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THE IMF CHANGES A Second Amendment

The Second Amendment to the International Monetary Fund's Articles of Agreement which came into force from April 1 this year is regarded as one of the most massive and intricate revisions of a major treaty that has ever been undertaken. The Amendment entered into force for all 133 members of the IMF, including Sri Lanka, following its acceptance — as required under the Articles — by three fifths of the Fund's members representing four fifths of the total voting power. This Second Amendment represents a complex revision of the Articles which was intended to modernize the entire organisation and provide for the operation of the Fund in present day conditions of the world economy. It therefore introduced new and flexible provisions for the IMF to deal with exchange arrangements, and provided for a gradual reduction in the role of gold in the international monetary system and also for changes in the characteristics and expansion of the uses of Special Drawing Rights (SDR) with the hope of enhancing the SDR's status as an international reserve asset.

The amended set of Articles of Agreement of the IMF are now binding on all members of the Fund whether they have accepted them or not. The formal acceptance of the amended Articles by Sri Lanka was accomplished by the passing of the Bretton Woods Agreement (Special Provisions) Bill by the National State Assembly during the first week of April and final enactment in the statute book as Law No. 10 of 1978. This brings Sri Lanka in as an active participant in the "New International Monetary System" that the IMF's Second Amendment expects to establish.

In order to understand more closely the characteristics of this second revision of the Articles and appreciate their general significance it is useful to examine the events that led to the collapse of the Bretton Woods system and the need for amendments in the original Articles of Agreement.

The world underwent a fundamental shock in its economic structure during the Second World War. At the end of the war a realignment of economic relations for the non-Socialist world was apparent; the most obvious aspect of realignment being the emergence of the United States as the leader of the Western World . All the European economies had been largely exhausted or destroyed after the war and only the U.S. economy seemed to be in a position to provide essential reconstruction aid. The memories of monetary turmoil of the capitalist countries in the twenties and thirties was still fresh and concern about a possible recurrence was widespread. These memories and concerns prompted the major Western nations to convene at Bretton Woods, New Hampshire, in 1944, in order to design a workable international monetary system.

The outcome of this conference was a comprehensive blueprint of an International Monetary System which sought to combine certain features of the old gold standard with a greater degree of flexibility and some measure of control over international liquidity. The organisation to be responsible for the new monetary system was the International Monetary Fund which was established on December 27, 1945 when representatives of countries whose quotas amounted to 80 per cent of the Fund's resources had deposited their ratification of the Bretton Woods Agreement. The original Articles of Agreement of the IMF was signed by 44 nations. (Socialist nations being non-members).

At Bretton Woods the principle that the international monetary system must facilitate unrestricted trade and investment was affirmed.

It was agreed that national currencies would be defined in terms of gold parities, and exchange rates would therefore be fixed. Only in case of fundamental disequilibrium in its balance of payments would a country be expected to change its exchange rate. Also, international liquidity would be made available in sufficient amounts to tide countries over periods of temporary (rather than fundamental) balance of payments deficits.

The role of assisting countries in temporary balance of payments difficulties thus fell to the International Monetary Fund. The principal feature of its organization was to create a fund or a pool of many different currencies on which individual countries would be able to draw in times of need.

The essential features of the original Articles of Agreement can be summarised as follows:

(i) Establishment of a new permanent institution, the IMF, to promote consultation and collaboration on international monetary problems, to administer the Articles, and to lend to member countries in balance of payments deficit.

(ii) Establishment of a par value system whereby the value of each member's currency is expressed in terms of gold or the US dollar. Gold was treated as common denominator and the primary reserve asset of Bretton Woods system.

Countries freely buying and selling gold in settlement of international transactions were deemed to be adhering to the requirement that they maintain exchange rates within a narrow band of one per cent around par value. Thus, the United States — the only country that met this condition — was not expected to intervane in the foreign exchange markets; rather, other countries would intervene mainly by buying or selling dollars against their own currencies to keep their rates within one per cent of their parities with the dollar.

