

ARTICLE V, SECTION 3(d) AND (f)

Media of Payment

USE OF CURRENCIES AND SDRs IN THE GENERAL RESOURCES
ACCOUNT AND PRINCIPLES AND PROCEDURES FOR
DESIGNATION

*(a) Assessment of Strength of Member's Balance of Payments
and Gross Reserve Position for the Purposes of Designation
Plans, Operational Budgets and Repurchases Under
Article V, Section 7(b)*

This decision sets forth guidelines for the assessment of the strength of the balance of payments and gross reserve position of a participant under Article XIX, Section 5(a)(i) (designation plans), and of the balance of payments and reserve position of a member under Article V, Section 3(d) (operational budgets) and, in accordance with Executive Board Decisions No. 5704-(78/39) and No. 6172-(79/101), under Article V, Section 7(b) (early repurchases).

1. Assessments of strength for the purposes of Article V, Sections 3(d) and 7(b) will be based on a member's balance of payments and gross reserve position, and shall take into account developments in the exchange markets.

2. A member's "balance of payments and gross reserve position" is a combined concept, under which strength in one element may compensate for moderate weakness in the other.

3. In the Fund's assessment whether a member's balance of payments and gross reserve position is sufficiently strong for the purposes of the designation plans, operational budgets, and early repurchases, all relevant factors and data on the member's position shall be considered, including the following: recent and prospective movements in gross reserves, balance of payments developments, the relationship of gross reserves to a member's imports and Fund quota,

and developments in exchange markets. To the extent that recent data on changes in a member's net reserves are available, these shall be taken into account as an indicator of the member's balance of payments position.

4. If a member has outstanding purchases in the General Resources Account, the assessment of its balance of payments and gross reserve position will include judgments on whether the member's position shows an improvement in comparison with the position at the time it made its last purchase from the Fund, on the extent of the improvement, and on whether it is likely to be sustained in the foreseeable future. Special attention will be given to the recent and prospective evolution in the various components of the member's balance of payments, including developments in the member's net reserves to the extent that data are available.

Decision No. 6273-(79/158) G/S
September 14, 1979

(b) Specification of Currencies by the Fund

This decision sets forth guidelines for the selection of currencies in purchases under Article V, Section 3(d), in repurchases under Article V, Section 7(i), and in transfers of SDRs by the Fund under Article V, Section 6(b) pursuant to decisions adopted prior to the date of this decision.

1. Normally, the Fund will select a member's currency for use in the operations and transactions of the General Resources Account in amounts that result in a net reduction of the Fund's holdings of the currency only if the member's balance of payments and gross reserve position is judged to be sufficiently strong. Accordingly this will not preclude the possibility that the Fund will make net reductions in its holdings of the currency of a member with a strong reserve position even though it has a moderate balance of payments deficit.

2. Under procedures to be adopted, the currency of a member with outstanding purchases subject to repurchase, whose balance of payments and gross reserve position is judged sufficiently strong for the purposes of operational budgets and designation plans, normally will be sold by the Fund under Article V, Section 3(d) only if the member and the Fund agree.

3. The desirability of promoting over time balanced positions in the Fund ("harmonization") will be taken into account in the following way:

a. A member's "position in the Fund" shall be defined as its reserve tranche position plus any outstanding loans to the Fund by the member or an institution of a member under credit arrangements that are judged by the Fund to provide it, on a continuing basis, with the ability to finance uses of its resources by members on terms comparable to those applicable to the Fund's use of its currency holdings for this purpose.

b. Subject to (c) and (d) below, currencies shall be selected for use in purchases and repurchases, and in transfers of SDRs by the Fund under decisions adopted prior to the date of this decision, in such a way as to promote, over time, the equalization of the ratios of members' positions in the Fund, as defined under (a) above, to their gold and foreign exchange holdings.

c. The application of the principle in (b) above will not be carried beyond the point where the Fund's holdings of a member's currency are substantially below the average level, expressed as a percentage of quota, at which the Fund holds the currencies of members that do not have purchases outstanding and whose balance of payments and gross reserve position is sufficiently strong in accordance with paragraph 1 above. In addition, the Fund will seek to maintain adequate working balances of a currency.

d. If the currency of a member whose balance of payments and gross reserve position is not judged sufficiently strong in accordance with paragraph 1 above can be accepted in repurchase under

Article V, Section 7(i), the Fund, at the request of the member, will give special emphasis to the use of that currency for repurchases.

