*

Balance of payments assistance shall be provided to eligible members that qualify for assistance for the first period July 1, 1976 through June 30, 1978 or for the second period July 1, 1978 through June 30, 1980, or for both periods, in the form of loans on terms consistent with this Instrument.

Paragraph 2. *Eligible members*

Eligible members shall be those members of the Fund that are listed in Annex A. An eligible member shall qualify for assistance if it satisfies the conditions of Paragraph 3 of this Section.

Paragraph 3. *Conditions for assistance*

(a) An eligible member shall consult the Managing Director of the Trustee before making a request for assistance.

(b) Before approving a request, the Trustee shall be satisfied that the member has a need for balance of payments assistance ("need") and is making a reasonable effort to strengthen its balance of payments position. The need of a member shall be assessed on the basis of the member's balance of payments position, its reserve position, and developments in its reserves.

(c) A member shall be deemed to be making a reasonable effort within the meaning of subparagraph (b) of this Paragraph if the member has presented to the Fund, in connection with a stand-by arrangement or extended arrangement granted by the Fund or in connection with a purchase from the Fund in the credit tranches, a program for twelve months that,

(i) for the first period in Paragraph 1 of this Section, falls predominantly within that period, i.e., begins not earlier than January 1, 1976 or not later than December 1, 1977; and

(ii) for the second period in Paragraph 1 of this Section, falls predominantly within that period, i.e., begins not earlier than January 1, 1978 or not later than November 30, 1979.

A program for one period in Paragraph 1 of this Section shall not include any months included in a program submitted in connection with a request for the other period.

(d) The Fund, in considering a member's program as described in subparagraph (c) of this Paragraph, shall assess, in accordance with subparagraph (b) of this Paragraph, the need of the member during the twelve months of the program. This assessment shall be deemed to determine the need of the member for assistance from the Trust during the period in Paragraph 1 of this Section within which the program falls, provided that the extent of the need assessed in connection with one program may be increased on the basis of an assessment made in connection with another program during the same period.

(e) If a member that wishes to qualify for assistance does not come within subparagraph (c) of this Paragraph, it shall present to the Trustee, when requesting assistance, a program for twelve months as required by subparagraph (c), and shall satisfy the Trustee that the program is in accordance with subparagraph (b) of this Paragraph. In making its determination under subparagraph (b) of this Paragraph, the Trustee shall apply the criteria applied by the Fund to a request for a purchase in the first credit tranche. The Trustee shall assess the member's need when the program is presented.

(f) The assessment of a member's need and the finding that the member is making a reasonable effort to strengthen its balance of payments position shall not be re-examined during the twelve months of the program for which the assessment and finding were made. There shall be no re-examination in connection with disbursements made after the twelve months with respect to the period in Paragraph 1 of this Section for which the assessment and finding were made unless the Trustee determines that the member's circumstances have changed substantially in that period. In any re-examination, the Trustee shall give the member the benefit of any reasonable doubt in arriving at a new assessment of the member's need or a new finding with respect to its effort to strengthen its balance of payments position during that period. Repurchases in respect of the use of the Fund's resources will be taken into account in determining the extent of a member's need.

(g) In considering a program in support of a request for assistance in the second period in Paragraph 1 of this Section, and in determining whether the member is making a reason-

able effort within the meaning of subparagraph (b) of this Paragraph, the Trustee shall take into account the progress made by the member toward strengthening its balance of payments position under a program in the first period.

Paragraph 4. *Terms and conditions of loans from the Trust*

(a) The terms and conditions of a loan to a member shall prescribe that it shall repay each disbursement under the loan in ten equal semiannual installments, which shall begin not later than the end of the first six months of the sixth year, and be completed at the end of the tenth year, after the date of the disbursement.

(b) Interest shall be charged at the rate of one-half of one per cent per annum on the outstanding balance of a loan and shall be paid in semiannual installments.

(c) Loans shall be expressed in special drawing rights, and the value of a currency in terms of the special drawing right shall be determined in accordance with the regulations of the Fund in effect on the date for which the calculation is made.

(d) Toward the end of the period of five years after the first disbursement under the first loan made under this Instrument, the Trustee shall review, in the light of circumstances and on the basis of uniform criteria, the repayment terms of outstanding loans.

(e) On the request of a member when repayment of an installment is due under a loan, the Trustee may reschedule the repayment if the Trustee finds that repayment on the due date would result in serious hardship for the member, provided that the rescheduling would not impair the ability of the Trust to meet its liabilities.

Paragraph 5. *Amounts available for disbursement*

(a) The amounts available for disbursement in respect of a period in Paragraph 1 of this Section shall be (i) the amounts realized by the Trust from the sales of one-half the gold to be made available to the Trust, whether or not sold during the period, and any income from the investment of the proceeds of these sales, and (ii) the amounts of other transfers of resources to the Trust and other income of the Trust received during the period. The amount available for disbursement in respect of a period shall be expressed for all eligible members that qualify for assistance during that period as the same percentage of their quotas in effect on December 31, 1975 or to which they had consented before that date. No member shall receive disbursements in excess of its needs.

(b) Interim disbursements may be made from time to time in respect of a period in Paragraph 1 of this Section. The last installment in respect of a period shall be made as soon as practicable after the end of the period.

Section III. Administration of the Trust

Paragraph 1. *Trustee*

(a) The Trust shall be administered by the Fund as Trustee. Except as otherwise required by the provisions of this Instrument or as determined by the Trustee, the Trust shall be administered in accordance with the same rules and procedures, including administrative rules and procedures, that apply to operations and transactions on the account of the Fund.

(b) The Trustee, acting through its Managing Director, is authorized (i) to make arrangements to establish special accounts in the name of the International Monetary Fund, which shall be accounts of the Fund as Trustee, with such depositories of the Fund as the Trustee deems necessary or expedient, and (ii) to take all other administrative measures

that the Trustee deems necessary or expedient in order to carry out the purposes of this Instrument.

(c) Decisions and other actions taken by the Fund as Trustee shall be identified as taken in that capacity.

Paragraph 2. *Separation of assets and accounts*

(a) The resources and records of the Trust shall be kept separate from the assets and records of all other Accounts of the Fund.

(b) The Trustee may postpone disbursement of an amount of the proceeds of the sale of gold that it deems necessary for use as working capital in the administration of the Trust.

(c) The resources of the Trust shall be used only in accordance with this Instrument and shall not be used to discharge liabilities or to meet losses incurred by the Fund in the administration of its other Accounts. The property and assets of the Fund held in its other Accounts shall not be used to discharge liabilities or to meet losses arising out of administration of the Trust.

(d) The audit committee selected under Section 20 of the Fund's By-Laws shall audit the financial records and transactions of the Trust. The audit shall relate to the fiscal year of the Fund.

Paragraph 3. *Reimbursement of expenses*

The General Account of the Fund shall be reimbursed annually by the Trust in respect of the expenses of conducting the business of the Trust that are paid from the General Account. Reimbursement shall be made on the basis of a reasonable estimate of these expenses by the Fund.

Paragraph 4. *Investment and other operations and transactions*

(a) The Trustee may invest balances of currency held by the Trust in marketable obligations of international financial organizations or in marketable obligations issued by, and denominated in the currency of, the country whose currency is used to make the investment, provided that the concurrence is obtained of the country whose currency is used for investment.

(b) The Trustee may sell or exchange any of the resources of the Trust or use any of the resources, other than gold, as security for any loans to the Trust, provided that the concurrence is obtained of the members whose currencies are exchanged.

(c) The Trustee may establish such reserves for the purposes of the Trust as it deems appropriate.

(d) The Trustee shall discharge any obligations undertaken in connection with transfers that were not irrevocable within the meaning of Section I, Paragraph 2(c), and subject thereto may transfer to the Special Disbursement Account of the Fund any amounts received in the repayment of loans.

Section IV. Annual Report and Modifications

Paragraph 1. *Modifications*

If Paragraph 1 of Section II or the list of eligible members in Annex A is modified, a transferor may declare that it will make no further transfers to the Trust, and shall be en-

titled to request and obtain the return of an amount equivalent to that part of its transfer that has not been used. The unused part to which it shall be entitled shall be that proportion of the total of all unused amounts represented by its transfers in relation to all other transfers. No part of this Paragraph 1 shall apply to transfers that are irrevocable transfers under Section I, Paragraph 2(*c*).

Paragraph 2. *Report*

The Trustee shall report on the operation of the Trust in the annual report of the Executive Directors of the Fund to the Board of Governors of the Fund and shall include in that annual report the report of the audit committee on the Trust.

Section V. Period of Operation and Liquidation

Paragraph 1. *Period of operation*

The Trust established by this Instrument shall remain in effect for as long as is necessary to conduct and to wind up the business of the Trust.

Paragraph 2. *Liquidation*

When a decision is taken to liquidate the Trust, the resources of the Trust shall be used first to pay administrative expenses, and then to discharge the terms of transfers other than irrevocable transfers. The remainder of the resources, if any, shall be transferred to the Fund before, and to the Special Disbursement Account of the Fund after, the second amendment of the Articles of the Fund.

Section VI. Other Activities of the Trust

The Trustee may undertake other activities in connection with the distribution of the profits from the sale of gold for the benefit of developing countries in accordance with paragraph 6(3) of the Communiqué of the Interim Committee of the Board of Governors of the Fund on the International Monetary System dated August 31, 1975 that can appropriately be carried out through the Trust, provided that the activities are consistent with the purposes of the Fund and are not inconsistent with any provision of the Instrument.

Annex A

List of Members Eligible for Trust Assistance

1. Afghanistan
2. Bangladesh
3. Benin
4. Bolivia
5. Botswana
6. Burma
7. Burundi
8. Cambodia
9. Cameroon
10. Central African Rep.
11. Chad
12. Congo, People's Rep. of
13. Egypt
14. El Salvador
15. Equatorial Guinea
16. Ethiopia
17. Gambia, The
18. Ghana
19. Grenada
20. Guatemala
21. Guinea
22. Haiti
23. Honduras
24. India
25. Indonesia
26. Ivory Coast
27. Jordan
28. Kenya
29. Laos
30. Lesotho

31. Liberia
32. Madagascar
33. Malawi
34. Mali
35. Mauritania
36. Mauritius
37. Morocco
38. Nepal
39. Niger
40. Nigeria
41. Pakistan
42. Papua New Guinea
43. Paraguay
44. Philippines
45. Rwanda
46. Senegal
47. Sierra Leone
48. Somalia
49. South Viet-Nam
50. Sri Lanka
51. Sudan
52. Swaziland
53. Tanzania
54. Thailand
55. Togo
56. Uganda
57. Upper Volta
58. Western Samoa
59. Yemen Arab Republic
60. Yemen, People's Dem. Rep.
61. Zaïre

REVIEW OF INSTRUMENT TO ESTABLISH THE TRUST FUND AND LIST OF ELIGIBLE MEMBERS

1. Section II, Paragraph 2 shall read:

"(a) Eligible members for the first period in Paragraph 1 of this Section shall be those members of the Fund that are listed in Annex A. [Above.]

(b) Eligible members for the second period in Paragraph 1 of this Section shall be those members of the Fund that are listed in Annex B. [Below.]

(c) An eligible member shall qualify for assistance if it satisfies the condition of Paragraph 3 of this Section."

2. In Section II, Paragraph 3(c)(i) the word "predominantly" is changed to "partly" and ". . . December 1, 1977" is changed to ". . . June 1, 1978."

3. "Annex B" attached to Executive Board Decision No. 5563-(77/150) TR, adopted October 28, 1977, shall be attached to the Instrument as "Annex B."

Decision No. 5563-(77/150) TR
October 28, 1977

Annex B

Trust Fund: List of Eligible Countries for the Second Period

1. Afghanistan
2. Bangladesh
3. Benin
4. Bolivia
5. Botswana
6. Burma
7. Burundi
8. Cameroon
9. Central African Empire
10. Chad
11. Congo, People's Republic of the
12. Egypt
13. El Salvador
14. Equatorial Guinea
15. Ethiopia
16. Gambia, The
17. Ghana
18. Grenada

Annex B

Trust Fund: List of Eligible Countries for the Second Period (concluded)

19. Guinea
20. Haiti
21. Honduras
22. India
23. Indonesia
24. Ivory Coast
25. Jordan
26. Kampuchea, Democratic
27. Kenya
28. Lao People's Democratic Republic
29. Lesotho
30. Liberia
31. Madagascar
32. Malawi
33. Mali
34. Mauritania
35. Morocco
36. Nepal
37. Niger
38. Nigeria
39. Pakistan
40. Papua New Guinea
41. Philippines
42. Rwanda
43. Senegal
44. Sierra Leone
45. Somalia
46. Sri Lanka
47. Sudan
48. Swaziland
49. Tanzania
50. Thailand
51. Togo
52. Uganda
53. Upper Volta
54. Viet Nam
55. Western Samoa
56. Yemen Arab Republic
57. Yemen, People's Democratic Republic of
58. Zaïre
59. Zambia

DIVERSIFICATION OF INVESTMENTS

1. The Fund, recognizing that the SDR is the unit of account in which the assets of the Trust established by Decision No. 5069-(76/72), adopted May 5, 1976, are valued, concludes that it would be desirable to maintain, in a manner compatible with the operational needs of the Trust, the currency assets of the Trust, other than those that need to be distributed directly to developing countries in proportion to their quotas on August 31, 1975, in assets denominated in SDRs or in a combination of currencies that would, to the maximum extent practicable, correspond to the composition of the SDR basket.

2. The Managing Director is authorized to place in deposits with the Bank for International Settlements, denominated in SDRs, the profits from gold sales realized in the period from July 1 to September 30, 1978, with the exception of the portion of these profits that must be distributed directly to developing countries in proportion to their quotas on August 31, 1975.

3. If, on the occasion of an intended deposit with the Bank for International Settlements during the period referred to in 2 above, the Managing Director finds that the interest rate offered by the Bank for International Settlements on this SDR-denominated deposit is not sufficiently attractive, the Managing Director shall invest the currency assets involved and the currency assets accruing from any subsequent gold sales prior to September 30, 1978 in U.S. Government securities, and will inform the Executive Board of his action.

4. The Executive Board will review this decision not later than October 9, 1978. Before this review, the staff shall complete arrangements, to the extent feasible, with the authorities of the members whose currencies are included in the SDR basket as of July 1, 1978

and that issue obligations in their currencies that the Trust could hold, for the purpose of making possible the placing of investments in domestic currency with them in the proportions corresponding approximately to their share in the SDR basket.

5. The staff shall also inform the Board, as frequently as practicable, but, in any event, not less than once a month during the period July 1 to September 30, 1978, of the approximate yield of an investment of various maturities composed of individual investments in as many as feasible of the 16 currencies that compose the SDR basket.

Decision No. 5812-(78/90) TR
June 16, 1978

INSTRUMENT TO ESTABLISH THE TRUST FUND: DIVERSIFICATION OF INVESTMENTS

Section III, Paragraph 4(a) of the Instrument to Establish the Trust Fund annexed to Decision No. 5069-(76/72), adopted May 5, 1976, is modified to read as follows:

"The Trustee may invest balances of currency held by the Trust with the concurrence of the member whose currency is to be used. The Trustee may invest in (i) marketable obligations of international financial organizations, (ii) marketable obligations denominated in special drawing rights issued by members or national official financial institutions of members, (iii) marketable obligations issued by, and denominated in the currency of, the member, or its national official financial institutions, whose currency is used to make an investment, and (iv) deposits denominated in special drawing rights with commercial banks."

Decision No. 5972-(78/189)
December 4, 1978

DIVERSIFICATION OF TRUST FUND INVESTMENTS

1. The Fund, recognizing that the SDR is the unit of account in which the assets of the Trust established by Decision No. 5069-(76/72) adopted May 5, 1976 are valued, concludes that it would be desirable to continue to maintain, in a manner compatible with the operational needs of the Trust, the currency assets of the Trust, other than those that need to be distributed directly to developing countries in proportion to their quotas on August 31, 1975, in assets denominated in SDRs or in a combination of currencies that would, to the maximum extent practicable, correspond to the composition of the SDR basket.

2. The Managing Director shall place in deposits, denominated in SDRs, with the Bank for International Settlements (BIS) the profits from the gold sales realized in the remainder of the auctions to be held under Paragraph 7, Schedule B, with the exception of the portion of these profits that is to be distributed directly to developing countries in proportion to their quotas on August 31, 1975, unless the Managing Director considers that the terms offered by the BIS on an intended deposit denominated in SDRs are not sufficiently attractive. In that event the Managing Director shall inform the Executive Board and make other proposals to it for investment in SDR-denominated obligations, which may include obligations of international financial organizations of members or national official financial institutions of members or commercial banks. If it is not possible to make investments in SDR-denominated obligations on terms that are sufficiently attractive, the Managing Director shall make other proposals for investment.

Decision No. 5973-(78/189) TR
December 4, 1978

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PART EIGHT

The Development Committee

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Establishment of the Development Committee

The Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee) was established on October 2, 1974. The setting up of this Committee had been urged mainly by developing countries. The Committee was established under a parallel composite resolution adopted by the Boards of Governors of the Fund and the World Bank at the Twenty-Ninth Annual Meetings, in Washington.

Establishment of Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries

(October 2, 1974)

Third Resolution (No. 29-9) †

WHEREAS the Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System has recommended the establishment of a joint ministerial committee of the Boards of Governors of the International Monetary Fund (the Fund) and the International Bank for Reconstruction and Development (the Bank) to carry forward the study of the broad question of the transfer of real resources to developing countries and to recommend measures to be adopted in order to implement its conclusions;

WHEREAS it is desirable to consider the question of the transfer of real resources to developing countries in relation to existing or prospective arrangements among countries, including those involving international trade and payments, the flow of capital, investment, and official development assistance;

WHEREAS the said Committee has invited the Managing Director of the Fund to discuss with the President of the Bank the preparation of appropriate parallel draft resolutions on the establishment of such a joint ministerial committee for adoption by the respective Boards of Governors of the Fund and Bank;

WHEREAS pursuant to such discussions the President of the Bank and the Managing Director of the Fund have proposed to the Executive Directors of the Bank and Fund, respectively, and the Executive Directors of the Fund have approved the submission of this Draft Resolution to the Board of Governors of the Fund and the Executive Directors of the Bank have approved the submission of a parallel Draft Resolution to the Board of Governors of the Bank:

† The first resolution (No. 29-7) formally ending the Committee of Twenty, the second resolution (No. 29-8) establishing the Interim Committee, and the fourth resolution (No. 29-10) setting out other immediate steps are reproduced above, pp. 207–208, 213–15, and 208–10, respectively.

WHEREAS the Committee as envisaged would be helpful in providing a focal point in the structure of international economic cooperation for formation of a comprehensive overview of diverse international activities in the development area, for efficient and prompt consideration of development issues, and for coordination of international efforts to deal with problems of financing development; and

WHEREAS the Board of Governors of the Bank is considering the said parallel resolution;

NOW, THEREFORE, the Board of Governors hereby RESOLVES:

1. *Establishment and Composition of Joint Ministerial Committee*

(*a*) There is established a Joint Ministerial Committee of the Boards of Governors of the Bank and Fund on the Transfer of Real Resources to Developing Countries (hereinafter called the Development Committee).

(*b*) The members of the Development Committee shall be governors of the Bank, governors of the Fund, ministers, or others of comparable rank.

(*c*) The members of the Development Committee shall be appointed in turn for successive periods of two years by the members of the Bank and the members of the Fund. The members of the Bank shall appoint the members of the Committee for the first period of two years, which shall run from the date of the adoption of this Resolution until the date of the regular election of executive directors in 1976.

(*d*) Each member government of the Bank or the Fund, as the case may be, that appoints an executive director and each group of member governments of the Bank or of the Fund, as the case may be, that elects an executive director shall appoint one member of the Development Committee and up to seven associates, and, for any meeting when the member of the Committee is not present, may appoint an alternate with full power to act for the member at such meeting.

(*e*) Each member and associate shall serve until a new appointment is made by the member government or member governments of the Bank or the Fund, as the case may be, that are entitled to make the appointment or until the next succeeding regular election of executive directors, whichever is earlier.

2. *Chairman*

The Development Committee shall select a Chairman from among its members, who shall serve for such period as the Committee determines. The Chairman of the Boards of Governors of the Bank and the Fund, or a governor designated by him shall convene the first meeting of the Committee and shall preside over it until the Chairman has been selected.

3. *Meetings*

(*a*) Members of the Development Committee, associates, and the executive directors of the Bank and the Fund, or in their absence their alternates, shall be entitled to participate in meetings of the Committee, unless the Committee decides to hold a session restricted to members, the President of the Bank, and the Managing Director of the Fund. Participation in respect of each item on the agenda of a meeting shall be limited to one person in respect of each member government or group of member governments that appoint a member of the Committee.

(*b*) The President of the Bank and the Managing Director of the Fund shall be entitled to participate in all meetings of the Development Committee, and each may designate a representative to participate in his place at any meeting when he is not present.

Each may be accompanied normally by two members of his staff, at any unrestricted session of the Committee.

(*c*) The Development Committee shall invite the heads of other international financial or economic organizations, as well as other persons, to attend or participate in meetings of the Committee relating to their areas of responsibility.

4. *Terms of Reference*

(*a*) The Development Committee shall maintain an overview of the development process and shall advise and report to the Boards of Governors of the Bank and the Fund on all aspects of the broad question of the transfer of real resources to developing countries, and shall make suggestions for consideration by those concerned regarding the implementation of its conclusions. The Committee shall review, on a continuing basis, the progress made in fulfillment of its suggestions.

(*b*) The Development Committee shall establish a detailed program of work, taking account of the topics listed in Annex 10 of the Outline of Reform. The Committee in carrying out its work shall bear in mind the need for coordination with other international bodies.

(*c*) The Development Committee shall give urgent attention to the problems of (i) the least developed countries and (ii) those developing countries most seriously affected by balance of payments difficulties in the current situation.

5. *Procedures*

(*a*) The Development Committee shall meet at the time of the annual meetings of the Boards of Governors of the Bank and the Fund and, in addition, as often as required. The Chairman may call meetings after consulting the members of the Committee and shall consult them on calling a meeting if so requested by any member of the Committee.

(*b*) A quorum for any meeting of the Development Committee shall be two thirds of the members of the Committee.

(*c*) The Development Committee may establish subcommittees or working groups from time to time.

(*d*) The Committee shall appoint an Executive Secretary who shall be entitled to participate in all Committee meetings. The Executive Secretary, supported by a small staff as necessary, and drawing on the staffs of the Bank and the Fund to the maximum extent feasible, shall be responsible to the Committee for carrying out the work directed by the Committee.

(*e*) Appropriate arrangements shall be made for the coordination of the work of the Development Committee and the work of the Executive Directors of the Bank and the Fund.

(*f*) The President of the Bank and the Managing Director of the Fund shall arrange to carry out technical work requested by the Committee and provide administrative support for the Committee within the competence of their organizations.

(*g*) The Committee may request assistance from international organizations or other bodies or individuals in connection with the preparation of its work.

(*h*) In reporting any suggestions or views of the Development Committee, the Chairman shall seek to establish a sense of the meeting. In the event of a failure to reach a unanimous view, all views shall be reported, and the members holding such views shall be identified.

(*i*) The Development Committee shall report not less than once a year to the Boards of Governors on the progress of its work and may publish such other reports as it deems desirable to carry out its purposes.

(*j*) The Development Committee may determine any aspect of its procedure that is not established by this Resolution.

6. *Administrative Costs*

The Bank and the Fund shall make such financial appropriations, in equal proportions, as are necessary for carrying out the work of the Development Committee.

7. *Review*

At the end of two years from the effective date of this Resolution, the Boards of Governors of the Fund and the Bank shall review the performance of the Committee, and shall take such action as they deem appropriate.

Communiqués of the Development Committee

The communiqués of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee) that were issued from October 1974 through October 1976 are reproduced below.†

October 2, 1974

The Ministers of the Committee of Twenty on the Reform of the International Monetary System and Related Issues recommended at their meeting in June 1974 the establishment of a joint ministerial committee of the Fund and World Bank to carry forward the study of the broad question of the transfer of real resources to developing countries, and to recommend measures to be adopted in order to implement its conclusions. The Ministers further recommended that the joint ministerial committee should also give urgent attention to the problems of the developing countries most seriously affected by exceptional balance of payments difficulties in the current situation, bearing in mind the need for coordination with other international bodies. The Development Committee held its first meeting today.

Mr. Henri Konan Bédié, Governor from Ivory Coast, was elected Chairman. The Managing Director of the Fund and the President of the Bank participated in the meeting.

It was agreed that the immediate focus of the Committee's work would be on the analysis of the situation of the most seriously affected developing and the least developed countries, and of measures to adjust to the new outlook for international commodity prices. Additional topics for the Committee's consideration over the longer term were discussed, and the Executive Secretary who will be appointed shortly [1] will be asked to prepare a recommendation for a detailed work program.

January 17, 1975

1. The Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (the Development Committee) held its second meeting in Washington on January 17, 1975, under the Chairmanship of Mr. Henri Konan Bédié, Minister of Economy and Finance for Ivory Coast. The meeting was held in the headquarters building of the Pan American Health Organization.

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† The Committee did not issue communiqués in 1977 and 1978; the reports issued by the Committee to the Boards of Governors for those years are reproduced below, pp. 589-617.

[1] At its second session on October 3, 1974, the Committee selected Mr. Henry J. Costanzo as Executive Secretary.

Mr. Robert S. McNamara, President of the International Bank for Reconstruction and Development and Mr. Johannes Witteveen, Managing Director of the International Monetary Fund, took part in the meeting, which was also attended by Mr. Abdelwahab Labidi, President of the African Development Bank, Mr. Shiro Inoue, President of the Asian Development Bank, Mr. M. G. Mathur, Deputy Director-General of the GATT, Mr. Antonio Ortiz Mena, President of the Inter-American Development Bank, Mr. E. van Lennep, Secretary General of the OECD, Mr. Maurice Williams, Chairman of the DAC, Mr. Mahjoob Hassanain, Director of the Economics Department of OPEC, Mr. Gabriel van Laethem, Under Secretary General of the United Nations, and Dr. Raúl Prebisch, Under Secretary General of the United Nations Emergency Operation, Mr. Gamani Corea, Secretary General of UNCTAD, and Ambassador Paul Jolles of Switzerland.