(iii) Introduction of obligations on the members to maintain market exchange rates for their currencies within one per cent of the declared par value. Except for transitional arrangements permitting one-time adjustment of up to 10 per cent in initial par values, members would change their par values only after having secured Fund approval; and such approval would be given only if the country's balance of payments was in "fundamental disquilibrium". The term "fundamental disquilibrium" was, however, not officially defined by the IMF. Under this arrangement, temporary and cyclical imbalances were to be financed by drawing the resources or through borrowing from the Fund and were to be corrected by policies other than exchange rate adjustment.

(iv) After the transitional period, members were required to permit convertibility of their currencies, in the sense that members would undertake to redeem balances of their currencies acquired by other members. Restricctions on current account payments and all discriminatory currency practices were discouraged.

(v) The Fund would provide liquidity to countries in deficit, out of holdings of gold and currencies arising from subscriptions by its members in relation to their "quotas".

(vi) The members were permitted to adopt exchange controls on imports and other current account purchases from a surplus country, when the latter's currency had become "scarce".

Thus, for the first time in history a central monetary institution which covered the majority of the countries in the (capitalist) world was established and a universal set of rules of monetary behaviour was formulated. Until the 1960s the international monetary system (also known as the Bretton Woods system) created by the IMF operated without dislocation. Yet, the experience upto the 1960s also indicated the inherent weaknesses of the system.

By the 1960s the U.S. dollar had replaced the sterling pound as the numeraie of the system, the principal reserve asset and the main intervention currency. In fact, the dollar was even considered superior to gold because of convenience in handling and interest yield. This heavy reliance on a national currency — the US dollar — was the root cause of the defects which began to emerge after the establishment of the Bretton Woods System. This reliance on the dollar is also related to the US's dominance in the political sphere in the post World War II period.

One of the major weaknesses of the Bretton Woods system was that though it was intended to promote international monetary cooperation and the expansion of international trade it failed to provide explicitly for a systematic means by which world reserves could grow with world trade and the world economy. In practice, the growth of international reserves became a by-product of the balance of payments deficits experienced by the US. The US created international money by expanding her liquid liabilities to the rest of the world. Of course, during the period upto the 1960s, the rate of interest in reserves could not be treated excessive, considering the rates of growth of income, output and trade.

Nevertheless, the world's dependence on the US balance of payments deficits for reserves was not considered to be a healthy arrangement. It was argued that if the process continued the US reserve liabilities would lead to a decline of net reserves of the US and this would provoke the suspension of covertibility. Such a situation could cause a disintegration of the world economy. On the other hand, if the US corrected its deficit the inadequacy of liquidity would strangulate world trade and economic activities.

Another weakness of the system was the ambiguity with regard to the balance of payments adjustment responsibilities. Problems of deficits were dealt with on an individual basis. No one was reviewing the adjustment process from a systematic stand point, inquiring whether the balance of payments policies and the aims of individual countries were compatible with each other and with a stable international monetary order.

Further, the Bretton Woods system could not offer a solution to the movement of speculative capital. (Capital movements was a serious problem by the 1970s). Although the Fund's Articles had assumed that controls would suppress such flows, it was neither possible nor desirable to control flows without controlling all international transactions.

The changing circumstances of the world economy from the 1960s onwards began to lead to serious difficulties in the observation of the rules of conduct of the Bretton Woods system. The US balance of payment deficit in the early 1960s caused concern among European countries, and hence ideas on the need for reform of the international monetary system began to emerge as early as 1962 when the British were considering far reaching reforms. The need for reforms were further endorsed by President Kennedy when he stated in July, 1963: "one of the reasons that new sources of liquidity may well be needed is that, as we close our payments gap, we will cut down our provisions of dollars to the rest of the world". Consequently, the Group of 10 deputies were appointed in October. 1963 to study the "functioning of the international monetary system and of its probable future needs for liquidity". The report of the deputies stated that gold will continue to be the ultimate international reserve asset, though it is not possible to expect new gold promotion to meet all liquidity needs of the future. As far as the international reserve currency was concerned, it said that with the shrinking of the US balance of payments deficit the contribution of dollar holdings to the growth of international reserve currency was unlikely to continue as in the past; and cautioned that there would be a need for the search of some additional kind of international currency. This was followed bv the establishment of a Study Group under the Chairmanship of Rinaldo Ossola of the Bank of Italy to study the creation of Reserve Assets.