4. The guidelines in this decision will be applied in a manner that will allow the Fund to retain the flexibility necessary to ensure that (i) the use of currencies can be adapted to the needs and circumstances of members and of the Fund, and (ii) the transactions and operations of the Fund can be executed expeditiously and in a manner that pays due regard to the convenience of members. Considerations that are relevant under (i) may include the need for members to purchase certain currencies in order to stabilize exchange markets, the effects of the use or receipt of currencies on the Fund's financial position, the Fund's liquidity, and the fact that in respect of the issuer of a reserve currency the ratio of its Fund position to its gold and foreign exchange holdings may not provide an appropriate measure of the amounts of the currency that might be used by the Fund. Considerations under (ii) may include the need to avoid the use of an excessive number of currencies in single transactions and operations.

Decision No. 6274-(79/158)
September 14, 1979

(c) Transfers of SDRs Under Article V, Section 3(f)

Pursuant to Article V, Section 3(f), the Fund shall provide SDRs instead of the currencies of other members to a participant making a purchase in accordance with decisions on the operational budgets taken under Rule O-10. For this purpose, the Executive Board shall keep under review the amount of the Fund's holdings of SDRs in the General Resources Account in the light of all relevant considerations, including the relationship of SDR holdings to its other assets, and will determine from time to time the approximate range within which the Fund will aim to maintain these holdings.

Decision No. 6275-(79/158) G/S
September 14, 1979

PROCEDURES FOR THE SALE OF CURRENCIES AT THE REQUEST
OF MEMBERS WITH OUTSTANDING PURCHASES

Pursuant to paragraph 2 of the Executive Board Decision No. 6274-(79/158), the Executive Board approves the procedures set out [below].

Decision No. 6352-(79/183)
December 12, 1979

Procedures

1. Executive Board Decision No. 6274-(79/158) on the selection of currencies by the Fund contains the following paragraph:

2. Under procedures to be adopted, the currency of a member with outstanding purchases subject to repurchase, whose balance of payments and gross reserve position is judged sufficiently strong for the purposes of operational budgets and designation plans, normally will be sold by the Fund under Article V, Section 3(d) only if the member and the Fund agree.

2. . . .*

3. . . .*

4. . . .*

5. . . . the following procedural guidelines are suggested. They place stress on consultations between the Managing Director and the member concerned prior to the submission by the Managing Director to the Executive Board of a proposal agreed with the member on a maximum amount of sales of its currency and on the way in which these sales would be integrated in the operational budget. The guidelines are intended to provide a reasonable degree of flexibility for the Managing Director to make proposals that would be acceptable both to the member that wished its currency to be sold and to the Executive Board.

*Not included in this publication.

a. As far as practicable, a member with outstanding purchases that wishes its currency to be sold by the Fund would be expected to consult with the Managing Director before the end of the second month of the quarterly period prior to the beginning of the period in which the currency would be sold. This will enable a proposal for the sale of the currency to be incorporated in the next operational budget. However, the Managing Director might also propose an amendment to an existing budget. The qualification "as far as practicable" is included in order to provide some flexibility; one reason for this is that a member may not know that its balance of payments and reserve position is judged "sufficiently strong" for the purposes of the next designation plan and operational budget until the relevant documents are circulated to the Executive Board.

b. Following the consultation, and with the agreement of the member concerned, the Managing Director will make a proposal to the Executive Board in accordance with paragraph (c) below that the currency be included in the operational budget. The Managing Director's proposal will cover the way in which the sales of the currency will be integrated with the sales of other currencies and SDRs in the execution of the operational budget. While in each case the decision on sales of a currency would rest with the Executive Board, there would be a reasonable presumption that a proposal made in accordance with these guidelines would be accepted.

c. Proposals by the Managing Director for sales of a currency of a member with purchases outstanding would be guided by the following considerations:

(i) Proposals would not normally be made for sales of currencies if such sales would give rise to repayments of borrowing by the Fund, or if they would be attributed by the member to repurchase obligations falling due within the quarterly period of the budget.

(ii) The amounts of currency involved should not be such as to detract significantly from the promotion of balanced positions

in the Fund or the aim of maintaining the SDR holdings of the General Resources Account within a particular range.

SALES OF SDRs AND USE OF CURRENCIES THROUGH THE OPERATIONAL BUDGETS

1. *Sales of SDRs*

The Fund will sell the amount of SDRs expected to be received in each budget period; and the balance of purchases will be distributed between SDRs and currencies in such a manner as to aim at Fund holdings of special drawing rights of SDR 4.5 billion in early 1982, taking into account use and receipt of SDRs and currencies in transactions and operations outside the budgets. Modifications in this guideline will be proposed as necessary.