2. The Committee received several reports presented by the Executive Secretary, Mr. Henry J. Costanzo, on the initial work program adopted at the inaugural meeting, related to the situation of the most seriously affected developing countries, measures to adjust to the new outlook in commodity prices, and the future work program of the Committee.

3. The members of the Committee engaged in a general exchange of views regarding the present situation and prospects of the developing countries. Members noted that many developing countries found themselves in serious difficulties as a result of substantial adverse changes in their terms of trade and an inadequate flow of external capital and were being forced to take adjustment measures in many cases harmful to their long-term economic and social development. The members recognized that this situation was likely to continue in the immediate future, and expressed their particular concern over the pressing difficulties in prospect for the poorest, and the most seriously affected of the developing countries.

The Committee agreed that the industrialized countries should seek to adopt such adjustment measures considered necessary in their circumstances in such a way as to avoid any reduction in the net flow of real resources to the developing countries, seeking to improve the conditions under which developing countries and international development finance institutions may have access to their capital markets, and to improve the real volume and the quality of official development assistance provided to the developing countries and should avoid trade restrictions that could negatively affect developing countries' exports. The Committee also noted the importance of continued and expanded cooperation, particularly in the transfer of technology and management skills, between the industrialized and surplus oil-producing countries, in order to promote the development of the latter countries and thereby to assist the overall long-range adjustment process and also in order to promote the development of other developing countries.

The Committee recognized the important and increasing flow of resources being made available by the surplus oil-producing countries to the developing countries and to the international financial institutions. In welcoming such interest and participation on the part of these countries, the Committee agreed that these countries should seek to continue and expand this flow of resources, in accordance with their financial capacity to do so.

4. The Committee agreed that the situation of the most seriously affected countries requires urgent treatment, and that measures should be taken to cover the short-term requirements created by the present international situation. In this context, the Committee welcomed the action taken by the Interim Committee with respect to a continuation and expansion of an oil facility in the Fund and the establishment of a special account in order to reduce for the most seriously affected members the burden of interest payable by them. The Committee also reviewed several additional possible courses of action. It was

agreed that the Executive Boards of the Bank and the Fund should be invited to study the desirability of creating a special trust fund that would provide, for the period immediately ahead, additional highly concessional resources to meet the requirements of the most seriously affected countries, and the possible modalities of such a fund.

5. The Committee invited the Executive Board of the Bank to undertake an immediate study of the concept of "third window" lending by the Bank on terms intermediate between those of the Bank's regular loans and those of IDA's concessional credits. The Committee welcomed the willingness expressed by some members to support and to provide financial resources for such a facility.

6. For its immediate work program, the Committee instructed the Secretariat to propose such measures as might be considered for early implementation to promote increased use of capital markets by developing countries, and to facilitate their access to such markets; to report to the Committee on an appropriate work program in response to the conclusions of the recent World Food Conference on the financing of food, fertilizer, and food production; and to review the adequacy of existing information systems on the flow of resources to the developing countries.

7. The Committee also agreed that the future work of the Committee should focus on the basic long-term needs of the developing countries and, in this connection, welcomed the intention of the President of the Bank to initiate urgently a study of the capital requirements of developing countries to maintain a reasonable rate of growth in per capita income for the remainder of the decade. The Committee instructed the Executive Secretary to initiate a broad and continuing review of the question of the transfer of real resources, using as a basis the work of the Committee of Twenty and taking into account the conclusions of the Bank's study, in order to formulate recommendations as to how the required transfers of real resources might be met through existing or new financial mechanisms and arrangements, including arrangements for commodity price stabilization. The Committee welcomed the study to be undertaken by the Executive Directors of the Fund, as agreed by the Interim Committee, on the Fund's facilities for compensatory financing and assistance to international buffer stocks of primary products.

8. The Committee was glad to note the announcements made at the meeting of actions which permit the full effectiveness of the IDA 4th replenishment, and urged sympathetic consideration of the proposals recently put forward by the IBRD for an increased program of normal Bank lending.

9. The Committee agreed to hold its next meeting in Paris during the first part of June 1975.

June 12–13, 1975

The Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (the Development Committee) held its third meeting in Paris on June 12–13, 1975, under the chairmanship of Mr. Henri Konan Bédié, Minister of Economy and Finance for Ivory Coast. The meeting was held in the Centre de Conferences Internationales. Mr. Robert S. McNamara, President of the International Bank for Reconstruction and Development, Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund, and Mr. Henry J. Costanzo, Executive Secretary of the Development Committee, took part in the meeting, which was also attended by the following observers: Mr. Abdelwahab Labidi, President of the African Development Bank; Mr. Chedly Ayari, President of the Arab Bank for

Economic Development in Africa; Mr. Saeb Jaroudi, President of the Arab Fund for Economic and Social Development; Mr. Shiro Inoue, President of the Asian Development Bank; Mr. Claude Cheysson, Member of the Commission of the European Communities; Mr. Maurice Williams, Chairman of the Development Assistance Committee; Mr. Yves Le Portz, President of the European Investment Bank; Mr. M. G. Mathur, Deputy Director-General of the GATT; Mr. Antonio Oritz Mena, President of the Inter-American Development Bank; Mr. E. van Lennep, Secretary General of the OECD; Mr. Gabriel van Laethem, Under Secretary General of the United Nations; Mr. Gamani Corea, Secretary General of UNCTAD; and Ambassador Paul Jolles of Switzerland.

The Committee reviewed the present situation and the medium and long-term prospects of the developing countries, in the context of analyses prepared by the IMF on the short-term balance of payments outlook of developing countries, and a World Bank study on the capital requirements of developing countries to the end of this decade. The Committee noted with concern the continued deterioration of the position of most of the developing countries. The Committee broadly endorsed the conclusion of the World Bank study that, if the developing countries are to achieve adequate growth rates in the remaining years of the decade, they will require substantial increases in capital flows, both official and private, and that among other things they will have to undertake at the same time efforts to increase domestic resource mobilization and to expand exports. In particular, the Committee felt that the low-income countries faced a very difficult prospect and recommended that their requirements for concessional assistance should be met on a priority basis. The Committee agreed with the conclusions of the Bank study about the substantial additional requirements for external capital of the middle- and high-income developing countries. Noting the conclusions of the IMF study that the balance of payments needs of the most seriously affected countries would continue to be large in 1975 and 1976, the Committee recommended urgent steps to meet these needs through existing and new mechanisms.

In the light of this situation, the Committee re-emphasized the urgency of improving the real volume and quality of official development assistance, both bilateral and multilateral, and reviewing its distribution with a view to improving the share for the poorer countries, and reaffirmed their commitment to support steps toward these ends in both the industrial and the surplus oil-producing countries. The Committee welcomed the decisions of some of its members to expand the volume and improve the quality of their assistance, but noted that the existing quantum of aid was still far below the 0.7 per cent of GNP target for the middle of the Second Development Decade. In this connection, the Committee noted that negotiations for the IDA 5th replenishment were scheduled to start later this year. In view of the requirement for additional capital by IDA recipients, it was agreed that a replenishment providing for an expansion in real terms would be most helpful.

The Committee agreed that in order to help achieve acceptable rates of growth for developing countries, there should be an expansion of the lending programs of the World Bank and the regional development banks, consistent with their capital structure and the availability of funds. The Committee urged that the capital base of the development finance institutions be reviewed.

In response to the serious difficulties faced by the developing countries, the Committee, as a first concrete step, decided to lend its unanimous support to the establishment for one year of a new intermediate lending facility in the World Bank (known as the "third window") to lend on terms intermediate between those of IDA and of the World Bank. It further decided to urge the World Bank to proceed with its establishment in the fiscal year beginning July 1, 1975, in order to lend to the developing countries in that year up to $1 billion in assistance separate from other Bank operations. Since these funds

will be limited, there will be need for eligibility criteria which will favor the developing countries with an annual per capita income of less than $375, but it was recognized that there was need to have some flexibility in the matter of the upper limit of the criteria. It was pointed out that the third window operations could also have some redistributive effect on other Bank Group financing, to both the poorest and the middle- and higher-income developing countries. The Committee noted with satisfaction that 11 countries had offered contributions towards an interest subsidy fund from amongst industrial and oil-exporting countries. Some other countries indicated their likely support to this cooperative effort by some industrial and oil-exporting countries, in a multilateral framework, for the assistance of the developing countries in the present difficult situation but suggested some alternative ways of financing.

The Committee considered the report of the Executive Boards of the IBRD and IMF on proposals to create a special trust fund to be administered by the IMF to provide additional highly concessional resources to meet the balance of payments needs of low-income developing countries for the next few years. Some members of the Committee felt there was an urgent need for establishing such a fund as soon as possible. In order to facilitate early concrete action on a trust fund, the Committee agreed to urge the Executive Directors of the IMF to consider all aspects of the establishment of such a trust fund as well as to continue their study of all possible sources of financing.

It was appreciated that the magnitude of the flow of resources required by the developing countries was such that private capital flows must continue to play a substantial role in helping to meet the overall capital needs for development. The Committee noted the importance of measures to facilitate and expand the access of developing countries to capital markets and recommended expanded technical assistance to developing countries seeking such access. The Committee agreed to establish a working group to make a review of regulatory and other constraints affecting access to capital markets, and also to study further proposals to support developing countries' access to private markets, including the use of multilateral guarantees. The Working Group should present a status report on progress at the next Committee meeting.

The Committee recognized that fluctuations in the prices and earnings of commodities which account for a major portion of the exports of developing countries can present severe problems to these countries both in their balance of payments and in the maintenance of development expenditures and investment levels. The Committee recognized the need for effective measures to reduce such fluctuations, which could make a significant contribution to development efforts. The Committee noted measures recently taken and others under consideration to help moderate fluctuations in commodity prices or export earnings including proposals to negotiate appropriate agreements. Many members urged the Bank, and the regional organizations, to study ways and means of assisting in the financing of commodity stabilization schemes, including buffer stock arrangements. Many members also expressed strong support for the Bank's proposal to consider providing financing to the tin buffer stock. The Committee welcomed the request of the Interim Committee to the Executive Directors of the IMF to consider appropriate modifications in the terms of its compensatory financing facility and its buffer stock facility.

The Committee also noted that appropriate trade liberalization policies could provide very substantial benefits to the developing countries and expressed its earnest hope for maximum progress in trade liberalization during the ongoing multilateral trade negotiations.

The Committee took note of new institutional arrangements established as a result of the World Food Conference as well as of initial steps toward creation of the proposed International Fund for Agricultural Development.

It was agreed that the next meeting of the Committee would be held in Washington, D.C., in the first week of September, during the Annual Meetings of the Boards of Governors of the Bank and the Fund. It was also agreed to meet in January 1976, in Jamaica, in conjunction with the meeting of the Interim Committee.

September 3-4, 1975

1. The Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (the Development Committee) held its fourth meeting in Washington on September 3-4, 1975, under the chairmanship of Mr. Henri Konan Bédié, Minister of Economy and Finance for the Ivory Coast. The meeting was held in the Sheraton Park Hotel, during the period of the Annual Meetings of the World Bank and the International Monetary Fund. Mr. Robert S. McNamara, President of the World Bank, Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund, and Mr. Henry J. Costanzo, Executive Secretary, took part in the meeting, which was also attended by representatives from 12 international and regional organizations and Switzerland as observers.

2. The Committee considered and approved for presentation to the Boards of Governors of the Bank and the Fund a report covering the progress of its work during the period October 1974–June 1975. The report, inter alia, noted the unanimous support given by the Committee to the establishment of a one-year Third Window in the World Bank for up to $1 billion of intermediate-term lending; expressed the Committee's hope for early progress in the establishment of a Special Trust Fund, toward which end the Committee had urged a comprehensive consideration by the Executive Directors of the IMF; and recorded the Committee's action in establishing a 12-member Working Group on access by developing countries to capital markets, as part of the Committee's approach to the longer-term problem of the capital requirements of developing countries. The report noted the role the Development Committee expected to play in facilitating international actions in the field of development and transfer of resources. In this connection, it referred to the need for substantial increases in real terms in external assistance, improved access to capital markets, trade liberalization and commodity arrangements, the effective functioning of the international monetary system, and appropriate domestic policies in developing countries in areas where such possible future actions were needed.

3. The Committee was informed by the Managing Director of the IMF of the status of consideration by the IMF's Executive Directors of questions associated with the establishment of a Special Trust Fund. The Committee was also informed of the consensus in the Interim Committee that the IMF sell a portion of its gold for the benefit of developing countries without resulting in a reduction of other resources for their benefit. The Committee welcomed this understanding, and agreed in principle that a Trust Fund should be established using profits derived from IMF gold sales, without neglecting the consideration of other possible sources of financing, for balance of payments assistance primarily to lower-income countries. The Committee also agreed to ask the Executive Directors of the IMF to continue their work on the Trust Fund, in response to the Committee's earlier request, with a view to completing it at an early date, taking into account various suggestions which have been made, including the possible use of gold profits for stabilization of export earnings.

4. The Committee was also informed by the President of the World Bank of the establishment and of the funding status of the Bank's new Third Window intermediate lending facility. The Committee stressed the important contribution this facility will

make toward meeting the capital needs of the developing countries and urged that additional contributions be made in order to provide sufficient funds to support the $1 billion target level of lending operations.

5. The Committee agreed that the Executive Board of the IBRD should give prompt consideration to a selective increase of the capital of the IBRD, and subsequently consider a general expansion of the capital base of the Bank.

6. The Committee received a status report from the Working Group on Access to Capital Markets, covering the organization of the Group and its initial consideration of measures to support access to capital markets by developing countries, with particular attention to a possible multilateral guarantee facility, and a review of regulatory and other constraints on access to capital markets.

7. The Committee reviewed its program of work for the period immediately ahead, and in addition to the promotion of the establishment of a Special Trust Fund and work on improved access to capital markets, agreed to give special attention at its meetings during 1976:

—to an updating and enlargement of the analysis of the situation of developing countries prepared by the World Bank for the Committee's meeting last June, as well as a study of policies which developing countries might pursue to increase their growth:

—to means of improving the current situation affecting resource transfers, taking account of several suggestions made by members of the Committee, including quantitative aid targets and their implementation;

—to a survey of the policies, programs, and capital resource situations of the various international and regional lending institutions and initiatives in other international bodies, to help avoid duplication of functions and to promote a coordinated approach to the problem of transfer of resources;

to the relationship of the current underutilization of productive capacity in the industrial countries to their development assistance efforts.

8. In considering its future work program, the Committee gave special attention to the question of commodity price fluctuations and to their consequences on the export earnings of developing countries. The Committee agreed to give priority attention to these questions in its program of work for 1976, including especially possible measures for the financing of buffer stocks, for the stabilization of export earnings, and other efforts to assist the developing countries in the area of trade, and to begin its examination of them at its next meeting.

9. The Committee confirmed its earlier agreement that it would meet next in Kingston, Jamaica on January 9 and 10, 1976, immediately following the meeting of the Interim Committee of the IMF.

January 9, 1976

1. The Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (the Development Committee) held its fifth meeting in Kingston, Jamaica, on January 9, 1976, under the chairmanship of Mr. Henri Konan Bédié, Minister of Economy and Finance for the Ivory Coast. Mr. Robert S. McNamara, President of the World Bank, Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund, and Mr. Henry J.

Costanzo, Executive Secretary, took part in the meeting, which was also attended by representatives from a number of international and regional organizations and Switzerland as observers.

2. The Committee reviewed the current situation and prospects of the developing countries and noted with concern that the non-oil developing countries in 1976 are likely to incur extraordinarily large current account deficits for the third successive year. The Committee also noted with grave concern that the minimum 6 per cent growth target of the Second Development Decade appears not likely to be met for the non-oil developing countries and that substantial amounts of additional external capital are still required if the shortfall from this target is to be held to modest proportions. The Committee also discussed the means of improving the current situation affecting resource transfer, aid targets and their implementation, current underutilization of productive capacity in industrial countries in relation to their aid effort, and the status of current commodity issues. It was against this background that the Committee considered various measures to increase the flow of resources to the developing countries.

3. The Committee noted the decision of the Interim Committee to establish the Trust Fund to provide balance of payments assistance to low-income countries, as well as understandings reached regarding increased access to IMF resources. The Committee discussed the use of Trust Fund resources and indicated various considerations to be taken into account by the Executive Directors of the IMF in completing their work on establishment of the Trust Fund. The Committee noted that the Third Window for loans on intermediate terms by the World Bank had become operational, that contributions received and expected would permit Third Window loans of $600 million, and urged those countries which have not already contributed to help to increase its resources.

4. The Committee received an interim progress report from its Working Group on Access to Capital Markets, discussed the proposed work program on the review of regulatory and other constraints on access to capital markets by developing countries, and recommended the completion of studies on other appropriate mechanisms which might improve access to capital markets, including the possible use of multilateral guarantees, the strengthening of secondary markets, and the possible creation of an international investment fund.

5. The Committee noted the progress being made in regard to cofinancing arrangements by international and regional development banks and urged that these arrangements be expanded.

6. The Committee was presented with an initial survey of programs and capital resource situations of major international and regional lending institutions. The Committee expressed its full support for an adequate increase in capital financing of these institutions. In this context, the Committee requested the World Bank's Executive Directors to place before the Board of Governors at an early date a proposal for an increase in the Bank's capital. The Committee also supported an early increase in the capital of the International Finance Corporation. The Committee noted the particularly urgent need for assistance to low-income countries, and in this connection expressed its strong support of a substantially enlarged Fifth Replenishment of the International Development Association, which, in the opinion of many members, should be in real terms. The Committee noted that negotiations were under way to secure agreement in time to permit continuity of operations. The Committee urged timely action to replenish the resources of regional banks, including their soft-loan windows.

7. The Committee gave special attention to the question of commodity price fluctuations and to their consequences on the export earnings of developing countries. The Committee agreed to give priority attention to these questions, including especially possible

measures for the financing of buffer stocks, for the stabilization of export earnings, and other efforts to assist the developing countries in the area of trade.

8. The Committee expressed its unanimous appreciation of the excellent arrangements made for the meeting and the hospitality extended by the Government of Jamaica.

October 3, 1976

1. The Development Committee (the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries) held its sixth meeting in Manila on October 3, 1976, under the chairmanship of Mr. Henri Konan Bédié, Minister of Economy and Finance for the Ivory Coast. Mr. Robert S. McNamara, President of the World Bank, Mr. H. Johannes Witteveen, Managing Director of the International Monetary Fund, and Mr. M. M. Ahmad, Acting Executive Secretary, took part in the meeting, which was also attended by representatives from a number of international and regional organizations and Switzerland as observers.

2. The Committee approved for presentation to the Boards of Governors of the Fund and the World Bank its second annual report covering the period July 1975 to June 1976.

3. The Committee considered the program of its future work in the light of the situation and prospects of developing countries. The analyses presented to it by the staffs of the IMF and the World Bank showed that the current account deficit of non-oil developing countries had declined somewhat but was still expected to be running at a high annual rate of about US$32-33 billion in 1976 and the first half of 1977. These estimates did not suggest that a significant relief from current difficulties would be forthcoming in the early part of 1977. Many developing countries, especially the middle-income countries, borrowed heavily to maintain the flow of imports and to avoid undue interruption of their development programs, leading to an increase in their external debt and debt service payments. The low-income countries have had little or no growth in per capita income since 1970 and their level of imports fell by some 20 per cent below those of the late 1960s. Official aid to them has been inadequate. To assist the developing countries in their adjustment process and to help them achieve a higher rate of growth, the low-income countries would require additional concessional assistance and the middle-income countries would need increased flows from both official and private sources. To be effective, these in turn would require a greater emphasis upon domestic policies attuned toward the necessary internal adjustment processes and toward employment creation.

4. The Committee reaffirmed its strong support for the timely and satisfactory completion of the Fifth Replenishment of IDA so as to permit a substantial increase in IDA resources which, in the opinion of many members, should be in real terms, and to maintain continuity of its operations beyond June 1977. The Committee also agreed that it was important that the lending programs of the international lending institutions remain adequate to help meet the capital requirements of the developing countries. They asked the Boards of these institutions to review the adequacy of their capital resources for this purpose and, where such capital is inadequate, to review the issues prerequisite to consideration of augmenting such capital.

5. The Committee, with due regard to the functions of the Boards of the IMF, the World Bank, and other international institutions, desired to focus attention on the resources situation of the international development finance institutions, on the volume, terms and distribution of official flows, and on the role of adjustment in the development process. The Committee agreed to establish a Working Group which would, initially,

consider the study of the International Resources Bank requested of the World Bank. In addition, the group could be assigned other specific matters, including the volume, terms and distribution of official flows. The Working Group will present its conclusions and recommendations for the consideration of the Committee.

6. The Committee received a further interim report from the Working Group on Access to Capital Markets. It was agreed that capital market countries would endeavor, as far as their balance of payments situation permitted, to move progressively toward greater liberalization of capital movements, in particular capital outflows. In the meanwhile, when regulations governing capital outflows are maintained for unavoidable reasons

—governments of capital market countries would afford favorable treatment, as among foreign borrowers, to developing country borrowers with regard to permissions to make an issue or place in the issue calendar;

—those capital market countries which currently maintain quantitative limits on the amount of foreign issues in their markets would endeavor to keep developing country borrowers outside these limits, at least up to specified amounts;

—since the Eurobond market presents potential opportunities for developing countries to raise finance, countries whose currencies are in strong demand, and which maintain restrictions on international issues denominated in their currencies, would endeavor to give favorable treatment, as among foreign borrowers, to developing country borrowers.

The Committee noted a number of recommendations in the report that consideration be given to the removal of legal and administrative barriers so far as is consistent with investors' protection and urged capital market countries to give them earnest consideration.

7. The Committee recognized the need to reinforce and expand technical assistance activities in the field of access to capital markets, noted the bilateral programs already in the field, recognized the need to coordinate the implementation of present and future available services, and recommended that attention be given by the Board of IFC to the possibility of IFC expanding its activities.

8. The Committee stressed the importance of co-financing by international and regional development banks as a means of augmenting private capital flows to some developing countries, noted the progress being made in this regard and urged that these arrangements be further expanded.

9. The Committee noted with satisfaction that the Working Group had considered the subject of multilateral guarantees and the proposal for an international investment trust and asked that it continue its studies on these subjects. The Committee also agreed that the Working Group should present to the Committee at its next meeting concrete recommendations for improving the various reporting systems on international financial stocks and flows.

10. The Committee agreed to meet again on October 6 in Manila and also tentatively to meet on April 17, 1977, in Washington, D.C., the time of the next meeting of the Interim Committee.

11. The Committee expressed its deep appreciation to the Government of the Republic of the Philippines for its warm hospitality and for the excellent facilities provided to the Committee for the conduct of its meetings.

Reports of the Development Committee

The resolution establishing the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee) stated that the Committee was to report to the Boards of Governors not less than once a year on the progress of its work. The reports presented in the years 1975–78 are reproduced below.

Report of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries

(October 1974–June 1975)

This first report to the Boards of Governors of the Bank and the Fund of the Joint Ministerial Committee of the Boards of Governors on the Transfer of Real Resources to Developing Countries (Development Committee) covers the period from the Committee's establishment and inaugural meeting in October 1974 through June 30, 1975. Subsequent annual reports will cover full years ending June 30.

At its inaugural meeting, the Committee unanimously selected its member for the Ivory Coast, Mr. Henri Konan Bédié, as Chairman of the Committee; Mr. Henry J. Costanzo was selected by the Committee to serve as Executive Secretary. The Committee held substantive meetings in January and in June 1975, both in conjunction with meetings of the Interim Committee of the Fund, reflecting the close interrelationship between development issues and the effective functioning of the international monetary system.

During its first year, the Committee completed action on a significant new development finance initiative by unanimously recommending the establishment for one year of a "Third Window" for intermediate-term lending by the Bank and initiated work in several other major areas related to the resource requirements of developing countries, notably a Special Trust Fund under IMF administration for balance of payments needs of low-income developing countries for the next two to three years, and ways of improving access, particularly for the middle-income and high-income developing countries, to private capital markets. Important areas nevertheless remained for closer consideration by the Committee, particularly the relation of commodity questions to the problem of development, and further aspects of international monetary reform having a bearing on development. These topics are in addition to the Committee's ongoing review of real resource requirements and ways of meeting them through official bilateral and multilateral financing as well as through private financial mechanisms.

This report describes the background of the establishment of the Committee and the tasks put before it; reviews the content of the substantive work carried out in connection with the Committee's meetings in January and June 1975; and surveys briefly the areas to which the Committee will have to turn its attention both in the period immediately ahead and in the longer run.

I. Establishment of the Committee

Two factors converged in the second half of 1974 to provide the impetus for the establishment of the Development Committee.

First, the continuing, intensive effort that had been under way within the Committee of Twenty (formally, the Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System and Related Issues) culminated in June 1974 in the Outline of Reform, which became the focus for discussion and action at the Annual Meetings of the Boards of Governors of the Bank and the Fund in late September. The Committee of Twenty, its own work having been completed, recommended in the Outline that two committees be set up to carry matters forward: an Interim Committee in the Fund, and a Joint Ministerial Committee of the Bank and the Fund—a Development Committee—the latter to continue the study of the broad question of the transfer of real resources to developing countries, and to make recommendations to implement its conclusions. Some work on this broad question had been done and reported on by a technical group of the Committee of Twenty, and many countries felt the need for a ministerial forum which would continue this work and give specific attention to the problems of economic development in developing countries.

Second, developments in the world economic situation during 1973 and 1974 underscored the need for such a forum. These developments left most of the developing countries facing serious difficulties, including trade and current account deficits in 1974 several times larger than in 1973 and still growing. This situation greatly increased their needs for financial resources of a concessional nature at a time when the international climate for an increased flow of concessional funds was not favorable. This formidable combination of many adverse factors posed a threat, not only to the economies of the adversely affected developing countries, but also to their economic and social development prospects.

