



UNITED NATIONS
GENERAL
ASSEMBLY



Distr.
GENERAL

A/35/465/Add.1
27 October 1980

ORIGINAL: ENGLISH

Thirty-fifth session
Agenda item 61 (h)

DEVELOPMENT AND INTERNATIONAL ECONOMIC CO-OPERATION

International monetary reform

Report of the Secretary-General

Addendum

CONTENTS

	<u>Page</u>
I. INTRODUCTION	2
II. REPLIES RECEIVED FROM SPECIALIZED AGENCIES AND OTHER ORGANIZATIONS OF THE UNITED NATIONS SYSTEM	2
International Monetary Fund	2

I. INTRODUCTION

1. In paragraph 1 of its resolution 34/216 of 19 December 1979, the General Assembly invited the appropriate organs, organizations and bodies of the United Nations system to examine positively the Outline for a Programme of Action on International Monetary Reform (prepared by the Intergovernmental Group of 24 on International Monetary Affairs and endorsed by the Group of 77 at its ministerial meeting held at Belgrade on 29 September 1979 (A/35/465, annex)), to take the necessary decisions to implement the measures therein, with a view to ensuring that progress in that area should contribute to the establishment of the new international economic order, and to report to the Assembly at its thirty-fifth session on progress made in that field.
2. Pursuant to that request, a number of replies received from the specialized agencies and the General Agreement on Tariffs and Trade (GATT) and from the United Nations bodies and organs concerned were circulated in document A/35/465.
3. The present document contains an additional reply received from the International Monetary Fund.

II. REPLIES RECEIVED FROM SPECIALIZED AGENCIES AND OTHER ORGANIZATIONS OF THE UNITED NATIONS SYSTEM

INTERNATIONAL MONETARY FUND

1. Following approval by the Executive Board on 20 June 1980 of the Fund work programme on the Programme of Immediate Action contained in chapter IV of the Outline for a Programme of Action on International Monetary Reform, prepared by the Group of 24 (A/35/465, annex), a number of papers were prepared by the Fund staff on the various recommendations in the Programme of Immediate Action of relevance to the Fund. Each paper was considered carefully by the Executive Board. On the basis of these discussions, the Executive Directors prepared a progress report, which was submitted to the Interim Committee of the Board of Governors on the International Monetary System prior to its meeting on 28 September 1980.
2. At its meeting on 28 September, the Interim Committee discussed the recommendations in the Programme of Immediate Action relating to monetary issues on the basis of the progress report by the Executive Board. On the issue of enlarged access to Fund resources, the Executive Board had agreed that, in view of the more protracted nature and the size of the imbalances in prospects for many member countries, the Fund should play a larger role in financing these imbalances, while maintaining an adequate emphasis on the correction of balance-of-payments problems over a reasonable period. There was general agreement that the Fund should be ready, when a member is adopting sound demand and supply policies, to support programmes that stretch adjustment over longer periods and to lend larger amounts than in the past.
3. The Interim Committee noted these developments regarding policies on the use of Fund resources and endorsed the Executive Board's conclusion that amounts up to a

/...

total of 200 per cent of a member's quota (excluding uses under the compensatory and buffer-stock financing facilities), or a total of 600 per cent over a three-year period, would be a reasonable guideline for the use of Fund resources in current circumstances. The Committee noted with satisfaction that the Fund had already agreed to provide large amounts of resources to a number of member countries in support of programmes providing for adjustment over longer periods of time than had been the normal practice to date.

4. On the related question of financing this enlarged access by members, there was a clear consensus among the Executive Directors that quotas should be the basic source of financing the use of the Fund's resources. It was recognized, however, that borrowing had proved to be a useful supplement and that further borrowing would be necessary during the period ahead.