2. *Use of Currencies*

Currencies shall be selected for use on the transfer and receipt side of the operational budgets in amounts that will promote, over time, balanced "positions in the Fund" as follows:

a. For the quarterly period March–May 1981 the method currently in use will be continued.

b. For the subsequent quarterly periods the amounts on the transfer side of the budgets will be calculated on the basis of members' holdings of gold and foreign exchange and the amounts on the receipt side will be calculated in proportion to their reserve tranche positions in the Fund. Modifications of this method will be proposed if circumstances so warrant. The Fund will seek to maintain adequate working balances of currencies.

c. The U.S. dollar will be included in the operational budgets on the basis of ad hoc proposals.

d. A member's "position in the Fund" shall be defined as its reserve tranche position plus any outstanding loans to the Fund by the member, or an institution of a member, under credit arrangements that are judged by the Fund to provide it, on a continuing basis, with the ability to finance uses of its resources by members on terms comparable to those applicable to the Fund's use of its currency holdings for this purpose.

Decision No. 6772-(81/35) G/S
March 5, 1981

GUIDELINES REGARDING THE USE OF CURRENCIES IN
THE GENERAL RESOURCES ACCOUNT

The Executive Board approves the operational guidelines set out below:

a. On the transfer side of the operational budget, currencies will be allocated in proportion to members' gold and foreign exchange reserves, as reported in International Financial Statistics, provided that the Fund's holdings of a member's currency in terms of quota shall not be reduced as a result of transfer allocations below a floor of two-thirds of the average level, expressed as a percent of quota, at which the Fund would hold by the end of a budget period the currencies of members that are sufficiently strong to be included in the operational budget (excluding the United States dollar);

b. The use of the U.S. dollar in transfers shall be included in the operational budgets on the basis of *ad hoc* proposals and, to the extent feasible, the Fund will aim to maintain the Fund's holdings of U.S. dollars, in relation to quota, close to the average level of the Fund's holdings of currencies of other members in relation to quotas that are sufficiently strong to be included in the operational budget;

c. On the receipts side of the operational budget, the currencies to be used in receipts will be allocated in proportion to the reserve tranche positions of those members included in the operational

budget, provided that such use shall not raise the Fund's holdings of such a member's currency above its norm for remuneration;

d. The currencies of members with no outstanding purchases and with relatively large reserve tranche positions that were not considered sufficiently strong for inclusion in the operational budget would be used in receipts only, with their agreement;

e. The Fund will seek to maintain adequate working balances of currencies of not less than 10 percent of quotas;

f. The operation of the guidelines will be periodically reported to the Executive Board in the context of the quarterly operational budget; any proposals for modification of the guidelines will be presented to the Executive Board for its consideration. The guidelines will be reviewed by the Executive Board not later than February 10, 1995.

Decision No. 10279-(93/19)
February 10, 1993

The Fund has reviewed the guidelines for the use of currencies under the Fund's operational budget approved by Decision No. 10279-(93/19), adopted February 10, 1993, and decides that they remain appropriate. These guidelines will be reviewed again by the Fund not later than December 31, 1996.

Decision No. 10904-(95/13)
February 6, 1995

SALES OF SDRs AND CURRENCIES IN THE GENERAL
RESOURCES ACCOUNT: LEVEL OF FUND SDR HOLDINGS

In determining the amounts of SDRs to be transferred in purchases under the operational budgets, the Fund will be guided by the aim of reducing the Fund's SDR holdings to a level of approximately SDR 4.0 billion by May 31, 1985. Prior to April 30, 1985, the Fund will review the level of its SDR holdings to determine whether and to what extent they should be further reduced.

Decision No. 7626-(84/23) S
February 13, 1984

In determining the amounts of SDRs to be transferred in purchases under the operational budgets, the Fund will be guided by the aim of reducing the Fund's SDR holdings to a level of approximately SDR 2.5 billion by May 31, 1986. Prior to April 30, 1986, the Fund will review the level of its SDR holdings to determine whether and to what extent they should be reduced further.

Decision No. 7941-(85/50) S
March 29, 1985

In determining the amounts of SDRs to be transferred in purchases under the operational budgets, the Fund will be guided by the aim of reducing the Fund's SDR holdings to a level of approximately SDR 1 billion by May 31, 1987. Prior to April 30, 1987, the Fund will again review the level of its SDR holdings.

Decision No. 8265-(86/70) S
April 25, 1986

In determining the amounts of SDRs to be transferred in purchases under the operational budgets, the Fund will be guided by the aim of maintaining the Fund's SDR holdings within the approximate range

of SDR 0.75–1.25 billion. The Executive Board will be informed on the evolution of the Fund's holdings of SDRs on a regular basis. Should circumstances warrant any change in this approximate range, proposals will be brought to the Executive Board.