When the Development Committee was established in October 1974 by parallel resolutions of the Boards of Governors of the Bank and the Fund, it was with the expectation that it could make progress in response to both of the foregoing factors, by serving as a forum at a high political level for a comprehensive overview of international activities in the development area and for orderly and constructive exchanges among industrial, OPEC, and other developing countries on issues related to development and the transfer of real resources.

The specific terms of reference of the Committee, as embodied in the above-mentioned resolutions, are as follows:

"(a) The Development Committee shall maintain an overview of the development process and shall advise and report to the Boards of Governors of the Bank and the Fund on all aspects of the broad question of the transfer of real resources to developing countries, and shall make suggestions for consideration by those concerned regarding the implementation of its conclusions. The Committee shall review, on a continuing basis, the progress made in fulfillment of its suggestions.

(b) The Development Committee shall establish a detailed program of work, taking account of the topics listed in Annex 10 of the Outline of Reform. The Committee in carrying out its work shall bear in mind the need for coordination with other international bodies.

(c) The Development Committee shall give urgent attention to the problems of (i) the least developed countries and (ii) those developing countries most seriously affected by balance of payments difficulties in the current situation."

In general terms, the twofold task of the Committee from the outset has been:

(a) to formulate concrete suggestions to meet the immediate capital needs of the developing countries, particularly the poorest and most seriously affected countries, resulting from the extraordinary events of 1973 and 1974; and

(b) to focus on the long-range real resource requirements of all developing countries, with particular reference to the poorest income group, in order to assist these countries to achieve and maintain reasonable growth rates in the balance of this decade.

As the Committee's work evolved in the initial period, the principal focus has been on the immediate situation of the poorest developing countries and that of the most seriously affected developing countries, but the Committee's attention has turned increasingly to the longer-term and more fundamental problems of financing development.

II. Activities in the Initial Period

An initial work program was adopted by the Committee at its inaugural meeting in October 1974. In view of the situation then facing the developing countries, the initial work program concentrated on the flow of capital to the most seriously affected countries and to the least developed countries, and on measures to adjust to the new outlook for commodity prices. Subsequent consideration by the Committee of its work program directed attention to the broader problems of developing countries at all stages of development.

1. *Review of the situation and prospects facing the developing countries*

In pursuance of the initial work program, the Secretariat of the Committee prepared an analysis of the situation facing the most seriously affected and least developed countries which, along with a number of suggestions for action, was considered by the Committee at its second meeting (the first to involve extended substantive discussion) in January 1975. At that meeting, members of the Committee noted the serious difficulties facing many developing countries as a result of substantial adverse changes in their terms of trade and an inadequate flow of external capital. There was recognition that the situation was likely to continue in the immediate future, especially for the poorest and for the most seriously affected of the developing countries. The Committee agreed that industrialized countries should seek to adopt such adjustment measures considered necessary in their circumstances in such a way as to avoid any reduction in the net flow of real resources to the developing countries, that they should seek to improve the conditions under which developing countries and international development finance institutions might have access to their capital markets and to improve the real volume and the quality of official development assistance, and that they should avoid trade restrictions that have a negative effect on exports of developing countries. The Committee also recognized the increasing flow of resources from surplus oil producing countries and agreed that these countries should seek to expand, within their financial capacity, this flow of resources to the developing countries and to the international financial institutions.

2. *Areas for early action*

Taking into account the willingness expressed by some members to support and contribute toward such a facility, the Committee agreed at its January meeting to invite the Executive Board of the Bank to undertake an immediate study of the concept of Third Window lending by the Bank on terms intermediate between those of the Bank's regular

loans and those of IDA's concessional credits. It also agreed that the Executive Boards of the Bank and the Fund should be invited to study the desirability of creating a Special Trust Fund that would provide additional highly concessional resources to meet the requirements of the most seriously affected countries for the period immediately ahead. Both these studies were completed and made available to the Committee for consideration at its third meeting in June.

(a) *Third Window*

The concept of a Third Window was studied by the Executive Directors of the Bank and the management of the Bank held a meeting on April 30 with potential contributors to the interest subsidy fund for such an intermediate financing facility. The Bank had calculated that contributions of approximately $225 million in investable form would be required to support IBRD loan commitments of approximately $1 billion in fiscal year 1976 with an interest subsidy of 4 per cent. At the meeting of potential contributors on April 30, five countries announced their willingness to contribute to the interest subsidy fund. At the Development Committee meeting in June, additional support for the interest subsidy fund was expressed and eleven countries from amongst industrial and oil exporting countries indicated a willingness to contribute, although their indicated contributions were still not sufficient to establish the Third Window at the full level of $1 billion. The Committee lent its unanimous support to the establishment for one year of a Third Window in the World Bank and urged the Bank to proceed with its establishment in the fiscal year beginning July 1, 1975 in order to lend to the developing countries in that year up to $1 billion in assistance separate from other Bank operations.

(b) *Special Trust Fund*

The Executive Directors of the Bank and the Fund concluded in their study of a Special Trust Fund that if resources additional to those already available to developing countries through other channels could be obtained for such a Fund, consideration should be given to its establishment. The Executive Directors also concluded that such a Trust Fund, to be administered by the IMF, should provide balance of payments assistance to low-income developing countries for the next two to three years, in support of medium-term programs of economic adjustment and that the assistance should be on terms more concessional than those applying to the IMF facilities. Various suggestions with respect to possible sources of funds for the Special Trust Fund, including voluntary contributions and some use of gold holdings of the IMF, were examined in the course of the study by the Executive Directors. After considering, at its June meeting, these and other suggestions placed before it by the Executive Directors of the two institutions, and in order to facilitate early concrete action, the Development Committee urged the Executive Directors of the IMF to consider all aspects of the establishment of such a Trust Fund as well as to continue their study of all possible sources of financing.

The concepts of the Special Trust Fund and the Third Window were the Committee's response to the immediate situation facing the developing countries. Considerable progress has been made toward the establishment of the Third Window, to make it operational during the Bank's 1976 fiscal year, and the Committee hopes for early progress in the establishment of a Special Trust Fund. Meanwhile, the Committee has welcomed the support of the Interim Committee for continuing and expanding an oil facility in the IMF for 1975 and for establishing a special account in order to reduce for the most seriously affected members the burden of interest payable by them.

3. *Longer-term measures*

The Committee has also given consideration to other measures required to increase the transfer of resources to developing countries. At its inaugural meeting, the Committee also had before it a number of topics for the Committee's consideration over the longer term. These included, broadly: the amount and quality of official development assistance; policies and procedures of multilateral development finance institutions; improvement of access to capital markets; and international financing schemes for commodity regulation and price stabilization. Aspects of some of these were presented by the Secretariat for consideration by the Committee at its meeting in January 1975. The Committee instructed the Secretariat to propose such measures as might be considered for early implementation to promote increased use of capital markets by developing countries and to facilitate their access to such markets; and to initiate a broad and continuing review of the question of transfer of real resources, using as a basis the work of the Committee of Twenty and taking into account the conclusions of the study of the capital requirements of developing countries initiated by the President of the World Bank.

Accordingly, a World Bank study of capital requirements of developing countries and a Secretariat paper on measures to improve access of developing countries to capital markets received consideration by the Committee at its meeting in June 1975.

(a) *Capital requirements*

The Bank study concluded that developing countries would require substantial increases in capital flows, both official and private, and among other things would have to undertake at the same time efforts to increase domestic resource mobilization and to expand exports, if they were to achieve adequate rates of growth in the remaining years of the decade. The study suggested, by way of additional measures, increases in official capital flows, increased lending by multilateral institutions, improved access to private capital markets, and actions to increase export earnings of developing countries. In the light of the conclusions of the Bank study, the Committee felt that the low-income countries faced a very difficult prospect and recommended that their requirements for concessional assistance should be met on a priority basis. The Committee also agreed that the middle-income and high-income developing countries required substantial additional amounts of external capital. The Committee re-emphasized the urgency of improving the real volume and quality of official development assistance, both bilateral and multilateral, and reviewing its distribution with a view to improving the share for the poorer countries. It was agreed that a replenishment of IDA providing for an expansion in real terms would be most helpful. The Committee also agreed that there should be an expansion of the lending programs of the World Bank and the regional development banks consistent with their capital structure and availability of funds and that the capital base of these institutions should be reviewed.

(b) *Capital markets*

The Secretariat presentation on questions related to access by developing countries to capital markets had suggested possible measures to improve access, which included expanded technical assistance, a review of regulations of capital-exporting countries with a view to identifying those which impeded access and to exploring joint action to modify or remove such impediments, maximum use of cofinancing possibilities by international financial institutions and consideration of possible mechanisms to support developing country access to private markets, including the establishment of a multilateral guarantee fund. The Committee noted the importance of measures to facilitate and expand access.

in view of the substantial role which private capital flows could play in helping to meet overall capital needs, and recommended expanded technical assistance to developing countries seeking such access. The Committee also established a Working Group of government representatives (consisting of Canada, France, Germany, Japan, Kuwait, Malaysia, Mexico, the Netherlands, the Philippines, Trinidad and Tobago, the United Kingdom, and the United States) to review regulatory and other constraints affecting access to capital markets and to study further proposals to support access to capital markets, including the use of multilateral guarantees.

(c) *Commodities*

The Committee has shown active interest in the question of fluctuations of commodity prices. This subject was discussed at the January and June meetings. In its consideration, the Committee has recognized that fluctuations in prices and earnings of commodities accounting for a major portion of exports of developing countries can present severe problems to those countries both in their balance of payments and in the maintenance of development expenditures; it has also recognized the need for effective measures to reduce such fluctuations. The Committee has kept itself informed of the measures being pursued in other forums. In particular, the Committee has welcomed the action of the Interim Committee in requesting the Executive Directors of the IMF to consider appropriate modifications in the terms of its compensatory financing and buffer stock facilities. Support was also expressed within the Committee for the World Bank and the regional financial institutions to study ways and means of assisting the financing of commodity stabilization schemes, including buffer stock arrangements, as well as for the Bank's proposal to consider providing financing to the tin buffer stock. Finally, in view of the very substantial benefits which could accrue to the developing countries, the Committee has expressed its earnest hope for maximum progress in trade liberalization during the ongoing multilateral trade negotiations.

(d) *Other matters*

The Committee directed the Secretariat in January to report on an appropriate work program in response to the conclusions of the World Food Conference on the financing of food, fertilizer, and food production. At the June meeting, the Committee accepted the Secretariat's conclusion that the Committee would be in a position to consider the financial aspects of the world food situation to the extent necessary only after the broad lines of international action on food are defined by the bodies created by the World Food Conference, particularly the Consultative Group on Food Production and Investment and other relevant forums. The Committee noted, however, the steps already taken in the World Food Council toward the establishment of an International Fund for Agricultural Development, as well as other institutional developments flowing from the World Food Conference.

In view of the inadequacy of the existing information systems on the flow of resources to developing countries and the need to have systematic and complete information for national and multilateral decisions on development finance, the Secretariat, in accordance with a directive of the Committee, formulated a number of suggestions for improvements in the existing information systems and these will be pursued with the concerned agencies and member governments.

III. Future Tasks

Apart from its task of maintaining a comprehensive overview of international activities in development, the Development Committee looks forward to facilitating interna-

tional action in some of the many specific areas where progress needs to be made. Its ability to play such a role will, of course, depend on the continued willingness of its members to use the Committee as a forum for constructive dialogue on issues of world development and financial assistance and their readiness to demonstrate within its framework the political will necessary for translating proposals into realities.

In the area of *external assistance*, attention and efforts need to be focused on means of mobilizing, on appropriate terms, substantial increases in real terms in official and private capital flows, in order to sustain a minimum acceptable rate of growth for non-oil producing developing countries, and in particular the poorest developing countries, during the rest of the decade. Steps toward these ends by both the industrial and the surplus oil producing countries are needed.

One obvious objective must be to reverse the trend in the declining relative levels of official development assistance from traditional donors. As the Committee has noted, the existing quantity of aid is on the average still far below the 0.7 per cent of GNP target for the middle of the Second Development Decade. There is a clear need for improved performance. More broadly, there is need for urgent consideration by the traditional aid donors, members of the DAC, and by new donors, members of OPEC, of the means by which to improve the real volume and the quality of bilateral and multilateral assistance. Beyond the resources being channeled through the new Third Window mechanism, early initiatives will need to be pursued in various institutions to accomplish such important objectives as, for example, a replenishment of IDA, providing for an expansion in real terms, and an expansion of the lending programs of the World Bank and the regional development banks. In the meantime, there is an urgent need for the provision of interim assistance through the early establishment of a Trust Fund for balance of payments support which the developing countries will increasingly require over the next few years. The multilateral lending institutions should also keep their policies and procedures under review in order to assure that they are effectively meeting the requirements of developing countries. In the absence of adequate measures to maintain and improve the flow of official resources on appropriate terms, it may become necessary to consider official debt relief in some cases, bearing in mind the caution with which this general subject must be approached.

In order to supplement the resources available to developing countries, improved *access to international capital markets* is vital, especially for higher-income developing countries, and particularly those in Latin America and East Asia. As already noted, work in this area has been started within the Committee, but it will be necessary to pursue it with imagination and diligence to bring it to a successful conclusion.

The full potential of the field of *trade* as a source of foreign exchange still remains to be explored. There is a need for continued vigorous consideration of trade liberalization measures which will facilitate and expand the access to markets in the developed countries, thereby assisting the expansion of developing country exports. The Committee can express its support for efforts in this direction that are being mounted in other forums. For the Committee itself, the role of commodity price stabilization and other commodity arrangements as well as export earnings stabilization, and their financing, in contributing toward the stability which is desirable for the achievement of development objectives likewise requires further exploration and consideration.

The Development Committee has also deep and parallel interest in the favorable outcome of the many issues related to the effective functioning of the *international monetary system* which have a direct bearing on development and the promotion of the flow of real resources to developing countries. It has been and intends to remain in close touch with the work of the Interim Committee of the IMF.

The aid, trade, and monetary fields, although crucial, do not exhaust the areas which should attract the attention of the Development Committee for a comprehensive program of action for the accomplishment of the task assigned to it. Apart from external factors, progress in economic development will depend on *domestic policies* of developing countries which will ensure the most efficient use of scarce external resources and support them through mobilization of domestic savings and resources. There can be no substitute for such a domestic effort. Increasing export earnings through an integrated approach will need special attention. Domestic policies for improved economic management should, besides focusing on programs aimed at the poorest sections of society, comprehend the crucial areas of incentives for domestic savings, agricultural production, and exports, if full benefit is to be derived from an increased flow of external resources and if the success of development programs is to be ensured in the shortest possible period.

The task ahead is indeed challenging and success will be achieved only through a collaborative and cooperative effort on the part of all concerned. In support of such an effort, the Development Committee intends to keep the important issues of development under continuing review, recognizing that they are by their very nature of an ongoing character and that many problems are likely to remain in an acute form in the years ahead. The Committee hopes to preserve its character as a forum for dialogue, where representatives from industrial, OPEC, and developing countries can periodically meet at a high political level for an overview of the entire field of the transfer of real resources for development, with particular focus on the long-term requirements of the developing countries. It will continue to strive to achieve practical progress, by endorsing and encouraging agreed action programs which hold out hope for nearly two billion people in the developing countries, and thereby to make a significant contribution to the peace and stability of this interdependent world.

Report of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries

(July 1975–June 1976)

1. Introduction

The Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee) was established in October 1974. Its 1975 Annual Report to the Boards of Governors of the Bank and the Fund covered the period from October 1974 through June 1975. This second report covers activities from July 1975 through June 1976.

During the year under review, the Committee continued to serve as a forum for discussion of financial aspects of the broad questions of development and transfer of resources. While not constituted as a decision-making body, the Committee sought to promote a high-level international consensus as a means of facilitating decisions on development issues in appropriate bodies. A number of proposals given support by the Committee were translated into action by the relevant bodies during the year, and consideration of other possibilities was under way. As a contribution toward improved coordination of international programs of development, the Committee disseminated to its members analytic documentation regarding such programs, and continued to maintain close relationships with a number of international institutions and entities concerned with development, many of which participate as observers in the Committee's meetings.

The Development Committee met twice during the year: first in Washington in September 1975, at the time of the Annual Meetings of the Boards of Governors of the Bank and the Fund, and second in Kingston, Jamaica, in January 1976. The Washington meeting was the occasion for extensive discussion of the work program for the year ahead, and for an expression of Committee support for establishment of an IMF Trust Fund. The Committee also urged that sufficient funding be made available to the newly established Third Window of the Bank. At its Jamaica meeting, the Committee examined aspects of the use of Trust Fund resources and of work being done on the access of developing countries to international capital markets. The Committee also strongly endorsed the need for adequate increases in the capitalization of major international and regional lending institutions, including particularly IDA. In addition to these activities at Committee level, a Working Group on Access to Capital Markets began work in August 1975 and met four times during this year.

The Committee focused in the initial period on the immediate problems confronting the poorest and the most seriously affected developing countries. At the same time, a basis was laid for giving attention to the longer-term and more fundamental problems of developing countries at all stages of development. The transition to principal concern with the latter problems was well under way by the end of the period under review. It is expected that the bulk of the Committee's attention in the period ahead will be directed toward structural problems extending to the end of the decade and beyond, e.g., official and private financing in development, the long-term role of international financial institutions, long-term balance of payments stabilization of developing countries, efforts to assist the developing countries in the area of world trade, and the impact of an evolving international monetary system on the development process.

II. Committee Consideration During the Year of Major Questions Affecting Resource Transfer

The subjects considered by the Committee during 1975–76 fall into the following major areas: the general situation and external resource requirements of developing countries, official development assistance, private capital flows, the operations of multilateral lending agencies, and balance of payments assistance.

1. *Situation and prospects of developing countries and their external resource requirements*

Analysis prepared by the Fund in December 1975 and presented to the Committee at its Jamaica meeting showed that less developed non-oil primary producing countries were expected to incur current account deficits aggregating about $35 billion in the year 1975, compared with about $27 billion in the preceding year, and would have a deficit of about $31 billion in 1976. The Committee noted with concern that 1976 would be the third successive year in which the non-oil developing countries were likely to incur such extraordinarily large current account deficits, which had had to be financed by an unprecedented recourse to borrowings, often at relatively hard terms, and substantial use of reserves.

Taking into account these developments, the World Bank analyzed for the Committee the likely growth performance of the non-oil developing countries to the end of the decade and the associated requirements for external capital. Their assessment suggested that the UN target of annual growth of 6 per cent would probably not be attainable, and that average growth to the end of the decade by lower-income developing countries was not likely to exceed 5.0 per cent, while that of the middle-income countries was not likely to exceed 5.5 per cent. It was estimated that an additional $12.3 billion of official capital (above the projected average annual availability from public and private sources of $49.4 billion) would be required annually to 1980 to realize even these projections, including a substantial and critically important proportion on concessional terms.

The Committee expressed grave concern that the 6 per cent growth target for the Second Development Decade was unlikely to be achieved by the non-oil developing countries, and concluded that substantial amounts of additional external capital would be required if the shortfall from that target is to be held to modest proportions.

2. *Official Development Assistance*

At its meeting in September 1975, the Development Committee decided to include among those issues requiring its special attention "means of improving the current situation affecting resource transfers . . . including quantitative aid targets and their implementation." To this end, the Committee received for the Jamaica meeting in January 1976 Secretariat documentation dealing with recent trends in the flow of official development assistance, with aid targets and a possible phased movement toward their realization, and with the relationship between existing underutilization of productive resources in aid-giving countries and the aid efforts of such countries.

Aggregate net disbursement of concessional resources in 1974 amounted to $14.9 billion, of which $11.3 billion came from DAC countries, $2.4 billion from OPEC countries, and the balance of $1.2 billion from the centrally planned economies. Slightly over a quarter of the 1974 flow was made available through multilateral channels. DAC assistance remained virtually unchanged in constant dollar terms over the ten years ending in 1974; as a percentage of GNP, it declined from 0.53 per cent in 1961 to 0.33 per cent in 1974. (Preliminary figures recently available indicate that this percentage rose to 0.35 per cent in 1975.) DAC aid on the average had a grant element above 84 per cent in 1974. For

OPEC countries, 1974 flows represented 1.4 per cent of GNP, and were estimated to involve a grant element of about 65 per cent.

Currently, the most widely accepted—although by no means universally endorsed—goal for aid-giving by donor countries is the UN target of 0.7 per cent of GNP in the form of ODA by the end of the decade. Considerable emphasis was given to the importance of reaching the 0.7 per cent target at the Seventh Special Session of the UN in September 1975 and more recently at the UNCTAD session in Nairobi, although a number of countries continue to maintain their reservations as to acceptance of the target itself and others as to the date by which they might reach the target.

Against this background, the Committee initiated discussion at the Jamaica meeting of ways to improve the performance of the aid-giving community with respect to the flow of official development assistance, including the possibility that, in the anticipated circumstances of recovery in industrial countries, aid givers might agree to set aside a small fraction of the increment in their GNP as additional development assistance. There was also discussion of the concept that idle productive capacity in industrial countries, reflecting recessionary conditions, might be put to work producing developmental goods for export to developing countries under special financing arrangement. Although there was no agreement on the feasibility of the concept, the discussion gave useful emphasis to the broad underlying idea that production of aid goods for export has a stimulating effect on levels of overall production and employment in industrial countries.

3. *Access to capital markets*

The subject of improving access of developing countries to international capital markets continued to be of special interest to the Committee, and was pursued very actively during the year by a Working Group set up in August 1975. The Working Group consists of representatives of 12 members of the Committee, 7 representing capital market countries and 5 representing developing countries. It met four times during the year, including one meeting substantially devoted to a seminar with representatives of banks and other institutions active internationally in private capital markets.

An Interim Report of the Working Group to the January 1976 meeting of the Committee noted as primary areas of interest (a) restrictions and other obstacles to access to markets, (b) direct measures to support the creditworthiness of developing country borrowers in capital markets, including possible multilateral guarantees or active use of guarantee authority of international lending institutions, (c) the problem of secondary markets for developing country securities, (d) cofinancing involving international lending institutions and private lenders, (e) a possible international investment trust, and (f) technical assistance to developing countries seeking market access and the correlative problem of educating potential investors regarding the situation and prospects of developing countries.

(a) *Restrictions and other obstacles to access to markets*

In regard to restrictions and practices constituting obstacles to capital market access, the Executive Secretariat, pursuant to guidance from the Working Group, and with the assistance of staff of the International Monetary Fund, was actively engaged at the end of the period of this report in consultations with authorities in selected countries aimed ultimately at either formulation of a general program of liberalization which could be adopted by common agreement of market countries, or agreements with specific market countries on liberalization actions appropriate to that country, or both approaches simultaneously. A selected group of developing countries that have had access to international capital markets was asked to identify specific obstacles to market access. On the basis of

the information gathered from these countries, as well as a generalized questionnaire, capital market countries were being consulted regarding regulatory or other restrictions and, where such existed, the scope for liberalizing actions.

(b) *Measures to support creditworthiness of developing country borrowers*

In its consideration of direct actions to support the creditworthiness of developing countries, the Working Group examined a Secretariat outline of a possible new multilateral guarantee facility based on new contingent liability undertakings by participants among industrial and OPEC countries and a modest reserve fund. The facility was seen as providing, on a fee basis, partial or full guarantees for bonds floated in national or international markets primarily by those developing countries that were potentially creditworthy but had not yet developed substantial access to the bond market. Factors of concern to the Working Group in its examination included the problem of ensuring that the facility would elicit additional resources from capital markets rather than divert resources from established developing country borrowers; the question of costs in comparison with loans intermediated by the international lending institutions; means of confining guarantees to a transitional stage en route to fully independent market access by borrowers; and the possibility of avoiding the creation of new international organizations. Particularly in the light of the last consideration, there was support in the Working Group for pursuing the multilateral guarantees idea through activation of authority to make guarantees already vested in the international and regional development lending institutions. It was recognized that in such institutions direct loans and guarantees are supported by the same capital base so that special additions to capital resources for guarantees would have to be comtemplated if direct lending capabilities are not to be reduced.

(c) *Secondary markets for developing country securities*

The Working Group's exchanges with private market experts revealed that the absence of secondary markets of any depth for issues by developing countries was regarded as a significant obstacle to the successful primary marketing of such issues. The Executive Secretariat prepared an analysis of various courses of action that had been suggested, including the possible use of liquid funds of international lending institutions for secondary market purchases and sales of developing country securities; use of such funds for short to medium-term investments in such securities in order to strengthen both primary and secondary markets; and creation of a semi-public institution to function as a market-maker in the obligations of developing countries. These ideas were pending with the Working Group at the end of the reporting period.

(d) *Cofinancing*

At its January 1976 meeting, the Committee took note of the progress being made in regard to cofinancing arrangements involving international lending institutions on the one hand and private lenders on the other. The Committee urged that such arrangements be expanded. An examination covering experience to date and appraising the scope for further expansion is in progress.

(e) *International investment trust*

An international investment trust, whose function would be to offer an attractive investment opportunity to private investors and possibly to certain governments in a diversified portfolio of developing country debt and equity obligations, was suggested at the Seventh Special Session of the UN General Assembly, and analytical work on the idea

was undertaken by the International Finance Corporation. It is anticipated that the IFC analysis will be considered by the Working Group later in calendar year 1976.

(f) *Technical assistance*

A Secretariat review of existing bilateral and multilateral technical assistance activities related to access to capital markets, together with preliminary suggestions for possible actions in this area, was being prepared for early consideration by the Working Group.

4. *Operations of international lending institutions*

From the outset, the Committee has attached great importance to the role played by the international lending institutions—the World Bank and the regional development banks—within the overall picture of official development assistance.

