

Part II. Elements of the Proposal

5. *Proposed Basic Period and Amounts of Allocation*

In Section 2 of Article XXIV it is envisaged that decisions of the Fund to allocate special drawing rights shall normally be for basic periods of five years' duration but that the Fund may provide that the duration of a basic period shall be other than five years.

There are good reasons for giving preference, in normal circumstances, to a basic period of as much as five years. At the present time, however, estimation of the relevant magnitudes for a period up to five years ahead would be particularly difficult. The projection of future reserve needs is difficult because of uncertainty as to whether the past trend in the ratio of reserve needs to international transactions will continue or, on the contrary, be reversed; the projection of the supply of reserves in traditional forms is difficult because of uncertainty as to the medium-term balance of payments prospects of the reserve centers; and both projections are difficult because of the lack of experience with medium-term forecasting in this relatively novel field.

These difficulties provide a sufficient argument for making the basic period for the first decision to allocate shorter than five years. Consultations with participants have indicated that there is broad support for a first basic period of three years.

Section 2(a) of Article XXIV prescribes that 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. It is proposed that the decision specify January 1, 1970, rather than the date of the decision of the Board of Governors, as the beginning of the first basic period and the date of the first allocation of special drawing rights. This will enable members of the Fund, which have not yet been able to become participants but which deposit their instruments of participation with the Fund

before the end of 1969, to receive all allocations made during the first basic period.

In accordance with the estimates of need set forth in the preceding section, I would propose that the Fund aim to allocate special drawing rights equivalent to approximately \$9.5 billion over the three years 1970-72, of which approximately \$3.5 billion would be allocated at the beginning of 1970, \$3 billion at the beginning of 1971, and \$3 billion at the beginning of 1972.

6. *Allocations as Percentages of Quota*

In accordance with Section 2 of Article XXIV, the rates at which special drawing rights are to be allocated to participants must be expressed as percentages of quota on the date of each decision to allocate, but the Fund may provide that the basis for allocations shall be quotas on dates other than the dates of decisions to allocate.

It has been recognized from the outset that to express allocations as fixed percentages of quotas as of the date of the decision to allocate might lead to the allocation of an amount that diverged in some degree from the amount deemed to be appropriate, under Article XXIV, Section 1(a), to meet the long-term need to supplement reserve assets. This might happen, for example, if participants entitled to receive allocations were to "opt out" under Section 2(e), or if the Fund were to decide under Section 2(d) that a country becoming a participant after the date of the decision should receive allocations during the remainder of that period. It was also recognized that changes in quotas of participants might occur in the course of a basic period and that if allocation were made on the basis of quotas on the date of the decision participants might receive allocations in proportions that did not correspond precisely to their relative quotas at the time.

It was thought that these disadvantages might be outweighed by a form of decision under which participants would know, at the time of the decision to allocate, the amounts of special drawing rights that each would receive in the course of the period. Two circumstances, however, render it desirable, during the first basic

period, that the percentages should be adjusted at each allocation in such a way as to attain the desired total of allocations and that the basis for allocations should be not the quotas at the date of the decision to allocate but rather the quotas at the dates of the allocations themselves.

In the first place, it is possible that a significant number of members that intend to become participants in the Special Drawing Account will not have been able to deposit their instruments of participation before the date of the decision to allocate. Such of these members as become participants before the first allocation will be eligible to share in that allocation, and it would be desirable that such of them as become participants between allocations should be able to share in allocations after they become participants. For this reason, any fixed percentage rates of allocation determined at the time of the decision (even if they were based on quotas at the time of the decision) would have to be calculated on the basis of guesses as to the dates by which members would have become participants.

Again it is probable that, as a result of the fifth quinquennial general review of quotas, increases in the quotas of members involving significant changes in relative quotas will have occurred before the date of the second annual allocation. It appears desirable that these changes in relative quotas, resulting from special increases given to members whose quotas are unduly low in the light of the relevant economic criteria, should be reflected in allocations of special drawing rights in 1971 and 1972. This result cannot be attained if allocations are based on quotas at the date of a decision to allocate for the 1970-72 period, which will necessarily be taken in 1969.

For these reasons I consider that allocations at the beginning of 1970, 1971, and 1972, respectively, should be based on the quotas of participants on the day before the dates of the allocation, and that the percentages of quotas to be allocated should be such, to the nearest one tenth of one percentage point, as to result in the allocation to participants of amounts which, for those participants that were members of the Fund on December 31, 1969, would total \$3.5 billion for the first allocation, \$3 billion

for the second allocation, and \$3 billion for the third allocation.¹ This result is attained by the formulation at point 4 of the proposal set forth in the concluding section of this Report.

Percentages are set forth in the proposal in conformity with the provisions of Article XXIV, Section 2(*b*). They are equal, to the nearest one tenth of one percentage point, to the following ratios: for the first allocation, \$3.5 billion divided by the total quotas of the relevant participants on the day before that allocation; for the second allocation, \$3 billion divided by the total quotas of the relevant participants on the day before that allocation; for the third allocation, \$3 billion divided by the total of quotas of the relevant participants on the day before that allocation. The rates of 17.5 and 15 per cent referred to in point 4 of the proposal are those that would apply if the quotas of the relevant participants on the relevant dates of allocation were close to \$20 billion. The figure of \$20 billion has been selected as a round number in the vicinity of the total of present quotas which, when multiplied by the rates mentioned, would yield exactly the target levels of allocation, i.e., \$3.5 billion and \$3 billion, respectively. The manner in which the percentages would be higher or lower according as the total of the quotas of the relevant participants on the relevant dates were lower or higher, respectively, than \$20 billion is shown in the illustrative tables in the Appendix. It will be observed that, whatever the level of quotas, the amounts allocated remain always very close to \$3.5 billion for the first allocation and \$3 billion for the second or third allocations.

¹ If new members joined the Fund and became participants, total allocations might increase beyond these amounts (see Article XXIV, Section 2(*d*)).