Decision No. 8574-(87/64) S
April 24, 1987

In determining the amounts of SDRs to be transferred in purchases and operational payments under the operational budgets, the Fund will be guided by the aim of reducing the Fund's SDR holdings to within a range of SDR 1.0-1.5 billion by end-1995. The Executive Board will be informed of the evolution of the Fund's holdings of SDRs on a regular basis in the context of the quarterly operational budget.

Decision No. 10278-(93/19) S
February 10, 1992

SELECTION OF CURRENCIES BY THE FUND

This decision sets forth guidelines for the selection of currencies in purchases under Article V, Section 3(a), in repurchases under Article V, Section 7(i), and in transfers of SDRs by the Fund under Article V, Section 6(b) pursuant to decisions adopted prior to the date of this decision.

1. Normally, the Fund will select a member's currency for use in the operations and transactions of the General Resources Account in amounts that result in a net reduction of the Fund's holdings of the currency only if the member's balance of payments and gross reserve position is judged to be sufficiently strong. Accordingly this will not preclude the possibility that the Fund will make net reductions in its holdings of the currency of a member with a strong reserve position even though it has a moderate balance of payments deficit.

2. (a) Under procedures to be adopted, the currency of a member with outstanding purchases subject to the guidelines on early repurchase, whose balance of payments and gross reserve position is judged sufficiently strong for the purposes of operational budgets and designation plans, normally will be sold by the Fund under Article V, Section 3(d) only if the member and the Fund agree.

(b) If the outstanding purchases of a member judged sufficiently strong are not subject to the guidelines on early repurchase, and the member agrees with the Fund that its currency shall be sold, the amounts of its currency to be sold shall be calculated in accordance with the procedures set out in the Annex to this decision.

3. If the currency of a member whose balance of payments and gross reserve position is not judged sufficiently strong in accordance with paragraph 1 above can be accepted in repurchase under Article V, Section 7(i), the Fund, at the request of the member, will give special emphasis to the use of that currency for repurchases.

4. The guidelines in this decision will be applied in a manner that will allow the Fund to retain the flexibility necessary to ensure that (i) the use of currencies can be adapted to the needs and circumstances of members and of the Fund, and (ii) the transactions and operations of the Fund can be executed expeditiously and in a manner that pays due regard to the convenience of members. Considerations that are relevant under (i) may include the need for members to purchase certain currencies in order to stabilize exchange markets, the effects of the use or receipt of currencies on the Fund's financial position, the Fund's liquidity, and the fact that in respect of the issuer of a reserve currency the ratio of its Fund position to its gold and foreign exchange holdings may not provide an appropriate measure of the amounts of the currency that might be used by the Fund. Considerations under (ii) may include the need to avoid the use of an excessive number of currencies in single transactions and operations.

Decision No. 6774-(81/35)
March 5, 1981

ANNEX

Sales of Currencies of Members Indebted to the Fund

a. There are some members indebted to the Fund that are judged sufficiently strong but to whose outstanding purchases the guidelines on early repurchase do not apply. It was agreed that the Fund would not insist on its right to sell the currency of such a member and such sales would take place only if there was agreement between the member and the Fund. In such cases the Managing Director is authorized, under procedures agreed by the Executive Board, to approach any of these members in a particularly strong position with a view to the member reducing its indebtedness to the Fund in amounts calculated in accordance with the guidelines. In order to facilitate sales of such members' currencies, the rule of attribution is changed to give a member with outstanding indebtedness under excluded facilities financed by borrowing (other than the GAB) the option to apply the consequent reduction in the Fund's holdings of its currency to an enlargement of its reserve tranche position rather than to the discharge of its outstanding obligations to the Fund.

b. The Fund will calculate the amounts of the currencies of the members referred to in (a) above, included for sales in an operational budget, in accordance with the guidelines on early repurchase. In addition, if any other debtor member whose outstanding purchases were neither under excluded facilities financed by borrowings nor subject to the guidelines on early repurchase agreed with the Fund on the sale of its currency, the Fund would calculate the amounts to be sold in the same manner. However, at the request of the member, the calculated amounts would be reduced for the first two successive budget periods. The calculation of the amount of sales of a debtor member's currency for any quarterly period would no longer be made in accordance with the guidelines on early repurchase, or would be reduced from the calculated amount, when sales of the currency equal the outstanding indebtedness of the member to the Fund.