In response to the view expressed in the Committee that a survey of the international lending institutions and of initiatives in other bodies might help avoid duplication of functions and promote a coordinated approach to the problem of transfer of resources, the Executive Secretariat prepared and submitted to the Committee for its Jamaica meeting an initial paper covering major existing international lending institutions. A further paper, possibly covering some additional institutions and recent initiatives will be prepared for a subsequent meeting. The Secretariat paper emphasized the quantitative importance of multilateral lending. The core group of international lending institutions during 1974 lent $6.7 billion, compared to total bilateral loans and grants by DAC countries of $11.6 billion in that year, and total multilateral loan commitments during the period 1972–74 averaged $5.2 billion per annum. For the future, it appeared that loan commitments expressed in current dollars might rise from $8.4 billion in 1975 to $14.2 billion in 1980, in nominal terms, or in terms of constant 1974 dollars, from $5.9 billion in 1975 to $7.7 billion in 1980. A matter of concern was that concessional lending as a proportion of total loan commitments, which showed an irregular downward trend during 1972–74 and averaged 34 per cent for that period, would on the basis of the projections decline further to about 28 per cent of the total in 1980.

The Secretariat paper was not concerned with the criteria for the allocation of multilateral lending. Its analysis of the sectoral and geographic composition of such lending in 1975 showed that agriculture was being accorded first priority by the institutions as a group; that Latin America was the largest regional recipient; and that in terms of relative population of borrowing areas, South Asia's share of multilateral lending was substantially lower than other regions. Finally, the Secretariat paper described the pending or anticipated capital resource replenishment proposals by the various institutions. In the light of the analysis presented, the Committee expressed its full support for an adequate increase in capital for the international lending institutions, and members of the Committee suggested areas to which the analysis should be broadened.

Regarding particular institutional developments, the Committee noted at its Jamaica meeting that the Third Window of the World Bank for loans on intermediate terms, establishment of which the Committee had called for at an earlier meeting, had become operational in December 1975 with resources permitting $600 million of loans, mainly for countries with per capita income below $375. The Committee urged those countries that had not already contributed to help increase the Third Window's resources. The Committee also requested the Executive Directors of the World Bank to place a proposal for an increase in the Bank's capital before the Governors at an early date. Committee support was given for an early increase in the capital of the International Finance Corporation as well. Taking note of the particularly urgent need for assistance to low-income countries,

the Committee called for a substantially enlarged Fifth Replenishment of the International Development Association. Many members felt that the enlargement should result in an increase in real terms over the previous replenishment. As far as the resources of the regional banks were concerned, the Committee urged that timely replenishment action be taken, including action to provide for their concessionary funds.

5. *Balance of payments assistance*

The acute balance of payments problems of developing countries arising from recent unprecedented world economic events and particularly the balance of payments problems of the most seriously affected developing countries, necessarily commanded close attention of the Committee from the outset. The two areas of Development Committee interest as far as short-term balance of payments assistance was concerned were an IMF-administered Trust Fund and expansion of the IMF compensatory financing facility, although it was recognized that the main responsibility for carrying forward both of these topics lay with the Interim Committee and the Executive Directors of the IMF.

By the time of the Committee's meeting in September 1975, the Interim Committee had reached agreement that one-sixth of the Fund's gold should be disposed of and the net proceeds applied for the benefit of developing countries, but it had not yet reached agreement that the Trust Fund should be established and receive the gold disposal proceeds. At that juncture, the Development Committee, after being informed of the status of the Fund Executive Directors' consideration of the questions associated with the Trust Fund, supported the principle that such a Fund should be established for balance of payments help primarily to lower-income countries, using profits from Fund gold sales but without neglecting consideration of other possible sources of financing. In the final phase of consideration at Jamaica, the Interim Committee, after agreeing that the Trust Fund should be established without delay, asked the Development Committee to consider further certain aspects of use of Trust Fund resources. The Development Committee accordingly discussed the matter and indicated various considerations to be taken into account by the Executive Directors of the Fund in completing their work on establishment of the Trust Fund. Formal announcement that the Executive Directors of the Fund had established the Trust Fund and had fixed the date for the first auction of gold to generate profits for the Trust Fund's financing was made by the Managing Director of the Fund in early May.

Discussion in the Committee of the need for liberalization of compensatory financing facilities was largely held in the context of consideration of commodity problems in general. Following the announcement by the Fund's Executive Directors at the end of 1975 of liberalized Fund compensatory financing rules, a number of Committee members called for an early review of the adequacy in practice of the new measures. Accordingly, the Committee agreed to keep the subject of stabilization of export earnings among those topics to which it would give priority attention, along with several other trade and commodity matters.

III. Review of the Committee

In order to facilitate the review of the performance of the Committee by the Boards of Governors of the Bank and Fund called for at the end of two years by the Resolutions by which the Committee was established, the Committee decided in January 1976 to review its initial period of operations at its meeting scheduled immediately prior to the Bank and Fund Annual Meetings at Manila in October 1976, and to present its conclusions to the Boards of Governors. At its Jamaica Meeting, the Committee asked that, as a

basis for its review, a report be prepared by the Boards of Executive Directors of the Bank and Fund, together with the Executive Secretary. At the close of the period of this Annual Report, there was under preparation a report and draft resolution recommending that the Boards of Governors should review the performance of the Committee at the end of four years from the effective date of the parallel Resolutions, i.e., October 2, 1978.

* * * * *

The past year has been one of intense consideration in various forums of the problems of development and the transfer of real resources to the developing countries. Apart from the work already in hand, the Development Committee will, at its Manila meeting, consider further areas of activity, taking into account the emergent trends in the world economy and the results of recent interchanges among the industrial countries, the oil economies, and the developing world, notably the Fourth UNCTAD and the North-South dialogue.

Report of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries

(July 1976-June 1977)

I. Introduction

1. This is the third annual report of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee). It covers activities from July 1976 through June 1977.

2. During the year under review, the Development Committee continued its endeavor to promote better international understanding and consensus at a high political level as a means of facilitating decisions on the financial aspects of the broad questions of development and transfer of resources. Throughout the year close relationships were maintained with a number of international bodies concerned with development, many of which participated as observers in the Committee's meetings.

3. The Committee held three meetings during the year: two in Manila on October 3 and 6, 1976, at the time of the Annual Meetings of the Boards of Governors of the Bank and the Fund, and the third in Washington in April 1977.

4. The October 3 meeting in Manila was the occasion of a review of the Committee's past two years of work and of discussion of its future work program. The review of the Committee's work was based on a report called for by the Committee from the Executive Directors of the Fund and the Bank. The joint report of the two Boards reaffirmed the view that the Committee should be a useful forum for the discussion of issues relating to the transfer of real resources. It envisaged no change in the mandate of the Committee but suggested several operational improvements. Further, because the period of the Committee's operation had been brief and affected by special events, the Executive Directors in their report recommended that the Boards of Governors of the Fund and the Bank make a review at the end of four years from the effective date of their parallel Resolutions with which the Committee was established in October 1974. This report was agreed to by the Committee and the Boards of Governors.

5. The Committee also considered a report from its Working Group on Access to Capital Markets and adopted the Group's recommendations to governments on a number of measures to improve the access of developing countries to the capital markets of capital-exporting countries. Specifically, the Committee agreed that capital market countries would endeavor, as far as possible, to move toward liberalization of capital movements, and, in the meantime, would afford favorable treatment to the bond issues of developing countries. A Working Group on Development Finance and Policy was established to review a World Bank study on the proposed International Resources Bank, and to examine official development assistance on a continuing basis, including measures to improve its volume, quality and distribution. The Committee's strong support for the timely completion of the Fifth Replenishment of IDA was reaffirmed.

6. At its October 6 meeting, the Development Committee unanimously elected the Honorable Cesar E. A. Virata of the Philippines as its Chairman. Thanks and appreciation were expressed for His Excellency Henri Konan Bédié's work as Chairman of the Committee during its first two years. The Committee also appointed Sir Richard King, of the United Kingdom, to serve as Executive Secretary.

7. At the Washington meeting in April 1977, the Chairman, in his opening address, outlined his views on the future role of the Committee and sought members' response and suggestions in this regard.

8. There was general agreement that the Committee should concentrate on a limited number of particular topics of appropriate and urgent concern of Finance Ministers.

9. As regards the substance and content of the Committee's future work, there was endorsement of the work underway in the two Working Groups and in this connection attention was drawn to the need to increase flows of ODA; the lending programs, the resources position and the arrangements for replenishing the international financial institutions (IFIs); the importance of private flows; and the need for the mobilization of domestic resources and other appropriate domestic policies to ensure effective use of external assistance. Interest was also expressed in a presentation of the needs for and availability of development finance against the background of the trade situation confronting developing countries. It was thought that such a presentation could be of advantage as a background for the consideration of development flows.

10. It was generally recognized that significant areas of activity could emerge on the conclusion of the North/South discussions in Paris where the Committee should stand ready to play a useful follow-up role, *inter alia*, in the areas of international indebtedness, ODA flows, the development of natural resources in developing countries including particularly energy resources, and the stabilization of export earnings. In order to ensure better preparation of subjects for Committee discussion, it was proposed to hold a meeting of Deputies prior to the next Committee meeting.

11. In addition to the three main Committee meetings, the Working Group on Access to Capital Markets met three times during the year and the Development Finance and Policy Working Group met once.

II. Committee Consideration During the Year of Major Questions Affecting Resource Transfer

12. The subjects considered by the Committee in the past year fall into the following three broad areas: the situation and prospects of developing countries and their external resource requirements, official development assistance, and access to capital markets.

1. *Situation and prospects of developing countries and their external resource requirements*

13. A study prepared by the IMF in July 1976 was discussed by the Committee at its Manila meeting. The study showed that the non-oil developing countries had a current account deficit of \$37 billion in 1975.[1] This deficit was financed to the extent of \$19 billion by official capital flows, \$4 billion by direct investment, \$10 billion by borrowing from the market, especially from commercial banks, and the balance through borrowing by monetary authorities—mainly IMF credit—and the use of reserves. In 1976 and the first half of 1977, the deficit was expected to continue at a high level. The Committee noted that the low-income countries had had little or no growth in their per capita income since 1970 and that their levels of imports had fallen by some 20 per cent below

[1] Figures in this paragraph relate to the study prepared in July 1976. More recent projections are available in International Monetary Fund, *Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1977* (Washington: International Monetary Fund, 1977).

those of the late 1960s. Official aid to them had been inadequate. Many developing countries, especially the middle-income countries, borrowed heavily to maintain the flow of imports and to avoid undue interruption of their development programs.

14. Against the background of the deficit projections noted above the Bank staff analyzed for the Committee in September 1976, the likely growth performance of the non-oil developing countries to 1985. Based on some assumptions about growth rates for the industrialized countries (around 5 per cent), about terms of trade and value of exports of non-oil developing countries, and about the availability of official capital from donors, it was thought that the growth rate for low-income countries would average about 4.2 per cent and for middle-income countries about 6.6 per cent per annum after 1978. This was expected to give rise to combined current account deficits on the part of non-oil developing countries of $37.4 billion in 1980 and $51.5 billion in 1985.[2]

15. It was recognized that most of the resources needed to meet the projected current account deficits of low-income countries must come from official sources and be on concessional terms. The middle-income countries should be able to obtain well over half of their required capital inflow from private sources and while most of them did not require large amounts of concessional assistance, they would be heavily dependent upon long-term financing from official sources in order to keep their overall debt burden manageable. There was also recognition that besides larger flows of external resources, there was need for a greater emphasis upon domestic policies attuned toward the necessary internal adjustment process.

2. *Official development assistance*

16. Two aspects of ODA were considered by the Committee: volume, and contributions to multilateral lending institutions. The Working Group on Development Finance and Policy considered a Secretariat paper on recent trends in the flow of official development assistance, and the Group's views on the subject were reported to the Committee at the Washington meeting. The Secretariat paper presented three main conclusions: first, that the real volume of ODA had shown very little growth over the past decade and indeed expressed as a percentage of their GNP, DAC countries were contributing a good deal less than they had been ten years ago; secondly, again expressed as percentage of GNP, that the largest and richest donors were contributing less than the smaller, and in some cases, poorer donor countries; and thirdly, that the share of the low-income developing countries in ODA was disproportionately low in relation to their needs. Over the past ten years, ODA in nominal terms had gone up—from $5.9 billion in 1965 to $13.6 billion in 1975, but it had remained almost stagnant in real terms. As a ratio of GNP of the members of the DAC, ODA had declined almost steadily over the last decade and a half—from 0.53 per cent in 1961 to 0.30 per cent in 1973, registering some improvement thereafter to 0.36 per cent in 1975. The World Bank projected in 1976 on the basis of ODA commitments made and the known intentions of DAC donor countries, that net ODA disbursements as a ratio of GNP might be about 0.33 per cent in 1980. Net disbursements of ODA by OPEC donor countries in 1975 represented 1.35 per cent of their GNP.

17. In harmony with the conclusions of the initial report of the Development Finance and Policy Working Group, there was general agreement within the Committee on the urgency of achieving a substantial increase in the total volume of ODA. The role of multilateral flows was stressed, and several Members indicated that the Committee

[2] Figures in this paragraph relate to the study prepared in September 1976. More recent projections are available in International Bank for Reconstruction and Development, *Prospects for Developing Countries, 1978–85*, Bank Report No. 1674 (Washington: World Bank, July 1977).

should be prepared to discuss increases in the capital of the World Bank and regional banks if the issues remain unresolved in the Boards of these institutions.

18. The Committee also urged that donor countries whose ODA as a proportion of their GNP was below the current average donor performance should recognize the urgent need to inform their legislatures and the general public of the situation, especially the needs of the poorest countries, with a view to mobilizing political support for expanding the volume of their ODA. It was generally agreed that the Committee should keep the volume of ODA continuously under review.

19. On the question of contributions to multilateral development institutions one problem was seen to be that of improving the procedures for replenishing the funds of these institutions so as to give them more timely and adequate resources. The Committee asked the Development Finance and Policy Working Group to examine the problem and the scope for improvement and report back to the Committee.

20. The Secretariat presented an updated version of an earlier paper on international development lending institutions. Clearly evident from the study was the importance of the capital replenishment needs of the World Bank and IDA, which together represented 65 per cent of multilateral lending in 1976. The study suggested that, if World Bank lending were held to an annual level of $5.8 billion, multilateral lending as a whole would show only very modest increases in real terms in 1977 and 1978, and would then actually decline. Moreover even this modest result would depend on the success of the Fifth IDA Replenishment in mobilizing resources at least equal in purchasing power terms to the Fourth Replenishment. Accordingly, at Manila the Committee expressed its strong support for a timely and satisfactory completion of the Fifth Replenishment of IDA. At the April meeting satisfaction was expressed at the agreements reached concerning the Fifth IDA Replenishment. The Committee foresaw a need to give attention to increases in the capital of the World Bank and of the regional banks.

3. *Access to capital markets*

21. The subject of improving the access of developing countries to international capital markets remained one of the Committee's major interests during the year. The subject was very actively pursued in the Working Group on Access to Capital Markets, established by the Committee in August 1975. The primary areas of concern were (a) regulations and practices affecting access to capital markets, (b) multilateral guarantees, (c) cofinancing, (d) technical assistance to developing countries seeking market access, (e) promotion of the bond issues of developing countries, (f) a possible International Investment Trust, and (g) improvement of information reporting systems on international stocks and flows.

(a) *Regulations and practices affecting access to capital markets*

22. The Working Group submitted to the Committee a number of recommendations designed to remove or reduce various restrictions upon access to capital markets that affect developing countries, and, as a result, resolutions concerning the treatment of developing country borrowers were adopted by the Committee. It was agreed that capital market countries would endeavor, as far as their balance of payments situation permitted, to move progressively toward greater liberalization of capital movements, and, in particular, of capital outflows. The Committee also resolved that, in the meanwhile, when regulations governing capital outflows are maintained for unavoidable reasons:

—governments of capital market countries would afford favorable treatment, as among foreign borrowers, to developing country borrowers with regard to permission to make an issue or secure a place in the issue calendar;

—those capital market countries which currently maintain quantitative limits on the amount of foreign issues in their markets would endeavor to keep developing country borrowers outside these limits, at least up to specified amounts;

—since the Eurobond market presents potential opportunities for developing countries to raise finance, countries whose currencies are in strong demand, and which maintain restrictions on international issues denominated in their currencies, would endeavor to give favorable treatment, as among foreign borrowers, to developing country borrowers.

23. The Committee noted a number of recommendations in the report that consideration be given to the removal of legal and administrative barriers. Specifically, the report recommended:

—that governments of capital market countries should generally agree, with due regard to the interests of the investors, to adopt a flexible attitude concerning rules and regulations which prescribe limits on the investments of institutional investors in foreign securities. They should agree to consider modifications of these rules as and when they seem to be proving a serious obstacle to developing country borrowing and to promote the necessary efforts in this regard;

—those countries which have complex statutory requirements for registration and listing of securities should attempt to administer their regulations in a flexible manner to the extent practicable in conformity with investor protection and other requirements of their laws.

Capital market countries were urged to give the recommendations their urgent consideration.

24. As a follow-up action on the agreement reached by the Development Committee at its meeting in Manila, the Executive Board of the IMF decided that IMF staff would, in the course of its regular consultations with the main capital exporting countries, inquire regarding the implementation of the Development Committee recommendations covering regulations and practices and that a brief report of the staff findings would be included in the staff report on consultation discussions.

(b) *Multilateral guarantees*

25. The Working Group on Access to Capital Markets had under active consideration the possible use of multilateral guarantees for bonds issued by developing countries on the "threshold" of market access, enabling them to stand on their own credit in the future. At an April 1976 meeting of the Working Group, it was agreed to focus on the possible use of the guarantee authority that now exists with international financial institutions but which has not recently been used. After consideration of the Working Group's report on multilateral guarantees at the Committee's Washington meeting, there was a consensus that the World Bank and the regional development banks should be prepared to consider requests for guarantees of bond issues from interested developing countries. It was generally considered that such guarantees could appropriately be in the form of partial guarantees and the Working Group was asked to explore this possibility further in consultation with the relevant bodies. In the light of the Committee's discussions in Washington, the World Bank has indicated that it would be prepared to consider requests from member countries for guarantees on their bond issues.

(c) *Cofinancing*

26. At its October 3 meeting in Manila, the Committee stressed the importance of cofinancing by international and regional development banks as a means of augmenting

private capital flows to some developing countries and urged that cofinancing arrangements be further expanded.

(d) *Technical assistance*

27. The Working Group on Access to Capital Markets gave attention to the importance of technical assistance for developing countries seeking market access, and presented recommendations on the subject which were substantially adopted by the Committee. The Committee recognized the need to reinforce and expand technical assistance activities for developing countries seeking access to capital markets. It noted the bilateral programs already in the field and recognized the need to coordinate the implementation of present and future available services. Finally, it recommended that attention be given by the Board of IFC to the possibility of expanding the IFC's activities in this field.

(e) *Promotion of bond issues*

28. At the April meeting satisfaction was expressed with the study by the Working Group on Access to Capital Markets on the promotion of bond issues. The consensus was that the Working Group should be asked to work out detailed arrangements, in consultation with the IFC, of a sustained, long-term program of promotion in the markets to facilitate the bond issues and placements of developing countries.

29. After consultations with international and regional organizations and with the private sector, the Working Group decided that the promotional program for the "education" of potential investors should run parallel with technical assistance activities for "threshold" developing countries seeking entrance or expanded access to capital markets. Promotion and technical assistance were considered to be complementary and integral parts of a single program. This close relationship encouraged the view that the IFC, which had already been asked to expand its technical assistance activities in this area, should take primary responsibility for the promotion program as well. This possibility has now been discussed with the management of the IFC. An outline of the proposed program has been agreed upon and the management have stated that the IFC would be prepared, if requested, to test the feasibility of this program by working with a few countries where there was a concrete need for assistance and a reasonable chance of success.

(f) *International Investment Trust*

30. The Committee considered a suggestion for the establishment of an International Investment Trust to encourage additional foreign portfolio investments in the securities of developing countries. The consensus of the Committee was that further consultations on the idea were needed with both developed and developing countries. Together with the IFC, the Executive Secretariat has accordingly held consultations with certain interested governments on future steps that might be taken with regard to the proposal, and the matter will be considered further by the Committee.

(g) *Information flows*

31. As a result of interest expressed at the Manila meeting in statistical reporting systems on international financial stocks and flows, the Working Group examined various aspects of this subject. It concluded that there had recently been substantial improvement of existing information systems, but that, despite the improvements in individual systems and the resultant benefits to the overall statistical framework, there nevertheless remained difficult problems of reconciliation between the systems of the IMF, the World Bank, and the BIS. While recognizing that the pace of further improvement would be gov-

erned mainly by technical factors, the Group felt that a momentum toward achieving technical improvements exists. It presented a number of recommendations to the Committee at its Washington meeting which were viewed with approval. These recommendations included reaffirmation of the importance the Committee attached to improved information flows. It asked all governments to give their fullest cooperation to the efforts of international bodies to improve the reporting systems for which they were responsible.

III. The Task Ahead

32. The period under review was one of considerable international activity in the field of North-South relations. It spanned a time from the fourth UNCTAD session to the conclusion of the Conference on International Economic Cooperation (CIEC) in Paris. In the aftermath of the world economic upheavals of 1974 and 1975 the period has been beset with serious problems of adjustment both for the industrial and for the developing countries. Some short-term solutions were devised by the international community to help meet the crisis and the focus is now shifting to longer-term solutions such as increased flows of public and private resources and a new range of domestic policies. The problems are complex, and solutions are not easy. But as a result of the intensive international dialogue, there is now a clearer recognition both of the dimensions of the problems and of the urgent need to resolve them. This indeed was the main message of the CIEC. The Conference has now concluded and there are many subjects of importance on which follow-up action is envisaged in the Development Committee and other relevant international fora.

33. Those subjects which might be pursued in the Development Committee include various matters relating to the access of developing countries to capital markets, private foreign investment, export-earnings stabilization, energy resource development, continued consideration of some aspects of official development assistance, and possibly indebtedness. The precise nature of the Committee's work program in these areas and the priority to be assigned to them will need to be decided.

34. The Development Committee remains a useful forum for constructive discussions at a high political level among the developed, oil-exporting and other developing countries. It has continued to exercise a comprehensive overview of international activities in the field of development and has provided support at the political level of government to negotiations being conducted in other international fora. It has contributed to the broader understanding of the international economic situation and has made significant progress on some specific matters such as policy actions which should lead to improvements in access to capital markets. On the subject of official development assistance, where the need to achieve a substantial increase in volume is widely recognized, the Committee has begun serious consideration of various aspects including volume, distribution, terms and quality.

35. In short, the Committee appears both ready and able to lend its political weight to a more productive and significant advance in international economic cooperation in many areas of mutual interest in this increasingly interdependent world.

Report of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries

(July 1977–June 1978)

I. Introduction

1. This is the fourth annual report of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee). It covers activities from July 1977 through June 1978.

2. The Development Committee was established to maintain an overview of the development process and to consider all aspects of the broad question of the transfer of real resources to developing countries. During the year under review the Committee continued its work aimed at creation at the highest political levels of a consensus on a number of issues of mutual interest to the developed and developing countries.

3. The Committee held one meeting during the year—in Washington on September 25, 1977 at the time of the Annual Meetings of the Boards of Governors of the Bank and Fund. Two meetings were held at Senior Official level, one in Paris on September 15, 1977 and one in Mexico City on April 28, 1978. At the technical level of Working Group there were five meetings during the year.

4. The main emphasis of the discussion at the Committee's meeting in September 1977 was on the need to increase the flow of assistance. It was recognized that the continued slow per capita growth of low-income countries was the main development issue on which the attention of the international community should focus. In this context, Members stressed the need for larger flows of concessional assistance and more effective use of both external and domestic resources to improve the situation of those 750 million people still living in absolute poverty. At the same time Members agreed that the continued successful growth of the middle-income countries depended upon their continued access to the capital markets of the industrialized countries as well as on the steady increase in their export earnings. The need for a satisfactory conclusion of the current multilateral trade negotiations, and for the maintenance of an open trading system, was strongly advocated.

5. At this meeting the Committee also endorsed recommendations regarding the access of developing countries to capital markets. They agreed that (a) the IFC should at the request of a developing country test the feasibility of promoting a program of bond issues for that country; (b) the IBRD and other development banks should consider requests from member countries for full or, preferably, partial guarantees of bond issues; (c) the IFC should be invited to undertake simulation of operations and results of international portfolio investment such as might be done by an International Investment Trust; and (d) the IMF should be asked to prepare an annual progress report on the elimination or reduction of restrictions affecting developing country access to capital markets.

6. A future work program was agreed which, in keeping with the Committee's terms of reference, included ongoing reviews of the overall economic situation and prospects of developing countries; and the volume, distribution and quality of official development assistance (ODA). The review of the prospects of the developing countries would be based on the World Development Report, to be prepared annually by the IBRD. In addition, the Committee decided to study the following subjects: (i) the role of the various multilateral

development institutions in financing development; (ii) the role of private direct foreign investment in promoting development; (iii) the role of external borrowing in financing development; and (iv) the stabilization of export earnings. As suggested by the Conference on International Economic Cooperation (CIEC), the Committee will also monitor the progress of the Special Action Program of US$1 billion of additional concessional assistance.

II. Committee Consideration of Major Questions Affecting Resource Transfer

A. Economic Prospects and Capital Requirements of Developing Countries

7. The Committee discussed a paper prepared by the IBRD on the economic situation and prospects of the developing countries up to 1985. The paper indicated the broad magnitudes of external capital requirements based on alternative assumptions about growth rates and export performance.

8. It was noted that the growth rates of different groups of developing countries had been and would remain quite uneven. In particular, the low growth rates of low-income countries during the past decade were projected to remain around 1.7 per cent per capita between 1978–85, though even this level would be dependent on sustained inflows of concessional funds equivalent to about 2.5 per cent of GDP and on an improved export performance. Raising the growth rate even moderately above this figure would require continued improvements in domestic policies, better export performance and increased availability of concessional assistance. The outlook for such additional flows was not promising and Members viewed with particular concern the decline in real terms that had taken place in 1976 in the volume of official development assistance. Members strongly stressed the importance of larger flows of concessional assistance to augment the domestic resources of this group of countries and of making the optimum use of both external and domestic resources.

