

**Selected Decisions of the  
International Monetary Fund  
and Selected Documents**

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**Supplement**  
to Eighth Issue  
International Monetary Fund

Washington, D.C.  
December 4, 1978

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## PREFACE

This volume, which is presented as a Supplement to the Eighth Issue of *Selected Decisions of the International Monetary Fund and Selected Documents*—referred to in this Supplement as *Selected Decisions*, 8th issue (1976)—includes general decisions adopted by the International Monetary Fund since May 10, 1976, the date of publication of the Eighth Issue. Some of these decisions were adopted in connection with the Second Amendment of the Fund's Articles of Agreement that took effect on April 1, 1978. All references to the Articles and to the By-Laws, Rules and Regulations in this Supplement are to the Articles of Agreement as modified by the Second Amendment and to the By-Laws, Rules and Regulations of the Thirty-Fifth Issue, July 1, 1978, respectively, unless indicated otherwise.

The Fund has not yet completed the process of making the modifications in existing decisions, and adopting the new decisions, that are required in connection with the Second Amendment. The Ninth Issue of this collection will be published as soon as this task of adaptation is complete. It will include the decisions in the Eighth Issue that remain in effect, the decisions in this Supplement, and any further decisions that are adopted. Meanwhile, in view of the accumulation of new and modified decisions, there is need for this Supplement.

JOSEPH GOLD  
*General Counsel*  
*and*  
*Director, Legal Department*

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## ARTICLE IV

### **Exchange Arrangements**

#### 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 pro-

posed 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.

#### 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.

ARTICLE V, SECTION 3

**Use of Fund's Resources and Stand-By and  
Extended Arrangements**

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 (mem-

ber) 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.

#### ELIMINATION OF AUGMENTATION OF RIGHTS TO PURCHASE UNDER STAND-BY AND EXTENDED ARRANGEMENTS

The texts of stand-by and extended arrangements approved after the date of the Second Amendment, including the texts of such arrangements in connection with the supplementary financing

facility shall not provide for the augmentation of rights to make purchases under the arrangements.

*Decision No. 5706-(78/39)*

*March 22, 1978*

#### 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

\* *Selected Decisions*, 8th issue (1976), pages 62-66.

- (ii) outstanding drawings under this decision exceed SDR 4.0 billion.

*Decision No. 5348-(77/33)*

*March 11, 1977*

#### 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*

#### 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.

\* *Selected Decisions*, 8th issue (1976), pages 50-54.

\*\* Refers to Articles of Agreement in effect before the Second Amendment.

\*\*\* Reproduced on pages 70-77.

(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

\*See Decision No. 5706-(78/39) on page 17.

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.

\* *Selected Decisions*, 8th issue (1976), pages 50-54.



(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. Pur-

chases 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*

IMPLEMENTATION OF THE SUPPLEMENTARY FINANCING  
FACILITY: TEXT OF STAND-BY AND EXTENDED ARRANGE-  
MENTS

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 purchases 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 a 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 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 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.

#### 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.

\* *Selected Decisions*, 8th issue (1976), pages 66-67.

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

\* *Selected Decisions*, 8th issue (1976), pages 66-67.

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*

\* Reproduced on pages 43-45.



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 cur-

\* *Selected Decisions*, 8th issue (1976), pages 76-78.

\*\* *Ibid.*, pages 81-83.

rency 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.

\* *Selected Decisions*, 8th issue (1976), pages 76-78.

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*

\* Not included in this Supplement.

\*\* *Selected Decisions*, 8th issue (1976), pages 81-83.

## ARTICLE V, SECTION 7

### Repurchases

#### 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*

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 (Decision 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.

\* *Selected Decisions*, 8th issue (1976), pages 62-66.

\*\* *Ibid.*, pages 66-67.

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

## REPURCHASES

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four equal installments beginning not later than one year after that date.

*Decision No. 5703-(78/39)*

*March 22, 1978, effective April 1, 1978*

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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*



ARTICLE V, SECTION 8

**Charges**

CHARGES: DECREASES IN FUND'S HOLDINGS OF A CURRENCY

For the purpose of applying Rule I-4(b), decreases in the Fund's holdings of a currency that do not reduce balances subject to Rule I-7(1), (2), (4), or (6) shall reduce balances subject to Rule I-7(5)(b) after balances subject to Rule I-7(5)(a) have been eliminated.