5. The Interim Committee concurred with the analysis of the Executive Board and welcomed the steps already taken by the Managing Director to supplement the Fund's resources by further borrowing and, bearing in mind the magnitude of the potential need, the Committee agreed that the Fund's Executive Board and Managing Director should make the necessary arrangements as soon as possible to enable the Fund to borrow from various potential sources, not excluding a possible recourse to private markets if that was indispensable. The Committee stressed that while it might be necessary for the Fund to resort to further borrowing, the primary reliance of the Fund for resources should continue to be on subscriptions under members' quotas. In that connexion, the Committee expressed regret that there had been a delay in the implementation of the quota increases under the Seventh General Review of Quotas and urged members that had not consented to the increase in their quotas to make every effort to do so as soon as possible. It further endorsed the intention of the Executive Board to begin preparatory work on the Eighth General Review of Quotas, which would include a review of the criteria by which quotas were calculated.

6. The Executive Directors discussed on several occasions the future of the Trust Fund and the issue of subsidizing the cost of the use of the supplementary financing facility. There was broad support for establishing a subsidy account whose resources should be obtained by use of part of the proceeds of loan repayments to the Trust Fund, together with such voluntary donations, or loans preferably on concessional terms, as might be available. The Interim Committee welcomed these developments and endorsed the efforts of the Managing Director to elicit voluntary contributions to the account and urged all countries that were in a position to contribute but had not decided to do so to take such steps as would enable them to make a contribution to the funding of the account.

7. With regard to the stabilization of export earnings, the Executive Directors continued to review the compensatory financing facility, and considered that in view of the expanded role it had assumed since it was liberalized in 1979, the facility would cope effectively with the payments difficulties arising from export shortfalls during the next years. During its meeting on 29 September 1980, the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee) welcomed the progress which had been made by the Fund in adapting the compensatory financing facility to meet more adequately the needs of countries with export shortfalls and

/...

decided that it would pursue the matter of the export earnings stabilization programmes based on the comprehensive study being prepared by the United Nations Conference on Trade and Development.

8. The Executive Board actively considered the question of whether the Fund could extend temporary financial assistance to low-income countries adversely affected by crop failures or sharp increases in the prices of food items. The Interim Committee urged that the Executive Board give prompt consideration to the matter.

9. The Executive Board devoted considerable attention to future special drawing rights (SDR) allocations. While several Directors believed that the important economic developments that have taken place could provide some justification for a change in the rate of SDR allocation for the remaining year of the current basic period, many Directors preferred to take these developments into account at the time of their consideration of SDR allocations for the next basic period which begins in 1982. In their discussion, the Directors weighed the argument for additional unconditional liquidity, better representation of the SDR in total reserves and general enhancement of the role of the SDR against concerns that increases in unconditional liquidity would retard the process of adjustment and could be interpreted as a weakening of the international community's resolve to fight inflation. The Interim Committee asked the Executive Board to give further consideration to this matter before the next meeting of the Committee in May 1981.

10. In the Executive Board's discussion of a possible SDR link, attention was given to the changes that had taken place in the world economy since the deliberations of the Committee on Reform of the International Monetary System and Related Issues (Committee of 20) and the other discussions leading to the formulation of the Second Amendment. It was agreed that the Board would engage in a more comprehensive study of the link, including its operational functions. It was also agreed that in its further study more detailed attention would be given to some of the new techniques outlined by the staff, including a link to Fund-supported programmes and an interest subsidy link. The Interim Committee noted the Executive Board's discussions on a possible link between SDR allocations and development financing and it agreed that the Board should carry out a more comprehensive study of this matter in the context of the proper role of the SDR in the international monetary system and the liquidity needs of the world.

11. The Executive Board discussed at length the question of the participation of developing countries in decision-making in the Fund. The Interim Committee felt that this matter needed further consideration and noted the intention of the Board to return to this important topic at an early date in connexion with the Eighth General Review of Quotas.

12. The Interim Committee urged the Executive Board to continue its consideration of the remaining issues raised by the recommendations of the Group of 24 with a view to arriving at widely acceptable solutions, and to report to the Committee at its next meeting. The International Monetary Fund will give serious consideration to each of the remaining issues, including the important topic of the external debt problems of developing countries.