9. So far as the middle-income countries are concerned, Members noted that for the group as a whole the outlook for 1978–85 was for substantially higher growth than had been achieved in the past four years—i.e., around 4 per cent per capita as compared to 2.9 per cent per capita in the period 1974–77. However, for the poorer countries in this group this projected growth performance would depend on continued inflows of public capital. A substantially improved export performance together with an increase in capital flows would be necessary to raise growth rates beyond these projected levels. This underlined the need for a satisfactory conclusion of the current multilateral trade negotiations and for the maintenance of an open world trading system.

10. The Committee agreed that extreme poverty remained the most pressing problem of development. It was pointed out that some 750 million people were currently lacking minimum needs of nutrition, clean water, functional literacy, basic health services, and shelter. Members felt that growth policies must be supplemented by a direct attack on poverty involving a reorientation of donor programs and the domestic policies of developing countries in order to ensure that the benefits of development would reach the poorest section of society.

B. Official Development Assistance

(i) *Volume and Terms of ODA Flows*

11. Members reviewed the situation regarding official development assistance (ODA) against the background of a report from the Working Group on Development Finance and Policy. The main emphasis of the discussion was on the need to increase the flows of

assistance which, as mentioned in para. 8 above, had declined in real terms in 1976. Members particularly urged the need to channel more concessionary funds through the multilateral development institutions. Members noted that the collective effort of the OECD countries expressed as a percentage of GNP had declined again in 1976 to a figure of 0.33 per cent, and the urgent need to reverse the process and move toward the UN target of 0.7 per cent of GNP was widely stressed. Although some of the major bilateral donors, e.g., the United States and Japan, announced plans for significant increases in their ODA programs, Members were agreed that a great deal remained to be done before it could be said that the international community was fully responding to the development needs and opportunities of the developing countries. They noted with appreciation that OPEC aid flows had increased from 0.43 per cent of GNP in 1970 to 2.20 per cent in 1976.

12. The Committee also considered other aspects of ODA. The particular need of the poorest countries for these concessional flows was repeatedly stressed. It was noted with approval that a growing number of donors were making aid available to these countries in grant form and other donors were urged to soften the terms of their assistance to these countries. Other aspects mentioned briefly in discussion were the desirability of a progressive untying of aid, the need for assistance by donors to suppliers from developing countries competing for orders financed from untied aid, and a larger amount of local cost financing and program aid, particularly from the multilateral development institutions. The Committee agreed that ODA should remain one of its prime concerns and that the matter should be kept under close review. In this connection they welcomed the prospects of more information being provided about OPEC aid flows by UNCTAD and the OPEC Special Fund.

(ii) *Special Action Program*

13. The Conference on International Economic Cooperation (CIEC) suggested that the Development Committee should monitor progress in implementing the US$1 billion Special Action Program. The Executive Secretary presented his first report on the subject to the Committee at its meeting in September 1977. This report showed that while most of the contributors were making plans for implementing their undertakings, five of them had not yet reached firm decisions. It seemed likely that in some cases the contributions would take the form, in whole or in part, of cancellation of debt servicing on old development loans to the poorest countries.

14. The Committee took note of the report and requested the Executive Secretary to provide a further report at the next meeting. The Committee asked that this should, *inter alia*, provide answers to the following questions:

a. Would the contributions be truly additional to intended aid programs (as distinct from existing levels of aid)?

b. When would the money be disbursed? and

c. Would it be concentrated on the lowest-income countries?

This further report is now under preparation.

C. International Resources Bank

15. The Committee considered a report from the Working Group on Development Finance and Policy on the suggestion first put forward by the United States at the UNCTAD IV meeting for the establishment of an International Resources Bank (IRB) designed to increase investment in the developing countries in the natural resources sector. The report endorsed the views of the IBRD to the effect that the establishment of an IRB

was not feasible or generally acceptable at the present time and welcomed the IBRD Board's decision that the World Bank Group should expand its operations in the development of fuel and nonfuel minerals in developing countries from the presently planned figure of $200 million to around $850 million in the year 1980. It was hoped that this program would have the effect of stimulating considerable increased private flows. They hoped that the regional development banks would also increase their activities in this sector. The Committee intends to keep this matter under review and to consider at an appropriate time the results achieved by the multilateral development institutions and whether any further action is necessary.

D. Multilateral Development Institutions

Role of the Multilateral Development Institutions (MDIs)

16. At its September 1977 meeting the Development Committee decided to study the role of MDIs as one of the priority subjects in its work program for 1977-78. This matter has been pursued in the Working Group on Development Finance and Policy.

17. A basic document has been prepared by the Secretariat with the object of providing a survey of the existing MDIs and highlighting a number of policy issues regarding their relative roles, their funding and their operational activities. It was the first time that an attempt had been made in any forum to bring together information bearing on the activities of a wide spectrum of MDIs which together provide about one third of the total official flows to developing countries.

18. The document prepared by the Secretariat covers not only the World Bank and the three larger regional development banks (Inter-American Development Bank, Asian Development Bank, and African Development Bank) but also the European Investment Bank, the European Development Fund, the United Nations Development Programme and its associated programs, the World Food Programme, the International Fund for Agricultural Development, the OPEC Special Fund, the Arab Bank for Economic Development in Africa, the Islamic Development Bank, the Arab Fund for Economic and Social Development, and the Special Arab Fund for Africa.

19. The information supplied by the relevant MDIs indicated that the share of concessional flows to developing countries channeled through the MDIs had increased over the last few years and would increase further if their prospective programs were implemented. This, in turn, was dependent upon increases in their capital resources which in some cases required important decisions by the donor countries.

20. Other issues raised in the Secretariat document related to the criteria for setting up new MDIs, the procedures for replenishment particularly of soft funds, and a number of operational issues. The study indicated a shift in the distribution of MDI lending toward agriculture and the social sectors including projects particularly designed to improve the standard of living of the poorest segments of the population. This shift of emphasis was considered a direct result of a change in the perception of the development process that has received wide international acceptance. Growing attention was also being given to energy and mineral resource development and the amounts devoted to these sectors by the MDIs, though still relatively small were increasing.

21. With regard to the geographical distribution of multilateral assistance, the report showed that compared with bilateral programs as a whole, MDIs devoted a larger percentage of their soft funds to projects and programs in the poorest developing countries, which in 1976 amounted to 59 per cent. In this connection, the report recalled that the Development Committee at its June 1975 meeting had emphasized the urgent need to review the distribution of ODA with a view to improving the share of the poorer countries.

22. The report also raised the question of the comparative advantage of the different MDIs and whether a certain degree of specialization among MDIs according to geographical areas served or sectors financed was desirable or feasible.

23. The study contained recent information on the extent of program lending by MDIs and of their local and recurrent cost financing. The report stressed the importance and the scope for more cofinancing between MDIs and both official and private sources of capital. It also highlighted the important role MDIs played in coordinating the activities of other donors, particularly through consortia and consultative groups.

24. The Secretariat's report was first discussed in the Working Group on Development Finance and Policy in February 1978. A number of issues were identified as being suitable for discussion in the Development Committee in due course, while others would need further technical discussion at Working Group level.

25. The Senior Officials reviewed the progress of the study at their meeting in Mexico City in April 1978. It is likely that a report on the subject will be available for consideration by the Development Committee early in 1979.

E. Access to Capital Markets

26. The Working Group on Access to Capital Markets completed its substantive work on the subject of developing country access to the long-term (bond) market. The Senior Officials at their meeting in April 1978 discussed the IMF Progress Report on Developing Country Access to Capital Markets. They welcomed the paper and expressed the view that it would be useful for the Fund to continue to report on a regular basis on changes in capital market access for developing countries. It was noted that insufficient progress had been made since the Manila recommendations of the Development Committee adopted on October 3, 1976, and that the increase in developing country issues in both foreign and international bond markets which had taken place during the period under review had been due largely to the liquidity of some of the markets and the temporary absence of some other borrowers. While progress remained to be achieved in liberalizing capital market restrictions, it was recognized that unfavorable conditions such as high interest rates, balance of payments deficits, lack of knowledge of potential borrowers' credit, also contributed to the difficulties encountered.

27. The Executive Board of the IMF decided on May 15, 1978 that in the course of regular consultations with the main capital market countries, the staff should continue to inquire into recent developments regarding the implementation of the Development Committee recommendations and that a general report on this subject should be prepared before mid-1979 for consideration by the Executive Board and subsequently by the Development Committee.

28. The Senior Officials also endorsed the view of the Working Group that the major obstacles to capital market access by developing countries were lack of expertise on the part of borrowing countries and insufficient information on the part of lenders regarding the creditworthiness of potential borrowers and that, therefore, it would be useful to convene a seminar, or seminars, to bring together potential borrowers and market operators to discuss some of the technical problems involved in offering and marketing developing country issues in the capital market countries. Accordingly, a seminar is being planned for October 1978.

F. Direct Foreign Investment

29. At its meeting in September 1977, the Development Committee decided to include the subject of private direct foreign investment in its Work Program with the object

of considering how it might assist in the process of transfer of resources for development. The Working Group, meeting in December 1977, identified the issues for priority consideration, and a first round of discussions took place in March 1978. The Working Group planned to continue the consideration of this matter at its meeting in July 1978.

G. Role of External Borrowing in Financing Development

30. This subject, also included in the Committee's work program for 1977/78, was considered by the Working Group at its meetings in December 1977 and March 1978. Three aspects of the problem were identified, namely: (i) the review of the experience of a group of middle-income developing countries during the 1974–77 period; (ii) the prospects through 1985 for external finance to this group of countries; and (iii) the role of multilateral institutions in this field. The item was to be discussed again at the July 1978 Working Group meeting.[1]

H. Proposal for a Long-Term Facility for
Financing Purchases of Capital Goods by Developing Countries

31. At the meeting of the Senior Officials on April 28, 1978 the Mexican representatives circulated a proposal for the establishment of a long-term facility for financing purchases of capital goods by developing countries. The Secretariat in consultation with the World Bank were asked to make an initial study of the proposal and report to the next meeting of Senior Officials.

I. Stabilization of Export Earnings

32. The CIEC drew attention to the importance of effective international action to offset the adverse effects on developing countries of fluctuations in export earnings, particularly from primary commodities. Both groups of participants suggested that the Development Committee should undertake a comprehensive study of the problem.

33. At its September 25, 1977 meeting, the Development Committee invited the Fund and the Bank to prepare a report on the subject in cooperation with the Executive Secretariat of the Development Committee and in consultation with the interested international organizations (UNCTAD, EEC, etc.).

34. The terms of reference of the study were to review (a) the adequacy of existing facilities in this field; (b) the need, if any, and scope for, and the financial implications of possible improvements in these facilities; and (c) the need, if any, and scope for additional approaches, the appropriate institutional arrangements for any such approaches and their financial implications.

35. After discussion in the Executive Boards of the Bank and Fund the draft report will be considered by the Committee in September 1978.

III. Future Work

36. The year under review began just after the conclusion of CIEC. Although the Conference failed to realize all its aims, the examination of many of its main issues has been carried on in other international fora, including the Development Committee. However, all these discussions have naturally been affected by the difficult world economic

[1]At its meeting in July 1978, the Working Group decided that no further work was required on this subject for the time being.

situation, particularly the slow recovery of the developed countries which has led to increasing domestic pressure to adopt protectionist trade policies, restrict capital flows and limit budgetary appropriations for both bilateral and multilateral aid.

37. In the immediate future, the Committee will continue to provide a forum where Ministers responsible for managing their countries' economic resources can meet in a relatively small grouping for a free and frank exchange of views on development issues. It is at this important political level that many issues of vital concern can be considered and the groundwork for future agreements can be established. The general problem of resource transfers will continue to provide the Development Committee with its agenda. ODA will remain vitally important to the poorest developing countries. The more affluent developing countries will require increasing access to developed world markets to sell their exports and to borrow capital. All developing countries will continue to grapple with the difficult problem of achieving reasonable rates of economic growth while at the same time giving special attention to the basic needs of the poorest inhabitants. The World Development Report, the first issue of which will be considered by the Committee in September 1978, is expected to be a first step toward building the framework for considering all these challenges. It will provide a comprehensive analysis of development problems, their complexities, their linkages and the impact of alternative internal and external policies on development strategies in countries at various stages of development. It is earnestly hoped that this Report will heighten awareness of the close mutuality of interest between the developing and developed countries and thus lead to the creation of an atmosphere more conducive to positive action to increase the growth rates and living standards of the people of the developing world.

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Review of Performance of the Development Committee

The resolution establishing the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee) in October 1974 called for a review of the performance of the Committee after two years. In 1976, the Executive Directors of the Fund and of the World Bank sent to the Boards of Governors a report in which they recommended that the Development Committee's performance be further reviewed after four years from the effective date of the establishing resolution, in effect permitting the Committee to continue for another two years before its performance was assessed. The Boards of Governors adopted a resolution (No. 31-9) to that effect on October 5, 1976.

In the 1978 review of the performance of the Development Committee by the Executive Directors of the Fund and the Bank, a number of suggestions were made for the reorganization of the work of the Committee, and it was recommended that the Committee continue and that its performance be reviewed again in another two years' time. The Board of Governors of the Fund adopted a resolution (No. 33-10) agreeing to this recommendation on September 27, 1978.

The two reports, with the resolutions, are reproduced as (A) and (B) below.

(A) Report of the Executive Directors of the Bank and the Fund Concerning the Review of Performance of the Development Committee

(1976)

1. *Summary and recommendations*

The parallel Resolutions of the Boards of Governors of the Fund and the Bank establishing the Joint Ministerial Committee of the two Boards on the Transfer of Real Resources to Developing Countries (Development Committee), which were adopted on October 2, 1974, provide no terminal date for the Committee but that "At the end of two years from the effective date of this Resolution, the Boards of Governors of the Fund and the Bank shall review the performance of the Committee, and shall take such action as they deem appropriate."[1] In accordance with the discussion during the January 1976 meeting of the Development Committee, the Executive Directors of the Fund and the Bank are submitting this report. The preparation of this report has been undertaken in collaboration with the Acting Executive Secretary of the Committee, who agrees with this report and its recommendations.

The Executive Directors of the Bank and the Fund have discussed the work program and the procedures of the Development Committee. While noting a number of problems during the first two years, the Executive Directors reaffirm the view that the Committee should be a

[1] Resolution No. 29-9 [above, pp. 575–78; at p. 578].

useful forum for the discussion of issues relating to the transfer of real resources. The Executive Directors recommend that the Committee continue to be a Joint Committee of the Boards of Governors of the Bank and the Fund with no change in its mandate. Because the period of operations has been brief and affected by special events, the Executive Directors recommend that the Boards of Governors should further review the performance of the Committee at the end of four years from the effective date of the parallel Resolutions, i.e., October 2, 1978. A draft Resolution to implement this recommendation is proposed.[2] In addition, several operational improvements are suggested.

2. *Background*

The Committee of Twenty, on the culmination of its work in June 1974, recommended in the Outline of Reform that two committees be set up: an Interim Committee in the Fund to deal with monetary reform and a Joint Ministerial Committee of the Bank and the Fund (Development Committee) to continue the study of the broad question of the transfer of real resources to developing countries and to make suggestions to implement its conclusions. The Development Committee was established by parallel resolutions adopted by the Boards of Governors of the Bank and the Fund on October 2, 1974. The Committee was asked to maintain an overview of the development process, to advise the Boards of Governors of the Bank and the Fund on all aspects of the transfer of real resources, to make suggestions to those concerned regarding implementation of its conclusions and to review the implementation of its suggestions. The Committee was requested to establish a detailed program of work. As a matter of urgency, the Committee was asked to consider the specific problems of the least developed countries and those developing countries most seriously affected by the current balance of payments difficulties.

The Development Committee was conceived as a forum for discussion of issues relating to the transfer of real resources at a high political level between all members of the Bank and the Fund. The intention was that the Committee should not duplicate or supplant existing organizations, but would complement them, and where feasible would suggest courses of action to the relevant agencies. The objective, as noted in the preamble of the Resolution, was to help provide

> . . . a focal point in the structure of international economic cooperation for formation of a comprehensive overview of diverse international activities in the development area, for efficient and prompt consideration of development issues, and for coordination of international efforts to deal with problems of financing development . . .

A small Secretariat was established to support the Committee, especially in its work falling outside the operational and administrative framework of the Bank and the Fund, and drawing on the technical staff of the Bank and the Fund to the maximum extent feasible. Appropriate arrangements were to be made for the coordination of the Committee's work and the work of the Executive Directors of the Bank and the Fund.

The Committee's work began with its first substantive meeting in January 1975 and, including its inaugural meeting, it has met five times. The Committee's work program, which was agreed to in January 1975, was divided into two broad areas, the short-term issues which arose in connection with the dramatic changes in the world economy during 1973 and 1974, and the more fundamental long-term issues of development.

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[2] Resolution No. 31-9 [below, p. 622].

3. *The work of the Development Committee*

The Committee's concern with the immediate economic problems facing the developing countries led it to support strongly the proposal to establish for one year a new intermediate lending facility of the Bank (Third Window) which was under active consideration in the Executive Board of the Bank. The Committee supported the establishment of an IMF Trust Fund to provide additional resources, on a concessional basis, to meet the balance of payments needs of low-income developing countries for the next few years which was under active consideration in the Executive Board of the Fund. Some of the issues, e.g., the liberalization of the compensatory financing facility, under discussion in the Interim Committee, also received indirect support from the concurrent discussions in the Development Committee.

A perspective for discussions of the longer-term issues was provided by the World Bank studies of the capital requirements and prospects of the developing countries to 1980, and the IMF's periodic review of the current situation and outlook. These were supplemented by Committee documents providing an overview of the availability of resources from international lending institutions, official bilateral development assistance and private capital markets. A special working group consisting of representatives of member governments was established to consider specific solutions to improve the access of developing countries to private capital markets and the group is now actively engaged in that task.

In the meeting in January 1976, several members expressed a particular interest in pursuing the review of development aid flows from bilateral and multilateral sources, including the questions of resource mobilization for international lending institutions. A substantive discussion of the issues involved in these areas has not yet been possible in the Committee and further staff work is under way on this subject as well as in the area of improving access by developing countries to private capital markets.

As requested in the parallel Resolutions, the focus of the Committee's work at the outset was on measures which might assist the developing countries to deal with the impact of the international economic events of 1974 and 1975. It was not until June 1975 that proposals for a longer-term work program were discussed and since then the Committee has only had one meeting, aside from the session during the 1975 Annual Meeting. Thus, while work is proceeding on a number of issues in the Working Group on Capital Market Access, and papers are in preparation on such topics as the lending programs of the international and regional financial institutions, this work had not reached the stage where it was ready to be put before the Committee for discussion. Because the time has been too short for the Committee to deal with the longer-term issues relating to the transfer of real resources, it would be premature to assess the work of the Committee in terms of the full range of its objectives.

The discussions of the work of the Committee to date make it clear that the basic objective of the Committee as a high-level political forum for the discussion of issues relating to the transfer of real resources to the developing countries remains of great importance and that the mandate of the Committee requires no adjustment at this time. While the work program for the next year has not yet been fully worked out, there is broad agreement that the work on access to capital markets and on the flow of aid from bilateral and multilateral sources should be continued and there is the expectation that this work program might be augmented by consideration of some of the issues arising from discussion in the United Nations Conference on Trade and Development and the Conference on International Economic Cooperation.

The Executive Directors have discussed various ways in which the effectiveness of operations could be improved. There was a consensus that the agenda should be more sharply focused and that meetings should be held only when issues are ready for active consideration at a high political level.

The preparation of issues for Ministerial discussion could be improved by relying more on the Executive Directors of the Bank and the Fund for a preliminary exploration of issues. The Executive Directors favor the improvement of procedures by which they will have an adequate opportunity to review and make suggestions on papers, including the draft agenda. These objectives will be achieved by means of improved arrangements for cooperation which are being worked out with the Secretariat. At all stages there will continue to be close liaison between the staffs of the Bank and the Fund, but each working separately in relation to its Board.

The Chairman, assisted by the Secretariat, might help in the future to channel discussions more sharply to priority issues. When issues for political resolution have been identified, the Chairman could undertake high-level consultations in advance of meetings in order to define the issues for discussion and to assist in reaching agreement or in narrowing differences. To enable the Secretariat members to devote more time to duties of this kind, it would be possible for them to draw more extensively on Bank/Fund staff assistance for the preparation of the necessary papers.

Review of Performance of the Development Committee Resolution No. 31-9 of the Board of Governors †

WHEREAS the Board of Governors at its 1974 Annual Meeting adopted Resolution No. 29-9 entitled "Establishment of Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries"; and

WHEREAS paragraph 7 of that Resolution provides that at the end of two years from its effective date the Boards of Governors of the Fund and the Bank shall review the performance of the Committee, and shall take such action as they deem appropriate; and

WHEREAS the period of operations of the Committee has been brief, and affected by special events,

NOW, THEREFORE, the Board of Governors hereby RESOLVES:

That "four years" shall be substituted for "two years" in paragraph 7 of Resolution No. 29-9 of the Board of Governors adopted on October 2, 1974.

† Adopted by the Board of Governors of the Fund, in Joint Session with the Boards of Governors of the Bank, IFC and IDA, on October 5, 1976.

(B) Review of the Performance of the Development Committee

(1978)

1. The Development Committee, together with the Interim Committee of the Fund, was established on the recommendation of the Committee of Twenty on the completion of its work in June 1974. It was conceived as a forum for discussion of issues relating to the transfer of real resources at a high political level between all members of the Bank and Fund representing developed, OPEC and other developing countries and with observers in attendance from regional development banks and other relevant agencies. The intention was that the Committee should not duplicate or supplant existing organizations but would complement them and, where feasible, suggest courses of action or give political impetus to matters under consideration in the relevant fora. The objective, as noted in the preamble of the Resolution establishing the Committee, was to help provide

> . . . a focal point in the structure of international economic cooperation for formation of a comprehensive overview of diverse international activities in the development area, for efficient and prompt consideration of development issues, and for coordination of international efforts to deal with problems of financing development . . . †

2. The parallel Resolutions dated October 2, 1974, with which the Development Committee was established also contained a provision that at the end of two years from the effective date of the Resolutions, the Boards of Governors of the Fund and the Bank should review the performance of the Committee, and should take such action as they deemed appropriate. This period was extended in 1976 for two years by the Boards of Governors and the present review is in compliance with that decision.

3. The attached annual report ‡ gives details of what has been done in the past year ending June 1978. As regards the work in the preceding three years, the Committee, apart from its important global overview function, was naturally concerned initially with short-term issues which arose from the dramatic changes in the world economy during 1973–74. Its strong support helped the establishment of a temporary intermediate lending facility of the Bank (Third Window) and an IMF Trust Fund to provide additional concessionary resources to meet balance of payments needs of the low-income countries. Both these matters had been under active consideration of the Boards of the two institutions. The long-term issues of development aid flows, both bilateral and multilateral, remained under constant examination in the context of the World Bank studies of the capital requirements and prospects of developing countries and the IMF's periodic review of the world economic situation and outlook. The contribution of the Committee here cannot always be measured in concrete terms but the fact that these critical issues and proposals for improvements in flows remained under constant review did help to focus the attention of Finance Ministers and at least held the line and made some improvements under admittedly difficult economic conditions and a generally unfavorable climate. The Committee also undertook extensive and useful work with some positive results in the area of access to capital markets of which full details have been given in the annual report relating to the period in question.

4. It is generally recognized that the Committee is well suited and capable of playing an important role. Its continuance was strongly urged by the G-24 at its meeting in April 1978 in Mexico City. Some disappointment has however been expressed on the achievements of the Committee so far and in particular on its ability or produce concrete results relating to the

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† Resolution No. 29-9, above, pp. 575–78; at p. 576.

‡ The report is reproduced above, pp. 611–17.

transfer of resources. There have also been some expressions of concern that the Committee was tending to pursue issues of a largely technical nature and that its work lacked focus. It is therefore important to use the occasion provided by this review for a clear reiteration of the Committee's assigned role and a frank discussion of the Committee's limitations and the impediments which it has faced in its operations. The review therefore comprises an examination of its mandate, its structure, and its work methods with a view to improving the Committee's effectiveness for the attainment of its objectives in the period ahead.

5. There has perhaps been some misconception of what can be accomplished in a forum like the Development Committee, and this may account for at any rate some of the disappointment that has been voiced with its performance. It was not conceived as a decision-making or formal-negotiating body. It has no collective executive responsibility and no funds of its own to control. Rather it is a forum—the only one which exists—where Finance Ministers from the developing countries can discuss broad problems of development and resource transfers with their counterparts from the developed countries in the presence of all the main multilateral organizations concerned with North-South development issues. The mandate of the Committee was kept deliberately very wide to provide Finance Ministers an opportunity for a comprehensive overview of diverse international activities in the development area. The intention was that such discussions would illuminate the subject through a frank exchange of views and lead, in a number of cases, to a consensus at a high political level on what should be done. Of course any consensus can only be translated into action in other fora, e.g., in the governing bodies of other international institutions or in the governments of the individual member states. There is an inevitable timelag between these two processes and it would be unrealistic to suppose either that a consensus on many of the intractable problems of development can easily or quickly be reached or, once reached, can be quickly implemented. One can only really judge the effectiveness of a committee of this sort in the longer term.

6. It is sometimes suggested that the process of decision-making would be assisted if the Committee were to be restructured as a Bank-only Committee, rather than a joint Bank/Fund Committee; it could then be the counterpart of the Interim Committee of the Fund, have a more clearly defined role, a more focused agenda and intensive preparatory work in the Bank Board with the full backing and direct involvement of the Bank management resulting in a possibly more concrete outcome from its deliberations. A Bank-only Committee would, however, inevitably be a somewhat different type of committee from the present one. Its mandate would tend to be more restricted since it would be difficult for it to deal, as the present Committee does, with some issues of concern to the Fund, and to take an overall view of problems which straddle both the Fund and the Bank—e.g., the general problems of medium-term adjustment and the current study of export earnings stabilization. Bearing in mind the development aspect of many of the topics dealt with by the Fund, and the institution's past and potential future contribution to the Committee's work, the loss of the Fund as one of the sponsors of the Committee would need to be weighed very carefully against any marginal gain from a Bank-only Committee.