*Decision No. 5700-(78/38)*

*March 22, 1978*

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*

ARTICLE V, SECTION 11

**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*

## ARTICLE VII

### **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 participants 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 par-

ticipant 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.

BORROWING

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ANNEX

Participants and Amounts of Credit Arrangements

		<i>Units of Participant's Currency</i>
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.

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*

SELECTED DECISIONS OF EXECUTIVE BOARD

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*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).

\* Rule O-3 is not included in this Supplement; it corresponds to Rule O-2 in the Fund's Rules and Regulations, Thirty-Fifth Issue, July 1, 1978.

## BORROWING

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(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 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

\* See *Selected Decisions*, 8th issue (1976), page 102.



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.

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, 1977

The Executive Board approves the letter [below] from the Managing Director to Dr. Fritz Leutwiler, President of the Direc-

\* Refers to Articles of Agreement in effect before the Second Amendment.

torate 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 pro-

\* See footnote on page 60.

## SELECTED DECISIONS OF EXECUTIVE BOARD

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portion of SDR 37,500,000 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 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

\* See *Selected Decisions*, 8th issue (1976), page 102.

## BORROWING

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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 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.

\* Refers to Articles of Agreement in effect before the Second Amendment.

**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:  
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 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*

#### 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.

\* *Selected Decisions*, 8th issue (1976), pages 122-23.

\*\* *Ibid.*, pages 70-74.

\*\*\* *Ibid.*, page 125.

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.

\* *Selected Decisions*, 8th issue (1976), pages 127-28.

\*\* *Ibid.*, page 128.

(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 text 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*



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.

\* Reproduced on pages 19-25.

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 purchasers 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 Decision 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

\* See Decision No. 5706-(78/39) on page 17.

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*



## ARTICLE XV, SECTION 2

### Special Drawing Right: 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	12½
Japanese yen	7½
French franc	7½
Pound sterling	7½
Italian lira	5
Netherlands guilder	5
Canadian dollar	5
Belgian franc	4
Saudi Arabian riyal	3
Swedish krona	2
Iranian rial	2
Australian dollar	1½
Spanish peseta	1½
Norwegian krone	1½
Austrian schilling	1½

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 right 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 revision 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*

## ARTICLE XIX, SECTION 6

### **Reconstitution**

#### TRANSFER OF SPECIAL DRAWING RIGHTS HELD IN THE GENERAL RESOURCES ACCOUNT TO PARTICIPANTS TO PROMOTE RECONSTITUTION

1. Pursuant to Article V, Section 3(f), the Fund agrees that a participant that requests a purchase under Article V, Section 3, may obtain SDRs in that purchase from the General Resources Account to promote reconstitution under Article XIX, Section 6(a) and Schedule G, paragraph 1(a). The maximum amount of SDRs that may be obtained in this way shall be the sum of (i) the largest single amount most recently notified to the participant under Rule R-3 or calculated for acquisition in the final month of a reconstitution period, taking into account the proposed date of acquisition, (ii) the total amount of any charges to be paid in SDRs to the General Resources Account prior to the next calculation under Rule R-2 and (iii) obligations under Schedule B, paragraphs 1 and 2 that must be discharged in SDRs by the participant prior to the next calculation under Rule R-2. This maximum amount will be reduced by any net acquisition of SDRs other than by way of allocation subsequent to the date of the calculation.

2. Pursuant to Article V, Sections 6(b) and 6(c), the Fund shall provide a participant, at its request, with SDRs from the General Resources Account for an equivalent amount of the currencies of other members selected by the Managing Director from the currencies in the operational budget, to promote reconstitution under Article XIX, Section 6(a) and Schedule G, paragraph 1(a), in an amount not exceeding the maximum amount defined in paragraph 1 of this decision.

*Decision No. 5699-(78/38) G/S*

*March 22, 1978, effective April 1, 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*

ARTICLE XXX(c)

**Exclusion of Purchases and Holdings**

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*

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*

\* *Selected Decisions*, 8th issue (1976), pages 66-67.

\*\* *Ibid.*, pages 70-74.

\*\*\* *Ibid.*, pages 76-78.

ARTICLE XXX(f)

**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

### Trust Fund

#### 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.\*\*
- (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.\*\*\*
- (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*

\* *Selected Decisions*, 8th issue (1976), pages 186–95.

\*\* See *Annual Report of the Executive Directors for the Fiscal Year Ended April 30, 1976*, pages 116–17.