7. Furthermore, it is not easy to see how a Bank-only Committee could, in practice, be any more "decision-oriented" than the present Committee. It seems unlikely that there will be many purely Bank issues that would require the intercession of a Committee of Ministers in the decision-making process—it is the Executive Board which is empowered under the Articles of Agreement to take decisions and make recommendations to the Board of Governors as a whole. And insofar as a Bank-only Committee were to consider issues of wider significance it would surely find itself up against the same difficulties as the present Committee in reaching "decisions" and generating the political will necessary for consensus.

8. As regards the Committee's methods of work, the improvements introduced in the 1976 review related to having a more sharply focused agenda, holding of meetings only when issues are ready for active consideration at ministerial level, and better preparation through

closer liaison with Executive Directors and increased high level political consultation in advance of meetings in order to define the issues for discussion, to narrow differences and thereby assist in reaching agreement.

9. Some of these changes in procedure have been adopted with beneficial results but more still needs to be done to enhance the effectiveness of the Committee. There could be greater selectivity of suitable issues even within an agreed work program. Unfortunately, the interests of Members on different subjects, if not conflicting, are seldom equal or uniform and when some subjects get picked up which do not enjoy adequate or wide enough support among the Members, then those not in agreement tend to consider the work as unsuitable or lacking in focus. This further highlights the need for care in identifying and selecting important issues of general appeal which might be advanced through debate and consensus at a high political level. Matters of peripheral interest, however important to some, should be given a low priority or even excluded altogether.

10. At present, documents are prepared largely with the assistance of the Fund and Bank Group staff. They are then discussed as necessary at a technical level in the Working Groups and are screened and prepared for ministerial consideration by preliminary discussion between Senior Officials from national capitals. The access to Ministers which Senior Officials enjoy and their feel of what can be achieved at political level now provide an important element of political preparation which was not present to the same degree in the past. This process helps to sift those issues which need not go beyond the Senior Officials from those which because of their importance or policy content require consideration at ministerial level. The process is time consuming, but many of the issues before the Committee are complex and do not admit of easy or quick solutions. Consideration of these issues in the currently unfavorable economic climate, which inevitably makes it more difficult to reach a consensus, accounts perhaps for a good deal of the present sense of frustration and lack of adequate progress.

11. The process of achieving closer contact with Executive Directors as representatives of member governments has been further strengthened. The recently evolved device of periodic informal meetings between the Executive Secretary and Executive Directors, in addition to formal Board discussion of issues within their purview has been found to be helpful.

12. Careful adherence to the improvements mentioned above should lead to better preparation and selectivity of subjects and greater effectiveness of the Committee which, in the last two years, has also been somewhat constrained by parallel discussions on the same issues in other fora like the CIEC. The attached annual report, apart from indicating what has been done in the past, also gives details of what work is in hand and remains to be done from the current agreed work program, including important topics such as the continuing examination of issues relating to ODA, the stabilization of export earnings, the role of MDIs, and annual consideration of a World Development Report. For a sharper focus and for assigning the right priorities, a detailed work program for each year should be worked out by the Senior Officials.

13. A new perspective for the Committee's work should be provided by the World Development Report. This will present an excellent opportunity for annual consideration of broad development issues and will facilitate their comprehensive and continuing analysis in a manner which will help in the formulation of development strategies particularly for accelerating growth and alleviating poverty in countries at various stages of development. There is also the expectation that the Brandt Commission's deliberations may succeed in creating a wider and deeper understanding of the growing interdependence and mutuality of long-term interests of both industrial and developing countries and thus help generate the political will so crucial to the success of the Committee. The Committee could be one of the important fora for follow-up discussion at intergovernmental level of those sections of the Brandt Commission report which are the concern of Finance Ministers.

14. With greater selectivity of suitable topics, sharper focus on issues of interest to Ministers, improved work methods outlined above involving more political preparation and closer

contacts with Executive Directors as well as with Senior Officials from national capitals, the Committee should provide a unique opportunity for constructive and profitable dialogue between industrial and developing countries in an earnest and cooperative search for mutually beneficial solutions to economic problems. The Committee, given of course the political will, could thus play an effective role in increasing the transfer of resources to developing countries in the future.

Review of Performance of the Development Committee
Resolution No. 33-10 of the Board of Governors †

WHEREAS the Board of Governors at its 1974 Annual Meeting adopted Resolution No. 29-9 entitled "Establishment of Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries"; and

WHEREAS paragraph 7 of that Resolution provides that at the end of two years from its effective date the Boards of Governors of the Fund and the Bank shall review the performance of the Committee, and shall take such action as they deem appropriate; and

WHEREAS this period was extended by the Boards of Governors in 1976 for a further two years; and

WHEREAS the Development Committee has submitted to the Board of Governors a report on the Review of the Performance of the Development Committee;

NOW, THEREFORE, the Board of Governors, affirming the importance of furthering the objectives of Members in adopting Resolution No. 29-9, a copy of which is attached, ‡ recognizing the potential importance of the Development Committee, and desiring to enhance the effectiveness of the Committee, including in particular improvements in its work methods and procedures as a means for achieving the objectives of the Committee, HEREBY RESOLVES:

(a) That the review of the Board of Governors pursuant to paragraph 7 of the said Resolution is deemed to have been carried out;

(b) That at the end of two years from the effective date of this Resolution, the Boards of Governors of the Bank and the Fund shall again review the performance of the Committee and shall take such action as they deem appropriate, taking into account (i) the views and recommendations of the Executive Boards of the Fund and the Bank, expressed at an appropriate time but not later than June 30, 1980, and (ii) the views and recommendations of the Development Committee; and

(c) That the Chairman of the Development Committee, the President of the Bank, and the Managing Director of the Fund will consult together on ways to improve the effectiveness of the work of the Committee, and they will report to the Committee at its next meeting.

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† Adopted by the Board of Governors of the Fund, in Joint Session with the Boards of Governors of the Bank, IFC and IDA, on September 27, 1978.

‡ Above, pp. 575-78.

PART NINE

Communiqués of Group of Ten and Group of Twenty-Four

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Selected Communiqués of the Group of Ten

Reproduced below are four of the communiqués issued by the Group of Ten, the ten countries participating in the General Arrangements to Borrow, in the years 1972 through 1978 that contain passages of particular relevance to the history of the Fund for those years.

March 9, 1973

1. The Ministers and Central Bank Governors of the ten countries participating in the General Arrangements to Borrow and the member countries of the European Economic Community [1] met in Paris on March 9, 1973, under the Chairmanship of Mr. Valery Giscard d'Estaing, the Minister of the Economy and Finance of France. Mr. P.-P. Schweitzer, Managing Director of the International Monetary Fund, took part in the meeting, which was also attended by Mr. Nello Celio, Head of the Federal Department of Finance of the Swiss Confederation, Mr. E. Stopper, President of the Swiss National Bank, Mr. Francois-Xavier Ortoli, President of the Commission of the European Economic Community, Mr. E. van Lennep, Secretary-General of the Organization for Economic Cooperation and Development and Mr. René Larre, General Manager of the Bank for International Settlements.

Mr. Ali Wardhana, President of the Committee of Twenty of the International Monetary Fund was specially invited to participate in this meeting.

2. They examined the international monetary situation in the light of the present crisis and had a broad exchange of views both on the origins of the crisis and on ways of dealing with it in a spirit of cooperation.

3. They agreed that the crisis was due to speculative movements of funds. They also agreed that the existing relationships between parities and central rates, following the recent realignment, correspond, in their view, to the economic requirements and that these relationships will make an effective monetary contribution to a better balance of international payments. In these circumstances they unanimously expressed their determination to ensure jointly an orderly exchange rate system.

4. The Ministers and Governors are agreed that, for this purpose, a set of measures needs to be drawn up.

5. As to the procedure, the Ministers and Governors considered that the formulation of these measures required a technical study which they have instructed their Deputies to undertake forthwith.

6. The Ministers and Governors have decided to meet again on Friday, March 16, to draw joint conclusions on the basis of this study and take the decisions which are called

[1] [This communiqué was issued jointly by the Group of Ten and the European Economic Community.] The Group of Ten comprises six of the member countries of the European Economic Community (Belgium, France, Germany, Italy, the Netherlands and the United Kingdom), as well as four other countries (Canada, Japan, Sweden and the United States). The other three member countries of the EEC, Denmark, Ireland, and Luxembourg, also participated in this meeting.

for, so as to make it possible for the EEC countries and Sweden to reopen their exchange markets on Monday, March 19.

7. Finally the Ministers and Governors considered that the recent disturbances underline the urgent need for an effective reform of the international monetary system. They decided to take the necessary steps to accelerate the work of the Committee of Twenty of the International Monetary Fund.

March 16, 1973

1. The Ministers and Central Bank Governors of the ten countries participating in the General Arrangements to Borrow and the member countries of the European Economic Community[1] met in Paris on March 16, 1973 under the chairmanship of Mr. Valery Giscard d'Estaing, Minister of the Economy and of Finance of France. Mr. P.-P. Schweitzer, Managing Director of the International Monetary Fund, took part in the meeting, which was also attended by Mr. Nello Celio, head of the Federal Department of Finance of the Swiss Confederation, Mr. E. Stopper, President of the Swiss National Bank, Mr. W. Haferkamp, Vice-President of the Commission of the European Economic Community, Mr. E. van Lennep, Secretary-General of the Organization for Economic Cooperation and Development, Mr. René Larre, General Manager of the Bank for International Settlements, and Mr. Jeremy Morse, Chairman of the Deputies of the Committee of Twenty of the IMF.

2. The Ministers and Governors heard a report by the Chairman of their Deputies, Mr. Rinaldo Ossola, on the results of the technical study which the Deputies have carried out in accordance with the instructions given to them.

3. The Ministers and Governors took note of the decisions of the members of the EEC announced on Monday. Six members of the EEC and certain other European countries, including Sweden, will maintain two and one quarter per cent margins between their currencies. The currencies of certain countries, such as Italy, the United Kingdom, Ireland, Japan, and Canada remain, for the time being, floating. However, Italy, the United Kingdom, and Ireland have expressed the intention of associating themselves as soon as possible with the decision to maintain EEC exchange rates within margins of two and one quarter per cent and meanwhile of remaining in consultation with their EEC partners.

4. The Ministers and Governors reiterated their determination to ensure jointly an orderly exchange rate system. To this end, they agreed on the basis for an operational approach towards the exchange markets in the near future and on certain further studies to be completed as a matter of urgency.

5. They agreed in principle that official intervention in exchange markets may be useful at appropriate times to facilitate the maintenance of orderly conditions, keeping in mind also the desirability of encouraging reflows of speculative movements of funds. Each nation stated that it will be prepared to intervene at its initiative in its own market,

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when necessary and desirable, acting in a flexible manner in the light of market conditions and in close consultation with the authorities of the nation whose currency may be bought or sold. The countries which have decided to maintain two and one quarter per cent margins between their currencies have made known their intention of concerting among themselves the application of these provisions. Such intervention will be financed, when necessary, through use of mutual credit facilities. To ensure fully adequate resources for such operations, it is envisaged that some of the existing "swap" facilities will be enlarged.

6. Some countries have announced additional measures to restrain capital inflows. The United States authorities emphasized that the phasing out of their controls on longer-term capital outflows by the end of 1974 was intended to coincide with strong improvement in the U.S. balance of payments position. Any steps taken during the interim period toward the elimination of these controls would take due account of exchange market conditions and the balance of payments trends. The U.S. authorities are also reviewing actions that may be appropriate to remove inhibitions on the inflow of capital into the United States. Countries in a strong payments position will review the possibility of removing or relaxing any restrictions on capital outflows, particularly long term.

7. Ministers and Governors noted the importance of dampening speculative capital movements. They stated their intention to seek more complete understanding of the sources and nature of the large capital flows which have recently taken place. With respect to Euro-currency markets, they agreed that methods of reducing the volatility of these markets will be studied intensively, taking into account the implications for the longer-run operation of the international monetary system. These studies will address themselves, among other factors, to limitations on placement of official reserves in that market by member nations of the IMF and to the possible need for reserve requirements comparable to those in national banking markets. With respect to the former, the Ministers and Governors confirmed that their authorities would be prepared to take the lead by implementing certain undertakings that their own placements would be gradually and prudently withdrawn. The United States will review possible action to encourage a flow of Euro-currency funds to the United States as market conditions permit.

8. In the context of discussions of monetary reform, the Ministers and Governors agreed that proposals for funding or consolidation of official currency balances deserved thorough and urgent attention. This matter is already on the agenda of the Committee of Twenty of the IMF.

9. Ministers and Governors reaffirmed their attachment to the basic principles which have governed international economic relations since the last war—the greatest possible freedom for international trade and investment and the avoidance of competitive changes of exchange rates. They stated their determination to continue to use the existing organizations of international economic cooperation to maintain these principles for the benefit of all their members.

10. Ministers and Governors expressed their unanimous conviction that international monetary stability rests, in the last analysis, on the success of national efforts to contain inflation. They are resolved to pursue fully appropriate policies to this end.

11. Ministers and Governors are confident that, taken together, these moves will launch an internationally responsible program for dealing with the speculative pressures that have recently emerged and for maintaining orderly international monetary arrangements, while the work of reform of the international monetary system is pressed ahead. They reiterated their concern that this work be expedited and brought to an early conclusion in the framework of the Committee of Twenty of the IMF.

September 29, 1974

1. The Ministers and Central Bank Governors of the ten countries participating in the General Arrangements to Borrow met in Washington on September 29, 1974, under the chairmanship of Mr. Emilio Colombo, Minister of Finance of Italy. Mr. H. J. Witteveen, the Managing Director of the International Monetary Fund, took part in the meeting, which was also attended by the Vice-President of the Swiss National Bank, Mr. A. Hay, the Secretary-General of the Organization for Economic Cooperation and Development, Mr. E. van Lennep, the General Manager of the Bank for International Settlements, Mr. R. Larre, and the Vice-President of the Commission of the European Economic Community, Mr. W. Haferkamp.

2. The Ministers and Governors heard a report from the Chairman of their Deputies, Mr. Rinaldo Ossola, on the question of renewing the General Arrangements to Borrow. Under these Arrangements the participating countries can provide the IMF with substantial amounts of supplementary resources and this means of reinforcing the Fund's lending capacity could be of great value in the coming years. The Ministers and Governors have therefore agreed to the renewal of these Arrangements for a further period of five years from October 24, 1975, subject to some amendments which are needed to bring the operational provisions up to date. The Ministers and Governors have also proposed that the decision on this renewal, which is to be taken by the Board of Executive Directors of the IMF before October 24, 1974, should provide for the immediate entry into force of the proposed amendments.

3. The Ministers and Governors agreed that their Deputies should continue to carry out their traditional mandate.

4. Mr. Masayoshi Ohira, Minister of Finance of Japan, was elected Chairman of the Group of ten for the following year.

December 19, 1975

1. The Ministers and Central Bank Governors of the ten countries participating in the General Arrangements to Borrow met in Paris on December 19, 1975 under the chairmanship of Mr. W. F. Duisenberg, Minister of Finance of the Netherlands.

The Managing Director of the International Monetary Fund, Mr. H. J. Witteveen, took part in the meeting, which was also attended by the President of the Swiss National Bank, Mr. F. Leutwiler, the Secretary-General of the OECD, Mr. E. van Lennep, the General Manager of the Bank for International Settlements, Mr. R. Larre, and Mr. U. Mosca, representing the President of the Commission of the European Communities, Mr. F.-X. Ortoli.

2. After hearing a report from the Chairman of their Deputies, Mr. R. Ossola, on the Deputies' preparatory discussions, the Ministers and Governors agreed as follows:

Exchange Rate Regime

3. The Ministers and Governors examined the amendments to Article IV proposed by the United States and French Ministers. They agreed on these proposals which they will support at the Interim Committee Meeting in Jamaica. They noted the statement of

the Managing Director of the IMF that the Board of Executive Directors will examine these amendments in the coming week.

4. The Ministers and Governors discussed the United States-French proposals to intensify consultation procedures on exchange rate movements and underlying factors. They noted that their central banks were in the process of deepening and broadening their consultations and considered that these consultations will make an important contribution toward countering erratic fluctuations in exchange rates. They agreed that the organization of consultation procedures among Finance Ministers and their Deputies should be conducted on a pragmatic basis. They have also agreed to keep in close consultation with the Managing Director of the IMF.

Arrangements Concerning Gold

5. The Ministers and Governors agreed on the need for simultaneity in the implementation of the various elements in the arrangements concerning gold referred to in paragraph 6 of the press communiqué of the meeting of the Interim Committee on August 31, 1975.

6. The amended Articles of Agreement should include a clause by which the members of the IMF undertake to collaborate with the Fund and with other members in order to ensure that their policies with respect to reserve assets shall be consistent with the objectives of promoting better international surveillance of international liquidity and making the special drawing right the principal reserve asset in the international monetary system.

Relations with Developing Countries

7. The Ministers discussed questions related to the need of the members of the Fund, and in particular the developing countries, for additional access to the Fund's resources. They agreed to consider these matters further before the meeting of the Interim Committee at Jamaica. In this connection the Ministers and Governors noted with satisfaction that the Executive Board of the IMF had reached agreement on an important liberalization of the compensatory financing facility. They also confirmed their agreement on the urgent need to establish a trust fund for the benefit of the low-income countries.

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Selected Communiqués of the Group of Twenty-Four

Reproduced below are nine of the communiqués issued by the Intergovernmental Group of Twenty-Four on International Monetary Affairs (Group of Twenty-Four) from April 1972 through September 1978 that contain passages of particular relevance to the history of the Fund for those years.

April 6–7, 1972

The inaugural Ministerial Meeting of the Group of Twenty-Four was convened in Caracas on April 6–7, 1972, on the invitation of the Government of Venezuela. The Minister of Finance of Venezuela, Pedro R. Tinoco, hijo, was unanimously elected Chairman of the Meeting, and the Minister of Finance of Ceylon, N. M. Perera, and the Governor of the Central Bank of Algeria, M. S. Mostefai, were also unanimously elected Vice-Chairmen. The purpose of the Meeting was to establish the position of the developing countries on the several fundamental issues concerning the reform of the international monetary system within the terms of reference specified in the declaration and working program of Lima. Mr. Pierre-Paul Schweitzer, Managing Director of the IMF, and Mr. Manuel Pérez Guerrero, Secretary-General of UNCTAD, also attended the Meeting.

The Ministerial Meeting was preceded by a meeting of the Deputies of the Intergovernmental Group in Caracas on April 3–5, under the chairmanship of Carlos Rafael Silva of Venezuela, with Lal Jayawardena of Ceylon as Vice-Chairman and S. B. Falegan of Nigeria as Rapporteur. Mr. Silva reported to the Ministers on the work of the Deputies. The Intergovernmental Group of Twenty-Four was constituted as a result of a mandate given in Lima by the Group of Seventy-Seven to their Chairman, to consult Member Governments on the establishment of an intergovernmental group on monetary issues. On the basis of these consultations the Group of Twenty-Four was accordingly constituted and held its preliminary meeting at the level of Deputies in Geneva in February 1972.

The Ministerial Group reviewed various substantive and procedural issues facing the international monetary system at the present time. It expressed its dissatisfaction that important decisions affecting the international monetary system have been taken by a small number of developed countries to the exclusion and neglect of the interests of the rest of the international community, and have adversely affected the economies of developing countries.

The Group, therefore, considered that the most important task facing it at this moment is to provide for fundamental improvements in the decision-making process regarding international monetary issues. The Group agreed that the institution for decision making on international monetary matters should be the International Monetary Fund. The members of the Intergovernmental Group unanimously decided to support the creation of a Committee of the Board of Governors of the IMF to advise the Board on issues related to the reform of the international monetary system. The Committee should be composed of 20 Governors, each selected from a constituency that appoints or elects an Executive Director, in a manner to be determined by each constituency. The representation of developing countries in this committee should not be less than that in the present Board of Executive Directors. Such a Committee

would represent a satisfactory compromise between the participation of the entire membership of the Fund in decision making, and the need to limit numbers to levels that would promote effective consultation and negotiation. The Group of Twenty-Four at Ministerial level will establish contact with the Governors representing developing countries in this Committee, once set up, to consider arrangements for adequate coordination with the Group of Twenty-Four.

The Ministerial Meeting also examined the issues connected with the next activation of SDRs from the standpoint of the Articles of Agreement of the IMF according to which the activation of SDRs would depend on the long-term global needs for liquidity. The Group concluded that the international monetary experience of recent years is not sufficiently representative to constitute a reliable basis for predicting the future course of evolution of international liquidity. Furthermore, it considered that recent developments in the pattern of holdings of international liquidity while tending to increase difficulties surrounding technical judgment in this area, should nevertheless be taken account of in determining the magnitude of liquidity creation. In the light of these considerations the Ministerial Meeting strongly supported the idea of a new activation of SDRs as from January 1, 1973.

The Group recognized that the magnitude of SDR creation should at all times be determined by the liquidity needs of the world economy. At the same time they were convinced that the SDR mechanism should be used to channel additional development finance to developing countries. Since the SDR system has enabled the developed countries to acquire additional international liquidity without the expenditure of real resources, there is a strong case for transferring some portion of these savings to developing countries. The Group accordingly gave its fullest endorsement to the establishment of a link between SDRs and additional development finance. The Group urged that this principle be accepted by the international community at the forthcoming UNCTAD and be followed up by appropriate action by the International Monetary Fund and its members.

The Group expressed its dissatisfaction with the present system of determining Fund Quotas as this does not reflect the relative economic positions of Fund Members. It further recognized the necessity for modifying the present basis for the distribution of SDRs as between developed and developing countries.

The Group agreed to meet again before the annual meeting of the IMF and IBRD, on the invitation of its chairman after previous consultations with member countries.

June 9-10, 1974

The Ministers of the Intergovernmental Group of Twenty-Four on International Monetary Affairs held their seventh meeting at the headquarters of the International Monetary Fund in Washington, D.C., on June 9 and 10, 1974, under the chairmanship of Mr. Smail Mahroug, Minister of Finance of Algeria, with Mr. N. M. Perera, Finance Minister of Sri Lanka, and Mr. Manuel Moreyra, representing the Finance Minister of Peru, as Vice-Chairmen. The meeting of the Ministers was attended by Mr. H. J. Witteveen, Managing Director of the International Monetary Fund, Mr. Ali Wardhana, Chairman of the Committee of Twenty, and Mr. Gamani Corea, Secretary-General of the United Nations Conference on Trade and Development.

The meeting of the Ministers was preceded by a meeting of their Deputies chaired by Mr. Rachid Bouraoui of Algeria, with Mr. Lal Jayawardena, Sri Lanka, as Vice-Chairman and Mr. Allan Wagner, Peru, as Rapporteur.

The Chairman of the Deputies presented to the Ministers a report on their discussions of the Draft Outline of Reform and submitted proposals for consideration by the Ministers.

The Ministers take note that Part I of the Outline represents a broad conception. Consequently, while they do not consider that it represents an adequately balanced approach which takes account of the interests of the developing countries, they refrain from elaborating upon these reservations at this time. They reaffirm their understanding that no decision will be taken to implement any element of Part I without the explicit endorsement of the entire membership of the Fund and expect that the concerns of all countries will be accorded due consideration in giving final shape to the international monetary reform.

On the basis of their discussions, the Ministers affirm their position that the immediate reform package should reflect in a balanced manner items of reform which are of interest to both the developed and the developing countries. Such a package of immediate steps should include the following:

1. The Link and International Liquidity

The Ministers observe that the question of establishing a link between development finance and SDR allocation in the context of reform has been thoroughly examined and the technical feasibility fully established. The principle of the link has been accepted by a large majority of the membership of the Committee of Twenty. The Ministers wish to emphasize that the political acceptance of the link is overdue and a final decision to establish it should be taken without further delay and its provisions included in the draft composite resolution to be considered by the Committee of Twenty.

The Ministers are emphatic in their view that any solution to the problem of gold should not jeopardize the effective implementation of the link; that it should serve to promote the objectives of the reform, with the SDR becoming the principal reserve asset and with the role of gold and reserve currencies being gradually reduced; that it should not accentuate the already inequitable distribution of world liquidity; and that it should be internationally agreed in the Fund.

2. Extended Fund Facility

The Ministers urge that the Fund take urgent steps to establish the extended Fund facility before the end of July 1974. They stress that this facility should in no way be considered as a substitute for the link.

3. Quotas and Voting Power

Present quotas and voting power in the Fund do not reflect adequately the needs or the importance of the developing countries in the world economy in terms of population, capacity for development, and supply of raw materials. Nor do the quotas adequately reflect either the ability of developing countries to contribute, or their need for access, to balance of payments finance. In line with principles of efficiency, equity, and democracy, all developing countries should have a substantially higher share of both quotas and voting power in the Fund than those that they presently command.

4. Joint IMF-IBRD Ministerial Committee and Interim IMF Committee

The Ministers support the establishment of a joint ministerial committee of the Fund and World Bank and are agreed on the main features that such a Committee should take. They consider that this Joint Committee on the Transfer of Real Resources should come into existence as soon as possible and in any case not later than the occasion of the next Joint Annual

Meeting of the Boards of Governors, and should be charged with the preparation in its first year of operation of concrete proposals for action.

The Ministers support the establishment of an Interim Committee of the Board of Governors of the IMF. They attach importance to adequate representation of developing countries in it, which would be ensured by according each multicountry constituency one member, seven associates and the Executive Director. The terms of reference of the Committee should explicitly provide that within its purview it should review and supervise the adequacy of the net transfer of real resources to the developing countries as a separate item.

* * * * *

The Ministers of the Intergovernmental Group of Twenty-Four on International Monetary Affairs consider that the above points represent the minimum necessary for the improvement of the position of developing countries in the interim monetary arrangements. The Ministers are convinced that the solutions that they have proposed are indispensable to make the system more responsive to the interests of the developing countries, and will accelerate the reform and introduce stability into the new system. For these reasons, the Ministers would be unable to endorse an outcome which would not respect the attainment of the above solutions. Hence, they are resolute in their view that these solutions, none of which are substitutes for each other, provide the bare essentials for an acceptable package of measures for immediate implementation.

The Ministers also attach particular importance to the following points:

(a) Guidelines for Floating

The Ministers welcome and support the understanding that all guidelines will be applicable only to currencies that float independently and not to currencies that are pegged either to another currency or to a composite of currencies even when, as in some cases, the rate is changed at frequent intervals on the basis of formulae.

(b) The Rate of Interest of the SDR and of Charges on Fund drawings

If necessary, an amendment to the Articles of Agreement should be adopted to ensure that any rise in the rate of charges on Fund drawings and in the rate of interest of the SDR place no additional burden on developing countries.

(c) The Transfer of Real Resources

The developed countries should, as a matter of urgency, take concrete steps to increase the net flow of real resources to developing countries, particularly to those in greatest need.

(d) Controls

The developing countries should be exempt from controls on trade or capital movements imposed by developed countries.

(e) Rules Governing the Use of the SDR

The rules governing the use of SDRs should be revised as envisaged in the Outline, including items such as reconstitution and the requirement of need.

The Ministers decided to hold their next meeting in Washington on the occasion of the 1974 Joint Annual Meetings of the Boards of Governors of the IBRD and the IMF.

June 8-9, 1975

1. The Ministers of the Group of Twenty-Four held their tenth meeting at the Centre de Conférences Internationales, Paris, on June 8 and 9, 1975. Mr. N. M. Perera, Minister of Finance of Sri Lanka, was in the chair, with Mr. Sanchez Gongora representing the Minister of Economy and Finances of Peru, and Mr. Donkoh Fordwor, Special Assistant responsible for Finance of Ghana, as Vice-Chairmen. The meeting was attended by Mr. H. J. Witteveen, Managing Director of the International Monetary Fund, Mr. Gamani Corea, Secretary-General of the United Nations Conference on Trade and Development, Mr. E. Stern, World Bank, and Mr. Konan Bedié, Chairman of the Joint Ministerial Committee of the Boards of Governors of the World Bank and International Monetary Fund on the transfer of real resources to developing countries.

2. The meeting was preceded by the nineteenth meeting of the Deputies with Mr. Lal Jayawardena, Sri Lanka, in the chair, Mr. Sanchez Gongora, Peru, as Vice-Chairman, and Mr. Danso Misa, Ghana, as Rapporteur.

3. Ministers expressed grave concern at the adverse impact of inflation and the continuing recession in several developed countries on both the real value and volume of exports of developing countries and the sharp deterioration of their terms of trade. The result of these developments has been a worsening of the overall balance of payments problem for the developing countries. Ministers took note that the exceptionally large need for additional capital inflows was the result of continuing malfunction in the international economy as a whole, which imposed an inequitable burden on the developing countries.

4. During the period since Ministers met in January 1975, developments in the world economy have been seriously adverse to the developing countries. Recessionary trends in most developed countries have proved more severe than had been expected. Although in some developed countries rates of price increase have been reduced modestly, inflation continues at a very high rate. The short-term trade and balance of payments outlook for developing countries has deteriorated significantly.

5. In view of the considerations urged in the preceding paragraphs, Ministers stressed that additional external resources were required by low-income developing countries and by all other developing countries, and urged that appropriate solutions were needed to tackle the problem in its entirety. In this context, they emphasized the need for international cooperation in all fields—monetary, trade, and financial—and for new techniques, to bridge the prospective payments gap of all developing countries and to prevent lasting disruption of their development prospects.

6. On gold, Ministers recommended that the amended Articles of the Fund should oblige each member of the International Monetary Fund to undertake to collaborate with the Fund and with other members regarding the policy of the member with respect to gold, and that any action by any member or arrangements among members with respect to gold should be consistent with the Articles of Agreement and with policies designed to ensure the gradual reduction of the role of gold in the international monetary system and the strengthening of the role of the SDR. Ministers examined the various proposals which have been under discussion in the IMF for the disposal of the gold held by the Fund. They found that none of these proposals in their present form was acceptable to the developing nations. They indicated, however, that no arrangements with regard to gold would be acceptable that are not designed to raise substantially the flow of financial resources to developing countries, without imposing a loss on any individual developing country. The Ministers reaffirmed that no decision on gold should accentuate the already inequitable distribution of international liquidity.

7. Ministers saw a need to finalize the sixth general review of quotas in line with the agreement reached by the Interim Committee at its January meeting which provided for dou-

bling the aggregate share of the major oil exporting countries in IMF quotas and maintaining the aggregate share of the other developing countries which is presently 22.73 per cent. Ministers urged that, in the interests of international cooperation, agreement should be reached swiftly on the quotas of individual developed countries. Ministers expressed support for amendment of the Fund's Articles designed to provide flexibility in the means of payment for quotas. Ministers stressed that in future quota reviews the share of developing countries should gradually increase, and that countries not satisfied with the quota increase should have opportunity to make representations before quotas are approved. Ministers agreed that quota increases for any country or group of countries should in no way be made conditional on the usability of currencies. They further agreed that decisions to increase the number of elected directors, and consequently of members of the Interim Committee, Development Committee, and possible Council, should be subject to a majority of not more than 70 per cent of the total voting power. Ministers agreed that the present representation of developing countries in the decision-making bodies of the Bank and Fund should be substantially improved and the broad geographical representation of developing countries should not be adversely affected.

8. On exchange rates, Ministers reaffirmed the stand that they had taken at the previous meeting against the legalization of floating other than in particular circumstances subject to conditions which should take account of the characteristics of countries and in a manner designed to prevent undue instability in the value of major trading currencies. Ministers expressed support for amendments envisaging a return at the appropriate time to a system of par values, containing provisions for the establishment of central rates and empowering the Fund to authorize individual countries to continue to float thereafter in particular circumstances.

9. On the proposal to establish a Council, Ministers agreed that such a decision could not be taken now, but only after further experience had been gained with the Interim Committee, and by an 85 per cent majority of the total voting power.

10. Ministers agreed that the oil facility had made a useful contribution to the adjustment process, for both developed and developing countries. Ministers welcomed the fact that resources are being committed for the oil facility, allowing it to operate in 1975. Ministers stressed that the tightening of criteria governing access to the facility was inappropriate and that the conditionality governing use should be relaxed when the facility comes under review in July. Ministers noted that the principal contributors to the facility were [oil exporting] developing countries which shared in the unanimous position of the developing countries on the issue of conditionality. In particular, Ministers stressed that in view of the inability of developing countries to reduce their dependence on imported sources of energy, the related conservation measures governing access to the oil facility should not be imposed. They also stressed the need for developing countries contributing to the oil facility to have an increased role in framing the policies governing access to the oil facility. Ministers expressed disappointment at the lack of positive response thus far on the part of several major developed countries to the proposed subsidy account, and urged that all countries in a position to contribute should do so early. Ministers agreed that, in view of the massive deficit in prospect for the developing countries, it was necessary for the oil facility, possibly broadened in its objectives, to continue for a longer period than had originally been envisaged. Ministers also agreed that the financing needs of developing countries would require enlargement of IMF quota tranches, in addition to, and not as a substitute for, the oil facility.

11. Ministers saw need for improvement in IMF facilities. They urged the liberalization of the compensatory financing facility, so as to expand its coverage of current account transactions to include services; to ensure that, wherever possible, compensation of export shortfalls takes place at the same time that it occurs, and takes into account movements in import prices; and to lengthen the repayment period. Ministers urged that drawings under the buffer stock financing facility should be accorded treatment with respect to floating alongside the gold tranche similar to that governing those under the compensatory financing facility, and that the

IMF should be empowered to lend directly to buffer stock agencies organized either by producer-consumer groups or by producer groups alone under suitable guarantees by interested members of the IMF.

12. Ministers reaffirmed their support for the early establishment of a link between allocation of SDRs and development finance.

13. Ministers, having reviewed the results of the work of the Development Committee to date, expressed the hope that the Committee would come forward quickly with concrete recommendations to deal with the problems confronting all developing countries in addition to the items presently on its agenda.

14. In order to make progress toward the substantial additional capital required by the developing countries to achieve the agreed rate of growth for the Second Development Decade, Ministers emphasized that developed countries should take steps to increase the net flow of Official Development Assistance (ODA), to reverse the current downward trend and make progress toward meeting the agreed ODA target of 0.7 per cent of GNP. In this context Ministers noted that OPEC as a group had contributed 2.2 per cent of GNP to ODA, whereas the figure for DAC member countries was 0.33 per cent.

15. Ministers emphasized the need to enlarge the lending of the World Bank and the regional banks, and endorsed the expanded five-year lending program proposed by the management of the World Bank. They stressed the urgent need to expand the capital base of the World Bank and the regional institutions as soon as possible.

16. Ministers expressed their support for the immediate establishment of the Third Window in the Bank which could provide $1 billion of additional lending. They urged universal contributions on the part of all countries with a capacity to contribute to be made on the basis of certain criteria to be applied to all donors and as soon as possible so that the facility could become operational by July 1, 1975.

17. Ministers also stressed the need for the establishment of a Trust Fund, financed from a number of sources, and subscribed to universally by all countries with a capacity to contribute, to provide urgently needed additional balance of payments support in the next several years on concessional terms.

18. Ministers agreed that eligibility for both the Trust Fund and the Third Window should take into account the needs of low-income developing countries and other developing countries, within the resources which may become available. They stressed that these facilities should be supplements to presently existing facilities.

19. Ministers emphasized that priority should be accorded to IDA, which assists the poorest countries, and recommended that the next IDA replenishment should offset the effects of inflation and provide for a substantial increase in real terms.

20. Ministers were of the view that the deterioration in the terms of trade of developing countries due, among other factors, mainly to the declines in commodity prices, emphasized the need for measures to safeguard in real terms the export earnings of developing countries. In this context, they expressed support for an expansion of and improvement in the IMF buffer stock financing facility and welcomed the initiatives taken by the World Bank for financing buffer stocks. They also strongly endorsed the objectives set forth by developing countries concerning buffer stocks, and the UNCTAD integrated commodity approach. Ministers also welcomed the initiatives that had been taken by certain developing countries to provide finance for buffer stocks. Ministers were of the view that negotiations in, and action by, any international body on commodities should not be delayed or hindered by the fact that proposals on commodities were under consideration in other fora. The Ministers recommended to the Development Committee that it encourage member countries and the appropriate interna-

tional institutions to consider other measures, including those needed to expand the exports of manufactured goods from developing countries.

21. Ministers also recommended to the Development Committee that it should consider other proposals before it to meet the capital requirements of all the developing countries. They therefore suggested that a special working group be established to develop proposals in detail on improved access to capital markets. In particular, the working group should consider the feasibility of a multilateral guarantee fund. The working group should report to the next meeting of the Development Committee.

August 30, 1975

1. The Ministers of the Group of Twenty-Four held their eleventh meeting at the Sheraton-Park Hotel, Washington, D.C., on August 30, 1975. Mr. H. E. Tennekoon, Governor of the Central Bank of Sri Lanka, was in the chair, with General Amilcar Vargas Gavilano, Minister of Economy and Finances of Peru, and Mr. K. Gyasi-Twum, representing the Commissioner for Finance of Ghana, as Vice-Chairmen. The meeting was attended by Mr. H. J. Witteveen, Managing Director of the International Monetary Fund, Mr. Gamani Corea, Secretary-General of the United Nations Conference on Trade and Development, Mr. E. Stern, Director, Development Policy, World Bank, and Mr. Konan Bédié, Chairman of the Joint Development Committee.

2. Ministers discussed the international economic situation and current problems. They expressed concern at the slow and uncertain nature of the recovery in the industrial countries, continued inflation, and the worsening terms of trade of the developing countries. They expressed particular concern that the developing countries were faced with increasing payments deficits and, on present indications, gloomy prospects for the future; by contrast, the developed countries had largely overcome their payments problems. Ministers agreed that the causes of the difficulties being faced by developing countries lay in world economic conditions, and in trade restrictions, including discriminatory restrictions, on products of export interest to developing countries, imposed by developed countries. Ministers pointed out that the developing countries were bearing the brunt of maladjustments in developed countries through reduction in the demand for their exports.

3. Ministers felt that a vicious circle had set in, whereby the fall in export income of the developing countries and the general balance of payments difficulties faced by them were restricting their demand for imports from developed countries, thereby aggravating the recession in those countries. They were therefore of the view that the time was particularly appropriate for the industrial countries, in their own interest, to expand the flow of real resources to developing countries and thereby also fulfill their international commitments regarding official development assistance. Such an approach would provide added support to ensure the needed recovery of the world economy, through the expansion of the export sector of the industrial countries.

4. Ministers agreed that developing countries would need substantial balance of payments assistance in the coming months. In this connection, they pointed to the heavy responsibilities that would fall upon the IMF. They stressed the need to fashion the policies and procedures of the Fund to meet the exigencies of the situation. In particular, the Ministers felt strongly that conditions traditionally attached to drawings from the Fund were no longer appropriate because they placed the burden of adjustment on the developing countries and did not facilitate the correction of the maladjustments which are to be found in the developed

countries. They urged the IMF to review its policies and procedures with a view to ensuring their suitability to meet the exceptional and new needs of developing countries. In this connection, they called for increasing the amounts available under the tranche policy.

5. Ministers agreed that the oil facility had proved to be very useful. They were also of the opinion that in view of the uncertainty of other forms of financing available to developing countries, there would be a continuing need for this or a similar facility for the next year, but with less conditionality, in addition to, and not as a substitute for, a widening of the tranches. They felt that access to the 1975 oil facility should be allowed to the full extent of maximum eligibility, and urged all countries in a position to contribute to its financing to do so. Ministers urged that developed countries that had recourse to other sources of finance should voluntarily refrain from using the oil facility. Ministers urged that developing countries, many of whom were contributors to the facility, should have a greater say in determining the conditions of drawings.

6. Ministers welcomed the establishment of the oil facility subsidy account. However, they noted with disappointment that less than half the required amount of contributions had been pledged and that some contributions were subject to conditions. Ministers urged that all countries with the capacity to contribute should do so, and without conditions.

7. Ministers, while welcoming the agreement reached by the Executive Directors of the IMF to allow drawings under the buffer stock financing facility to "float" alongside the gold tranche, urged that the Fund should be empowered to lend directly to buffer stock agencies. They also reiterated their support for a substantial improvement in the compensatory financing facility.

8. Ministers reaffirmed their support for establishing a Trust Fund, and agreed that the Executive Directors should work out the details of a Trust Fund in order to permit its establishment as expeditiously as possible.

9. Ministers noted with regret that the Sixth General Review of Quotas is being held up by the absence of agreement among industrial countries and expressed the hope that agreement would be reached on the occasion of the forthcoming Joint Annual Meetings of the World Bank and the Fund to double the aggregate share of the major oil exporting countries, while maintaining the aggregate share of the other developing countries, which is presently 22.73 per cent.

10. Ministers stressed that in future quota reviews the share of developing countries should progressively increase, and that countries not satisfied with the quota increase should have an opportunity to make representations before quotas are approved. Ministers reaffirmed that the present representation of developing countries in the decision-making bodies of the Bank and Fund should be substantially improved and the broad geographical representation of developing countries should not be adversely affected.

11. On gold, Ministers reaffirmed that the amended Articles of the Fund should oblige each member of the International Monetary Fund to undertake to collaborate with the Fund and with other members regarding the policy of the member with respect to gold, and that any action by any member or arrangements among members with respect to gold should be consistent with the Articles of Agreement and with policies designed to ensure the gradual reduction of the role of gold in the international monetary system and the strengthening of the role of the SDR.

12. Ministers also affirmed that no arrangements with regard to gold would be acceptable to the developing countries unless they met the above principles and also unless,

(a) they were designed to raise substantially the flow of financial resources to the developing countries, without imposing a loss on any individual developing country;

(*b*) they did not accentuate the already inequitable distribution of international liquidity.

In this context, Ministers agreed that there was a need to expedite the study of a gold substitution account.

13. Ministers considered the various proposals currently under discussion regarding the disposal of the gold held by the Fund, and found that none of them in their present formulation was entirely acceptable to the developing countries.

14. Ministers reaffirmed their support for the early establishment of a link between allocations of SDRs and development finance.

15. Ministers reviewed the work of the Development Committee and they stressed the need to pay attention to the longer-term problems of the transfer of real resources in addition to dealing with immediate issues.

16. Ministers welcomed the establishment of the Third Window [in the Bank]. They expressed disappointment that total contributions thus far were not enough to permit a total lending program of $1 billion, which was, in the view of the Ministers, a modest sum in the light of the capital requirements of developing countries. Ministers urged all countries with a capacity to contribute to do so and ensure that their contributions to the Third Window and that Third Window lending were additional to the normal levels of development assistance.

17. Ministers noted with satisfaction that the Development Committee is working on the question of access to capital markets, and expressed the hope that this work will result in concrete action to widen and strengthen the access of developing countries to capital markets.

18. Ministers emphasized the importance of giving due consideration to the long-term problems of all developing countries, and in this connection they stressed the need for the Bank to update its estimates of and for the Development Committee to review the capital requirements of developing countries, and for the international financial institutions to gear their lending programs in the light of such estimates. Ministers attached high priority to a selective followed by a general expansion of the capital base of the Bank, in order to allow the Bank to expand its lending program and thereby cater to the needs of all developing countries. With regard to fiscal year 1976 Ministers stressed that the $4.7 billion agreed by the Board should not be taken as a limit, but rather as a minimum figure for lending by the Bank. Ministers also stressed the importance of the continuation of the transfer of the net income of the Bank to IDA in the next year.

January 6, 1976

1. The Ministers of the Group of Twenty-Four on international monetary affairs held their twelfth meeting in Kingston, Jamaica, on January 6, 1976. Mr. Carlos Santistevan, President of the Central Bank of Peru, was in the chair, with Mr. Kwame Fordwor, Special Assistant responsible for finance of Ghana and Mr. Osman Ali, Governor of the Reserve Bank of Pakistan, as Vice-Chairmen. The meeting was attended by Mr. G. D. Arsenis, UNCTAD, Mr. Konan Bédié, Chairman of the Joint Ministerial Committee of the Board of Governors of the World Bank and the International Monetary Fund on the Transfer of Real Resources, Mr. M. A. Hassanein, OPEC, Mr. E. Stern, World Bank, and Mr. H. J. Witteveen, Managing Director of the International Monetary Fund.

2. The meeting was preceded by the twentieth meeting of the Deputies of the Group of Twenty-Four with Mr. M. Moreyra, Peru, in the chair, and Mr. W. Danso-Misa, Ghana, as Vice-Chairman.

3. Ministers noted with grave concern the continuing deterioration in the international environment for the development of their economies as reflected in highly discouraging trends of aid flows and trade of developing countries. Performance of developed countries in fulfilling obligations under internationally agreed targets has fallen far short of both their capacity to provide assistance and the objective needs of developing countries. They pointed out that the Development Committee, which was charged with the function of finding effective solutions to these problems, has not made progress for want of adequate cooperation and exercise of political will on the part of major developed countries. Ministers also expressed their strong disappointment that the interests and concerns of developing countries have received so little attention in the negotiations on international monetary reform, and that decisions affecting all countries continued to be taken in restricted groups of countries. They emphasized that unless there was a fundamental change in the attitude of developed countries, the dialogue on international economic cooperation now under way in many fora is unlikely to produce any constructive results.

4. Ministers agreed that the various issues before the Interim and Development Committees were closely interrelated. They stressed that a successful conclusion of the forthcoming meetings of the Committees would, as a minimum, depend on a set of measures of particular importance to developing countries being adopted by those Committees, and agreed, to that end, to be in close consultation with each other in the coming days.

5. Ministers noted that, as had been amply shown by studies undertaken by the IMF and IBRD, the current account position of non-oil exporting developing countries had deteriorated by approximately $7.5 billion from 1974 to 1975 to reach a deficit of $35 billion. By contrast, that of developed countries had improved by $27 billion over that period to register a surplus of $16 billion in 1975. Ministers pointed out that the inelasticity of demand for imports of developing countries has helped the developed countries by serving as a buffer to deeper recession, and that expansion of the import capacity of developing countries would alleviate significantly the problems of both developed and developing countries.

6. Ministers, recalling the strong reservations registered at the last meeting of the Interim Committee in connection with the proposed arrangements on gold, expressed strong dissatisfaction with the fact that those proposed arrangements would grossly distort the distribution of international liquidity at the expense of developing countries, and undermine the position of the SDR. They strongly emphasized that the developing countries would not accept or condone any infringement of the Fund's Articles of Agreement regarding purchases by national monetary authorities of gold above the present official price. Ministers were of the view that ways existed for activating the Trust Fund prior to amendment of the Articles without violating the present Articles.

7. Ministers urged that, in the future, in the course of disposing of the portion of its gold holdings remaining after the disposal of the first 50 million ounces, the Fund should arrange for the bulk of the benefit to go to the developing countries, with the Fund empowered to distribute to developing countries directly a portion of the profits on the basis of quotas, either in currency or in specie.

8. There was strong support among Ministers in favor of an enabling clause for a gold substitution account in the amended Articles of Agreement.

9. Ministers agreed that the reconstitution requirements for special drawing rights should be abrogated both entirely and immediately.

10. Ministers agreed that each member of the IMF should undertake to collaborate with the Fund and with other members in order to ensure that the policies of the member with respect to reserve assets is consistent with the objective of making the special drawing right the principal reserve asset in the international monetary system.

11. Ministers agreed that in interpreting the obligations and applying the principles under the amended Articles dealing with exchange arrangements, the IMF should pay due regard to the special circumstances of the developing countries and to the importance of currencies for the international financial system.

12. Ministers were opposed to calling upon the Fund, explicitly, to discourage the maintenance of unrealistic par values. They were prepared to see the Fund encourage realistic par values, but the Fund should do so particularly with respect to the par values of major currencies.

13. Ministers expressed strong support for a substantial enlargement, on a permanent basis, of the access of developing countries to Fund credit. They advocated the immediate addition of two credit tranches with the same conditionality as the first credit tranche.

14. Ministers agreed that the conditionality attached to the use of Fund resources in the higher credit tranches was currently excessive and required reduction.

15. Ministers reaffirmed their request for early action to establish a Trust Fund to provide substantial and additional balance of payments assistance to low-income developing countries.

16. Ministers noted that the liberalization of the compensatory financing facility agreed to by the Executive Board fell far short of the expectations of the developing countries, and suggested that there should be an early review of the facility to

(*a*) provide for shortfalls to be calculated in real terms;

(*b*) expand the facility and extend the repayment period.

17. Ministers noted that although it had been decided at the final meeting of the Committee of Twenty that the link should be considered as part of the interim package, it was not included in the package before the Interim Committee. Ministers reaffirmed their strong support for an enabling clause to permit the link to be established.

18. Ministers expressed grave concern at the maintenance and intensification of restrictions on access to markets for primary commodities which were causing great damage to the balance of payments positions of the producing countries, and stressed the need to remove such restrictions immediately. Ministers were also agreed that there was an urgent need to stabilize the prices of primary products; the Development Committee should undertake an early review of the IMF buffer stock financing facility.

19. Ministers were of the view that the relevant provisions of the Rome Communiqué and the trade pledges in the OECD had as their rationale the discouragement of escalation of trade restrictions in developed countries. They expressed regret that those pledges were not being fully observed by the industrial countries at the same time as the developing countries were being pressed to avoid trade restrictions, even when these were necessary for the maintenance of their development programs.

20. Regarding access to capital markets by developing countries, Ministers urged the early completion of studies in the Development Committee which would enable prompt and effective measures of an operational character to be taken, particularly regarding obstacles to access to capital markets and the creation of a multilateral guarantee fund designed to secure additional resources for developing countries that do not have access to private capital markets. Ministers were of the view that developing countries with access to private capital markets should not for that reason be denied access to borrowing from development finance institutions.

21. Ministers stressed the need for international financial agencies to help establish a secondary market for debt instruments issued by developing countries by investing part of their

liquid assets in such paper, and by other means. Ministers also emphasized that cofinancing could make a substantial contribution to meeting the capital needs of developing countries.

22. Ministers acknowledged with satisfaction that OPEC countries have increased substantially their financial assistance to other developing countries, noting that it has multiplied fivefold between 1973 and 1974 to a figure approaching $15 billion, divided roughly evenly between bilateral and multilateral aid. On an annual basis, commitments in the first half of 1975 were running well in excess of $21 billion.

23. Ministers reaffirmed the urgent need for developed countries to reach the 0.7 per cent target for official development assistance, and stressed that the Development Committee could and should serve to strengthen the political will required to achieve that target by the end of the decade.

24. Ministers reiterated their strong support for the lending program proposed by the management of the World Bank. They also expressed strong support for a two-step increase in the capital of the Bank of which the first step, which should be undertaken immediately, would consist of a selective increase of approximately $10 billion, and the second of a general increase at a later stage. They stressed that a firm recognition should be obtained that the general increase would continue to be an urgent necessity and that it should be completed as soon as possible to avoid any restrictions in the Bank's lending program in the near future.

25. In this connection, Ministers also affirmed that the voting power of the non-oil exporting developing countries should not be reduced from their present level and that the Board representation of those countries should at least be maintained or increased, if necessary, to preserve a balanced geographical representation.

26. Ministers acknowledged with satisfaction the contributions made by some countries to the Third Window of the World Bank and urged that all countries in a position to do so should contribute to that facility without further delay, so as to allow the original target of $1 billion to be reached. They stressed that such contributions should be additional, and that the Third Window should be administered flexibly with regard to access.

27. Ministers expressed concern at the diminishing share of upper- and middle-income countries in the IBRD's lending program and considered that present lending to these countries should be increased.

28. The Ministers strongly supported a substantially increased replenishment of IDA, in real terms. Negotiations for the replenishment of IDA should be completed by June 1976, in time to ensure continuity of operations.

29. The Ministers also stressed the need to expand the capital of the regional development banks and of the International Finance Corporation.