\*\*\* See *Annual Report of the Executive Board for the Financial Year Ended April 30, 1978*, pages 131–32.

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*

TRUST FUND: MEANS OF PAYMENT OF INTEREST BY MEMBERS  
ON THEIR INDEBTEDNESS UNDER LOAN AGREEMENTS

The Executive Board approves payments of interest due June 30, 1977 on members' indebtedness under their loan agreements with the Fund as Trustee of the Trust Fund, with U.S. dollars. . . .

*Decision No. 5454-(77/90) TR*  
*June 20, 1977*

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Payments of interest due December 31, 1977 on members'

\* *Selected Decisions*, 8th issue (1976), page 193.



indebtedness under their loan agreements with the Fund as Trustee of the Trust Fund shall be made with U.S. dollars.

*Decision No. 5610-(77/175) TR*

*December 21, 1977*

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Payments of interest due June 30, 1978 on members' indebtedness under their loan agreements with the Fund as Trustee of the Trust Fund shall be made with U.S. dollars.

*Decision No. 5827-(78/91) TR*

*June 21, 1978*

DISTRIBUTION TO DEVELOPING COUNTRIES OF PROFITS FROM  
GOLD SALES: AUTHORITY TO DISTRIBUTE PROFITS  
THROUGH TRUST FUND

The Trustee is authorized to distribute through the Trust the profits from the sale of gold for the benefit of developing countries as referred to in paragraph 7 of the Executive Board Decision No. 5069-(76/72),\* adopted May 5, 1976 and Section VI of the Instrument to Establish the Trust Fund.\*\*

*Decision No. 5709-(78/41) TR*

*March 23, 1978*

TRUST FUND: PROCEDURES FOR FINAL PAYMENTS OF PROFITS  
AND LOANS FOR THE PERIOD JULY 1, 1976 TO JUNE 30,  
1978

I. The Trust will make final disbursements of loans for its first period of two years, in accordance with the procedures and conclusions set out in TR/78/24 (5/19/78) and Supplement 1 (6/21/78).

\* *Selected Decisions*, 8th issue (1976), pages 185-86.

\*\* *Ibid.*, page 195.

II. The Trustee will distribute through the Trust Fund the profits from sales of gold for the benefit of developing members for the total amounts shown in the Attachment to TR/78/24 and in accordance with the procedures outlined in that paper and its supplement.

*Decision No. 5832-(78/95) TR*

*June 26, 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 in-

\* *Selected Decisions*, 8th issue (1976), pages 185-95.

clude obligations of international financial organizations or 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*

**Selected Resolutions of the Board of Governors  
Supplement to Eighth Issue**

## A. Review of Reconstitution

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*

*January 4, 1978*

\* See *Annual Report of the Executive Board for the Financial Year Ended April 30, 1978*, pages 120–22.

\*\* Refers to Articles of Agreement in effect before the Second Amendment.

## B. Increases in Quotas of Fund Members— Seventh General Review

### REPORT OF THE EXECUTIVE BOARD TO THE BOARD OF GOVERNORS

1. Article III, Section 2(a) of the Articles of Agreement 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.

In their Resolution of March 22, 1976,\* the Board of Governors decided that "The seventh general review of quotas should 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

\* *Selected Decisions*, 8th issue (1976), pages 222-24.

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 inter-related 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 members' 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 relative 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 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 any time 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), 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.

October 25, 1978

*Proposed Resolution of 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 pre-

\* Adopted by the Board of Governors, effective December 11, 1978, and designated No. 34-2.

scribed 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.