30. Ministers expressed their concern at the apparent lack of political support from the developed nations for the Development Committee, as well as at the lack of concrete measures to be adopted so as to increase the transfer of resources to developing countries. They were of the view that the Committee, its Executive Secretary, and associated international organizations, should proceed promptly to consider concrete solutions to existing problems, so as to achieve the objectives of the Committee. Urgent action was seen to be necessary if the minimum acceptable growth targets are to be attained.

October 2, 1976

1. The Ministers of the Group of Twenty-Four on International Monetary Affairs held their thirteenth meeting in Manila, Philippines, on October 1 and 2, 1976. Mr. Luis

Barua Castañeda, Minister of Economy and Finance of Peru, was in the chair, with Mr. R. K. A. Gardiner, Commissioner for Economic Planning of Ghana, and Mr. Osman Ali, Governor of the State Bank of Pakistan, as Vice-Chairmen. The meeting was attended by Mr. G. D. Arsenis, UNCTAD, Mr. Henri Konan Bédié, Chairman of the Joint Ministerial Committee of the Boards of Governors of the World Bank and the International Monetary Fund on the Transfer of Real Resources, Mr. Robert McNamara, President of the World Bank, and Mr. H. J. Witteveen, Managing Director of the International Monetary Fund.

2. The meeting was preceded by the twenty-first meeting of the Deputies of the Group of Twenty-Four with Mr. Winston Temple-Seminario, Peru, in the chair, and Mr. S. K. Botchway, Ghana, as First Vice-Chairman, and Mr. Z. Ahmad, Pakistan, as Second Vice-Chairman.

3. Ministers reviewed international economic developments and expressed concern at the huge current account balance of payments deficits of the non-oil developing countries which rose from $10 billion in 1973 to $37 billion in 1975 and are projected to be around $32 billion in 1976. The financing of this huge deficit has increased the external debt of developing countries and aggravated the debt problems of some of them. Ministers expressed strong disappointment that official development assistance continues to lag behind the need for concessionary assistance and urged those industrialized countries which have so far not done so to intensify their efforts to reach the 0.7 per cent target set for the UN Second Development Decade.

4. Ministers noted the significance of full employment as the most urgent objective of economic policy in the industrialized countries necessary for their full recovery, and urged a continued flow of funds to the developing countries from the international private banking community.

5. Ministers noted that the ratio of international reserves to world imports has gone down since 1970, and that the increase in international liquidity in this period was highly unevenly distributed, with non-oil developing countries being the worst off. The role of the SDR as a reserve asset has continued declining since 1972, while that of reserve currencies has continued to strengthen. This tendency has been aggravated by the lack of new allocations of SDRs and the weak international surveillance over the process of liquidity creation. They favored a new allocation of SDRs which they thought was warranted, inter alia, by the need to enhance the role of the SDR in the international monetary system, which is in the interest of the entire international financial community.

6. The Ministers also took note of the fact that very few of the developing countries had made use of Fund resources beyond the first credit tranche, that only two countries had availed themselves of the extended Fund facility, and that this had been because of the limited size of these facilities and the severity of their conditionality. They also called for a review of the Fund policies to enable the developing countries to secure more adequate balance of payments support from the Fund on reasonable terms. In view of the inadequacy of Fund liquidity, consideration also needs to be given to devising appropriate recycling mechanisms to tap additional resources.

7. To augment the resources of the Fund the Ministers stressed the need for a further substantial increase in the Fund quotas through the Seventh General Review.

8. Ministers welcomed the establishment of the Trust Fund on May 6, 1976. However, they expressed concern that the amount realized so far from the three gold auctions indicated that its target of SDR 3.7 billion would not be realized. Ministers therefore urged member countries in a position to do so to supplement the resources of the Trust Fund through voluntary donations. Ministers felt that gold sales should proceed in a manner that shall meet the interests of developing countries.

9. Ministers expressed regret that some countries which were expected to contribute to the Fund's Interest Subsidy Account, associated with the oil facility, have not yet done so, and urged them to donate their shares as soon as possible.

10. Ministers believed that the reform of the international monetary system will be resumed and that special consideration should be given to the interest of the developing countries, particularly as regards the need to introduce a link between the allocation of SDRs and the flow of financial resources to developing countries.

11. Ministers urged that donor countries would complete their promised contributions to the Fourth Replenishment of IDA, as early as possible. They also discussed the Fifth Replenishment of IDA and emphasized the need to replenish at a much higher level. In this connection they agreed that a replenishment level of $9 billion would be appropriate, although even this would allow for only a small increase in real terms. Ministers noted that negotiations for replenishment had already started and urged that every effort must be made to complete the negotiations by March 1977. Since the necessary legislative approval may not be forthcoming before June 1977, they were of the view that at least advances of contributions should be pledged by April 1977 to prevent a hiatus in the operations of IDA.

12. Ministers reaffirmed their full support for the recommendation of the Executive Directors for a selective increase in the authorized capital of the World Bank from the present level of $27 billion to $34 billion (1944 dollars). They urged the expeditious implementation of this recommendation, and they called upon member countries to subscribe fully to the additional shares allocated to them. At the same time they called for an early agreement on a general capital increase for the Bank and at the latest by the end of fiscal year 1977 in order to prevent both a reduction in the lending program of the Bank in real terms in fiscal year 1978 and after, and a further hardening in its terms of lending. Ministers expressed grave concern about the modifications in the nature and level of operations of the Bank as regards lending terms and the new method of amortization of loans. They were of the view that these features of the Bank assistance to developing countries should be reviewed promptly.

13. Ministers stated that Third Window lending had been of benefit to countries which qualified for loans under the scheme. Ministers wished the Third Window operations to continue in order to provide additional resources over and above those normally available under the lending program of the World Bank. Ministers also emphasized the need to reach the original target of $1,000 million in additional loans under the Third Window. They urged that the Interest Subsidy Account for the Third Window be kept open to receive contributions.

14. Ministers discussed the problem of external debt and stressed the importance of accepting the general principle, namely, that of those countries not presently having access to capital markets net transfers of official development assistance from industrialized countries should be maintained at a level compatible with a reasonable rate of growth in such countries.

15. Ministers called on industrialized countries to adopt measures that would result in reduced fluctuations in commodity prices and substantial improvement in the export earnings of developing countries, especially their increased access to markets in industrial countries. They also urged the implementation of the Common Fund under the Integrated Program for Commodity Exports.

16. Ministers called on developed countries to give the necessary political support to the Development Committee so that it would be effective in the transfer of real resources to developing countries. Ministers also took note of the report of the Working Group on Access to Capital Markets and fully supported the recommendations that capital market

countries should declare that they would move progressively toward greater liberalization of capital exports and that authorities in capital markets countries should give favorable treatment to developing countries and exercise flexibility by permitting developing countries to sell bonds denominated in currencies which are in strong demand both in local markets and in the Eurobond market.

17. Ministers recommended the establishment of working groups of the Development Committee in the year ahead to study and help a coordinated view being taken of the following problems:

(i) concessional flows as they relate to IDA operations, debt problems, and balance of payments support through the quick disbursement of aid;

(ii) capital flows through multilateral institutions relating to the volume and terms of lending programs, increases in capital, etc;

(iii) promotion and expansion of private capital flows as a follow-up to the work of the Working Group on Access to Capital Markets.

April 26, 1977

1. The Ministers of the Group of Twenty-Four on International Monetary Affairs held their fourteenth meeting in Washington, D.C., on April 26, 1977. Mr. R. K. A. Gardiner, Commissioner for Economic Planning, Ghana, was in the chair, with Mr. Osman Ali, Governor of the State Bank of Pakistan, and Mr. Julio Rodolfo Moctezuma, Secretary of Finance and Public Credit, Mexico, as Vice-Chairmen. The meeting was attended by Mr. M. A. Hassanain, OPEC, Mr. R. Lawrence, UNCTAD, Mr. E. Stern, Vice-President, World Bank, Mr. Cesar Virata, Chairman of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries, and Mr. H. J. Witteveen, Managing Director of the International Monetary Fund.

2. The meeting was preceded by the twenty-second meeting of the Deputies of the Group of Twenty-Four with Mr. Gyasi-Twum, Ghana, in the chair, and Mr. Z. Ahmad, Pakistan, and Mr. A. Phillips O., Mexico, as Vice-Chairmen.

3. The Ministers took note of the resumption of economic growth in the industrial countries of 1976 after the recession of 1974–75 and the rebound in the volume of world trade following the sizable decline of the preceding year. The Ministers were, however, concerned that non-oil developing countries were not getting commensurate benefit from the world economic recovery and they were still beset with serious balance of payments problems. The Ministers also expressed anxiety about the marked slowdown in economic activity in the industrial countries during the second half of 1976. In this context they noted in particular that the annual rate of expansion of non-oil trade had declined to about 7 per cent in the second half of 1976 compared with some 14 per cent in the first half. They expressed concern that if this trend continued it would aggravate the problems of the developing countries, and expressed the view that adequate demand expansion policies should be pursued by the surplus industrial countries to sustain the world economic recovery.

4. The Ministers observed that the current account deficit of the non-oil developing countries has declined from $38.4 billion in 1975 to $28.0 billion in 1976. However, this decline has entailed painful adjustment measures taken by the developing countries in the absence of adequate financing and in the face of restrictive trade policies by the industrial

countries. The projections for 1977 indicated an almost equally sizable current account deficit. The Ministers believed that developing countries would not be able to attain their growth targets unless special means were taken to expand the supply of concessional and other forms of sustainable financing and to reduce barriers to exports from developing countries.

The Ministers of the Group of Twenty-Four were of the view that

(i) A second allocation of SDRs should be considered imperative both in the context of the present international liquidity position and in moving towards the objective of making the SDR the principal reserve asset of the international monetary system. Appropriate steps should be taken to enhance the reserve characteristics of the SDR;

(ii) Serious consideration should be given to the establishment of a link between SDR allocation and the provision of financial resources to developing countries;

(iii) The supplementary credit facility now under consideration should be established as early as possible. It should have low conditionality and should be available on the basis of balance of payments needs irrespective of the status with regard to drawings under the credit tranches. The period of repayment should be longer than those of existing facilities. The present IMF Interest Subsidy Account for the low-income developing countries should be continued and expanded;

(iv) The conditionalities attached to the various credit facilities of the Fund need to be reviewed bearing in mind that members have been discouraged from making use of some of the Fund's resources available to them on account of severe conditionalities;

(v) Notwithstanding the establishment of the supplementary credit facility there is need for substantial augmentation of the resources of the Fund to enable it to play a greater role in the financing of payments imbalances, and in this context an increase of 100 per cent in quotas under the Seventh General Review is favored;

(vi) The temporary increase of 45 per cent in the tranches should be maintained up to the coming into effect of the Seventh Review of Quotas;

(vii) In the context of the principles and procedures of surveillance, the Fund should take into consideration the particular circumstances of the developing countries in decisions affecting the exchange rates of members;

(viii) Donor countries should not allow their official development assistance as a percentage of gross national product to fall below levels reached in recent years, and should attain the ODA target of 0.7 per cent. The special effort made by OPEC countries in the field of development assistance was a matter for satisfaction, and it was hoped that it would stimulate attainment by the developed countries of the 0.7 per cent target as early as possible;

(ix) The capital of the World Bank and the regional development finance institutions should have a sizable increase. In particular, member countries that have not yet done so should take prompt action to approve the selective capital increase of the World Bank, the capital increase of the IFC and the fifth replenishment of IDA. In addition, the Executive Board of the Bank should proceed expeditiously on the proposed general increase of the capital of the Bank and reach agreement on this question not later than June 30, 1978. The ratio of program

lending to the total lending of the World Bank should be increased and the Bank's lending procedures simplified to expedite disbursement;

(x) The industrial countries should improve the access to their markets of goods exported by the developing countries;

(xi) As a general principle, the net transfer of ODA from the industrial countries to the low-income countries not presently having access to capital markets should be maintained at an appropriate level so as to alleviate the burden of their external debt and help them to attain and sustain a reasonable rate of economic growth;

(xii) Developed countries should give their support to the creation of the Common Fund currently under consideration in the UNCTAD, which aims, inter alia, at the stabilization of commodity prices;

(xiii) The World Bank and the regional development banks should use their present authority within their capital structure to consider requests for guarantees from interested member countries if additional resources become available.

April 28, 1978

1. The Ministers of the Group of Twenty-Four on International Monetary Affairs held their sixteenth meeting in Mexico City on April 28, 1978. Mr. K. Gyasi-Twum, Ghana, opened the meeting on behalf of Mr. R. K. A. Gardiner, Commissioner for Economic Planning, Ghana, the outgoing Chairman. Mr. S. Osman Ali, Governor of the State Bank of Pakistan, then took the chair, with Mr. David Ibarra-Muñoz, Secretary of Finance and Public Credit, Mexico, and Mr. O. O. Vincent, Governor of the Central Bank of Nigeria, as Vice-Chairmen. The meeting was attended by Mr. G. D. Arsenis, UNCTAD, Mr. E. Stern, Vice-President, World Bank, Mr. Cesar Virata, Chairman, Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries, and Mr. H. Johannes Witteveen, Managing Director, International Monetary Fund.

2. The meeting was preceded by the twenty-fifth meeting of the Deputies of the Group of Twenty-Four. Mr. K. Gyasi-Twum, Ghana, relinquished the chair in favor of Mr. Ziauddin Ahmad, Pakistan. Mr. A. Phillips O., Mexico and Mr. S. B. Falegan, Nigeria, were Vice-Chairmen.

3. The Ministers of the Group of Twenty-Four discussed the general economic situation and took note of a number of developments during 1977 which had led to increased difficulties for the developing countries. The marked decline in the growth rate of industrial countries, slowing down in the growth of the volume of world trade, deterioration in the terms of trade of non-oil developing countries in the second half of 1977, the lack of progress in respect of the access of developing countries to capital markets, and increased recourse to protectionist measures exercised an adverse influence on the growth performance of developing countries. The unsettled conditions in the exchange markets had also aggravated the problems of the developing countries.

4. The Ministers noted that the current account balance of payments of non-oil developing countries had shown some improvement in 1977, but this was largely due to the measures taken by them to limit imports which adversely affected their investment levels.

5. In discussing the prospects for the world economy in 1978, the Ministers expressed their concern about the projected deterioration of the current account deficit of the non-oil developing countries from $22 billion in 1977 to $30 billion in 1978.

6. On account of inadequate flows of Official Development Assistance, a number of low-income developing countries were not able to meet their external financial requirements, while others had to take recourse to sizable borrowings from commercial banks.

7. The Ministers underlined the need for greater coordination in the economic policies pursued by industrial countries which would result in an expansion of the world economic activity and world trade to the benefit of the entire international community. Recognizing the growing interdependence between developed and developing countries, the Ministers felt that developing countries could make a significant contribution to world economic recovery if they were provided with adequate long-term financing.

8. The Ministers stressed that inflationary effects, if any, of recovery measures taken by developed countries would be minimized if these countries reviewed rigidities in price and wage policies and reduced the levels of protection against exports from developing countries.

9. The Ministers strongly urged developed countries to avoid import restrictive measures that jeopardize the export growth prospects of developing countries, to gradually dismantle existing protectionist measures and take necessary reallocative measures. Furthermore, they stressed the importance of an early conclusion of the multilateral trade negotiations so that developed countries fulfill their commitments to developing countries undertaken in the Tokyo declaration.

10. The Ministers stressed the need for a substantial increase in the flow of ODA and urged the developed countries that had not yet done so to take appropriate measures to reach the UN target of 0.7 per cent of their GNP.

11. The Ministers noted that multilateral development institutions had played a vital role in the transfer of resources to the developing countries and urged that they should continue to do so. In order to enable them to perform this increasingly important function, Ministers recommended that the capital of these institutions should be substantially augmented.

12. The Ministers took note of a proposal to set up a long-term financing facility for developing countries and suggested that a study on this subject should be undertaken by the Development Committee.

13. Recognizing the importance to low-income developing countries of official debt relief as a significant means of securing an increase in the transfer of resources, the Ministers urged the developed countries to take speedy action pursuant to the agreement recently reached on this subject under the auspices of UNCTAD in Geneva.

14. The Ministers took note of a report by the International Monetary Fund on the developing countries' access to capital markets. They were concerned that not much progress had been made in the implementation of the recommendations on the subject by the Development Committee. In fact, restrictions on the outflow of capital had been intensified by certain countries. They appreciated that a review by the IMF would become a regular feature.

15. The Ministers stressed the need for a new allocation of SDRs in order to improve the composition of reserve creation, to increase net reserves of the system, and also to contribute toward making SDRs the principal reserve asset in the international monetary system. Moreover, a new allocation of SDRs will also help meet liquidity requirements of the member countries, especially countries with low reserves and no access to capital markets.

16. The Ministers took note of the recent proposal which would combine the allocation of SDRs with a reduction in the amount of outstanding reserve currencies and expressed the view that the proposal had a number of implications which required further study. They were of the view that further consideration of the substitution proposal should not delay a new allocation of SDRs, and that the proposal should bring about additionality.

17. The Ministers favored measures to increase the attractiveness of the SDR as a reserve asset, and in this context they supported increasing the interest rate on the SDR to 80 per cent of the weighted market rate. Also the remuneration rate should be 80 per cent of the SDR interest rate to avoid an increase in Fund charges. They were agreed that the reconstitution obligation in respect of SDRs should be abrogated. The flexibility of SDR uses in operations and the broadening of the definition of other holders of SDRs should be further studied.

18. The Ministers considered the question of the Seventh General Review of Quotas and favored an increase of at least 50 per cent.

19. For the Eighth General Review, the Ministers urged that the IMF should re-examine the criteria on which quota allocations are based with the aim of rationalizing them and making them relevant to the economic position of the developing countries.

20. The Ministers were of the view that the supplementary financing facility should be made operational as early as possible. Means should also be found to relieve the least developed and other most seriously affected countries of part of the cost of borrowing from this facility.

21. The Ministers considered that the strict conditionality attached to drawings in the upper credit tranches and in the extended Fund facility should be modified, keeping in mind the fact that at present very limited use was being made of these facilities by the developing countries.

22. The Ministers expressed their continued support for the Development Committee, underlined the importance of the role it should play as a high-level political forum for actions designed to increase the transfer of real resources to the developing countries, and strongly urged its continued existence to fulfill the objectives for which it was established.

The Ministers appreciated the cooperation they have received in their work from Mr. H. Johannes Witteveen, the Managing Director of the International Monetary Fund, and expressed good wishes for his future after he retires from the Fund.

The Ministers were greatly appreciative of the hospitality received by them from the people and the Government of Mexico and the excellent arrangements made for the meeting.

September 22, 1978

1. The Ministers of the Group of Twenty-Four on International Monetary Affairs held their seventeenth meeting in Washington, D.C., on September 22, 1978. Mr. A. G. N. Kazi, Governor of the State Bank of Pakistan, was in the chair, with Mr. David Ibarra-Muñoz, Secretary of Finance and Public Credit, Mexico, and Mr. O. O. Vincent, Governor of the Central Bank of Nigeria, as Vice-Chairmen. The meeting was attended by Mr. Gamani Corea, Secretary-General, UNCTAD, Mr. A. M. Jaidah, Secretary-Gen-

eral, OPEC, Mr. J. de Larosière, Managing Director, International Monetary Fund, Mr. R. McNamara, President, World Bank, and Mr. Cesar Virata, Chairman, Joint Ministerial Committee of the Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee).

2. The meeting was preceded by the twenty-sixth meeting of the Deputies of the Group of Twenty-Four, with Mr. Ziauddin Ahmad, Pakistan, as Chairman, and Mr. A. Phillips O., Mexico, and Mr. G. O. Nwankwo, Nigeria, as Vice-Chairmen.

3. The Ministers expressed their concern over current trends in the world economy. They noted that following the satisfactory rates of expansion in world output and trade in the period of initial recovery from the severe recession of 1974–75, economic activity and world trade have slowed down though modest progress has been achieved in the abatement of inflation. They noted that in most industrial countries unemployment rates in 1978 are similar to those prevailing in the worst phase of recession in 1975, and that the short-term prospects do not suggest a significant improvement. The Ministers expressed concern over the renewed deterioration in the terms of trade of the developing countries and the increase of the current account deficit of the non-oil developing countries, which in 1978 is estimated to reach $32 billion.

4. The current situation gives rise to concern because the international economy seems to be in danger of stagnating at low rates of growth of output and trade, with high rates of unemployment and inflation. This prospect is undesirable, not only because of the substantial underutilization of resources, but also because it is giving rise to all kinds of protectionism, which make the adjustment process more difficult for developing countries.

5. The Ministers were of the view that a stronger political commitment to achieve higher rates of growth, consistent with the long-term growth potential of industrial nations, was required. They noted that policies pursued by both oil exporting and non-oil developing countries had made considerable contribution to the adjustment process. They urged that industrial countries in external surplus should increase their domestic activity and capital outflows. They expressed concern at the low level of development assistance which is far below the internationally agreed targets, and underlined the need to expand capital flows, both in the form of official development assistance and through liberalizing access to the capital markets. This will help improve the working of the adjustment process, and bring about faster recovery in the level of world economic activity.

6. They noted the persistance of an undesirable asymmetry in the adjustment process, the burden of which falls mainly on non-reserve-currency deficit countries. They urged the Fund to intensify its surveillance of surplus industrial and reserve-currency countries, in order to achieve a more equitable adjustment. This would also reduce the instability in the exchange rates of major currencies, which has given rise to considerable uncertainty and has had adverse effects on the rate of investment and economic activity.

7. The Ministers reiterated the need for a new allocation of SDRs in order to meet the global needs for international reserves, to increase net reserves of the system and also to contribute toward making SDRs the principal reserve asset in the international monetary system. In this connection, they support the proposal made by the Managing Director of the IMF for a new allocation of 4 to 6 billion SDRs per year over a three-year period.

8. The Ministers favored measures to increase the attractiveness of the SDR as a reserve asset. In this context, they favored the abrogation of the reconstitution obligation; they supported increasing the interest rate on the SDR to 80 per cent of the weighted market rate; and they were prepared to support the remuneration rate at 90 per cent of

the SDR interest rate, provided no increase in Fund charges would result. They emphasized that such an increase in the SDR interest rate would be acceptable and meaningful only if a new allocation of SDRs were decided upon. They favored expanding the uses of SDRs to include three additional ones, namely: operations related to settlement of obligations, making of loans, and security for obligations. Other uses of SDRs should be further studied.

9. The Ministers considered the question of the Seventh General Review of Quotas and favored an increase of at least 50 per cent. In regard to the method of payment, the Ministers were of the view that member countries should be given the option to pay their subscription wholly in their own currency.

10. Although the Ministers did not accept the view that the issue of a new allocation of SDRs be linked with the Seventh General Review of Quotas, in case it was decided to link them, and 25 per cent of the subscription was to be in SDRs, the size of the new SDR allocation should be such as not to require a drawdown in members' SDR balances.

11. The Ministers expressed the need for the supplementary financing facility as approved by the IMF Executive Board to be made operational as early as possible and for a subsidy account to be established for the charges that would be payable by low-income countries.

12. Regarding conditionality in the use of Fund resources, the Ministers expressed concern at the multiplicity of performance criteria and some other forms of conditionality that inhibit access to Fund resources by member countries. Hence, they urged the Executive Board of the IMF to set appropriate guidelines and establish other institutional procedures related to the use of Fund resources, especially in the upper credit tranches, in support of economic adjustment programs. In this context, they were of the view that the guidelines should be designed so as to limit the performance criteria only to relevant macroeconomic variables, paying due regard to the growth considerations of member countries, and their prevailing economic and social situations.

13. The Ministers welcomed the initiative of the World Bank in preparing the *World Development Report, 1978*, which provides an analysis of some of the fundamental problems confronting the developing countries. They were concerned that the projections contained in the report provided for insufficient acceleration of the growth rate of the low-income developing countries, which would leave the problem of absolute poverty practically untouched. The prospects for middle-income countries which also have substantial segments of population living in conditions of absolute poverty are also unfavorable, due to the slowdown in the growth of world economic activity and trade and increasing restrictive practices in the trade and financial spheres.

14. The Ministers regarded the recommendations contained in the report as insufficient to remedy the urgent problems faced by developing countries. They therefore urged the international community to make a more determined effort towards the adoption of the main measures leading to the establishment of the New International Economic Order. In particular, in order to achieve higher levels of transfer of real resources, they recommended:

(*a*) a substantial increase in the level of official development assistance;

(*b*) a substantial increase of the capital of the World Bank before the first quarter of next year and a simplification of its lending procedures, and an increase in the capital of the regional development finance institutions;

(*c*) early completion of contributions to IDA's fifth replenishment and timely conclusion of negotiations for the sixth replenishment, which should provide for an increase in real terms;

(*d*) an increase in the flow of capital on commercial terms at longer maturities suitable for development financing.

15. As part of the efforts to stabilize the current account receipts of developing countries, the Ministers emphasized the need to strengthen the compensatory financing facility by adopting the following measures:

(*a*) The limit on outstanding drawings under the facility should be increased from 75 per cent to 100 per cent of a member's quota. Drawings in any twelve-month period should be increased from 50 per cent to 100 per cent;

(*b*) The repayment period should be lengthened from the present 3-5 years to one of 5–7 years;

(*c*) Countries should be given the choice of basing the calculation of their shortfalls on their total receipts from merchandise exports or the combined receipts from merchandise exports and services;

(*d*) In the calculation of shortfalls, account should be taken of the increase in the price of imports;

(*e*) Increased import volume resulting from climatic or other factors beyond the control of the country concerned should also be taken into account in calculating the shortfalls;

(*f*) Drawings under the facility should not be subject to any credit tranche conditionality.

16. Furthermore, the Ministers recommended the establishment of the common fund of the integrated commodity program, an expansion in program lending by the World Bank, and a further examination of the feasibility of a new stabilization facility of the type of STABEX.

17. The Ministers reviewed the work of the Development Committee and concluded that it represents an appropriate forum in which issues in regard to the transfer of resources to developing countries could be dealt with. They agreed that the Development Committee should continue with its present joint composition, thus allowing it to consider issues which fall under the jurisdiction of the Fund or the Bank, or beyond them.