ANNEX

<u>Proposed Maximum Quota</u> <i>(In millions of SDRs)</i>	<u>Proposed Maximum Quota</u> <i>(In millions of SDRs)</i>
1. Afghanistan . . . . . 67.5	31. Egypt . . . . . 342.0
2. Algeria . . . . . 427.5	32. El Salvador . . . . . 64.5
3. Argentina . . . . . 802.5	33. Equatorial Guinea . . . . . 15.0
4. Australia . . . . . 1,185.0	34. Ethiopia . . . . . 54.0
5. Austria . . . . . 495.0	35. Fiji . . . . . 27.0
6. Bahamas . . . . . 49.5	36. Finland . . . . . 393.0
7. Bahrain . . . . . 30.0	37. France . . . . . 2,878.5
8. Bangladesh . . . . . 228.0	38. Gabon . . . . . 45.0
9. Barbados . . . . . 25.5	39. Gambia, The . . . . . 13.5
10. Belgium . . . . . 1,335.0	40. Germany, Federal Republic of . . . . . 3,234.0
11. Benin . . . . . 24.0	41. Ghana . . . . . 159.0
12. Bolivia . . . . . 67.5	42. Greece . . . . . 277.5
13. Botswana . . . . . 13.5	43. Grenada . . . . . 4.5
14. Brazil . . . . . 997.5	44. Guatemala . . . . . 76.5
15. Burma . . . . . 109.5	45. Guinea . . . . . 45.0
16. Burundi . . . . . 34.5	46. Guinea-Bissau . . . . . 5.9
17. Cameroon . . . . . 67.5	47. Guyana . . . . . 37.5
18. Canada . . . . . 2,035.5	48. Haiti . . . . . 34.5
19. Central African Empire . 24.0	49. Honduras . . . . . 51.0
20. Chad . . . . . 24.0	50. Iceland . . . . . 43.5
21. Chile . . . . . 325.5	51. India . . . . . 1,717.5
22. China, Republic of . . . 550.0	52. Indonesia . . . . . 720.0
23. Colombia . . . . . 289.5	53. Iran . . . . . 1,075.0
24. Comoros . . . . . 3.5	54. Iraq . . . . . 234.1
25. Congo, People's Republic of the . . . . . 25.5	55. Ireland . . . . . 232.5
26. Costa Rica . . . . . 61.5	56. Israel . . . . . 307.5
27. Cyprus . . . . . 51.0	57. Italy . . . . . 1,860.0
28. Denmark . . . . . 465.0	58. Ivory Coast . . . . . 114.0
29. Dominican Republic . . 82.5	59. Jamaica . . . . . 111.0
30. Ecuador . . . . . 105.0	60. Japan . . . . . 2,488.5

INCREASES IN QUOTAS—SEVENTH GENERAL REVIEW

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Proposed Maximum Quota <i>(In millions of SDRs)</i>	Proposed Maximum Quota <i>(In millions of SDRs)</i>
61. Jordan . . . . .	45.0
62. Kampuchea, Democratic . . . . .	25.0
63. Kenya . . . . .	103.5
64. 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
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 Príncipe . . . . .	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
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

SELECTED RESOLUTIONS OF BOARD OF GOVERNORS

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	Proposed Maximum Quota <i>(In millions of SDRs)</i>		Proposed Maximum Quota <i>(In millions of SDRs)</i>
126. Upper Volta . . . . .	24.0	131. Yemen Arab Republic . .	19.5
127. Uruguay . . . . .	126.0	132. Yemen, People's Democratic Republic of . . . . .	61.5
128. Venezuela . . . . .	990.0	133. Yugoslavia . . . . .	415.5
129. Viet Nam, Socialist Republic of . . . . .	135.0	134. Zaïre . . . . .	228.0
130. Western Samoa . . . . .	4.5	135. Zambia . . . . .	211.5



## C. Allocation of Special Drawing Rights for the Third Basic Period

PROPOSAL BY THE MANAGING DIRECTOR OF THE INTERNATIONAL MONETARY FUND

### *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)),” \* 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 XVIII, Sections 4(a) and (b), I am now submitting to the Board of Governors a proposal for allocation of

\* Refers to Articles of Agreement in effect before the Second Amendment.

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, discuss 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 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 draw-

ing 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.<sup>1</sup> 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."<sup>2</sup> 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

<sup>1</sup> Because the percentage is to be rounded to the nearest one-tenth of one percentage point, an allocation could in practice exceed or fall short of the desired amount by not more than one-twentieth of one 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.

<sup>2</sup> 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.

Quotas that is being proposed for simultaneous adoption by the Board of Governors is adopted.\* 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.
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 one 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.

*October 25, 1978*

\* See pages 98-102.



*Proposed Resolution of the Board of Governors\**

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 has 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 one percentage point, resulting from dividing SDR 4 billion by the total of quotas on the day

\* Adopted by the Board of Governors, effective December 11, 1978, and designated No. 34-3.

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.

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<sup>1</sup> References are to the Second Amendment of the Articles of Agreement, which entered into force April 1, 1978, unless indicated otherwise.

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<sup>3</sup> Corresponds to Rule O-2 in Fund's Rules and Regulations, Thirty-Fifth Issue, July 1, 1978.

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