In June, 1964. 32 non-governmental economists from eleven countries, under the leadership of Professor Fritz Machlup completed another study on *"The International Monetary Arrangements: The Problem of Choice"*. This report covered three main areas: (1) adjustment (of imbalances), (2) liquidity, and (3) confidence (or the problems of instability arising from possible conversions from one reserve asset to another). The study offered various alternative ways of dealing with the problems such as centralisation of international reserves in the IMF (or another institution); multiple currency reserves which would involve diversifying the reserve currency function among a number of countries and agreeing to rules on the ratio in which various reserves would be held; and flexible exchange rates. There were other policy proposals on which there was no unanimous agreement among the 32 countries.

An international monetary crisis began to develop from the mid 1960s particularly because of the weakening positions of the pound sterling and the US dollar, Britain had to struggle to maintain the foreign exchange value of the pound beginning from around mid 1964. The weakening position of the pound in foreign exchange markets culminated in a devaluation of the pound by 14.3 per cent on November 18, 1967. Despite the devaluation and the introduction of stringent monetary and fiscal measures aimed at improving the balance of payments, sterling remained weak in exchange markets during 1968. The devaluation of sterling in 1967 undermined the view that prevailed upto the early sixties that the exchange rates of economically powerful countries could be regarded as fixed. The experience since British devaluation, in fact, shattered this view.

Bretton Woods System Disintegrates

From 1966 onwards, inflationary pressure began building up in the US economy. One of the major factors that contributed to the rising prices was the excess demand created by the increasing defence expenditure consequent to the US involvement in the Vietnam war. The US President failed to get Congressional approval for tax increases to finance the defence budget. During the 1970-71 period, the US balance of payments deficit reached crisis point. Furthermore, the rate of unemployment also rose rapidly. Against these developments in the United States, West Germany and Japan emerged as countries with large balance of payments surpluses. The US authorities considered that the deterioration of the US trade position from early 1960s to 1971 was due to the increased trade surplus of Japan and Germany. Hence, the US expected those two countries to initiate the adjustment process by revaluing their currencies. In May, 1971, the West German authorities abandoned the par value and let the mark float; and the Netherlands guilder followed. However the currencies of most other European countries and Japan remained unchanged. Finally on August 15, 1971 the US suspended the convertibility of the dollar into gold, and imposed a temporary 10 per cent surcharge on imports requesting other countries to revalue their currencies. Thus, for the first time since the inception of the IMF, the gold exchange standard broke down and the par value system ended. This was the final stage in the disintegration of the Bretton Woods system. It was the suspension of official convertibility that trigged the reform negotiations over the international monetary system, during the ensuing period.

The upshot of the US action was a widespread floating of currencies by other countries. By the end of August, 1971, all the major currencies except the French franc were floating. The US was most concerned about the weakening position of its dollar which could be restored only by realising a trade surplus in 1972. This shift could be brought about by a realignment of exchange rates, trade liberalisation and sharing of America's defence budget; and from August 1971 onwards the US negotiated with European leaders with the hope of achieving these objectives. These negotiations culminated in an agreement reached on a realignment of currencies, including a devaluation of the dollar at a meeting of the Group of Ten at the Smithsonian Institute in Washington during December 17-18, 1971.

In the six years from 1966 to 1971 the Fund created a new reserve asset, the convertibility of the dollar into gold or other reserve assets was terminated, and the Bretton Woods system of par values collapsed. Though these fundamental changes in the international monetary system were going on, the Fund's financial operations continued on a large scale, with aggregate drawings of U.S. $11.7 billion in this period.

The events of 1966—71 had their origin in earlier years and they extended into later years. The creation of special drawing rights (SDRs) for example, was the fruition of discussions inside and outside the Fund that began as far back as 1958. In December 1971, the large industrial countries had just agreed on a new pattern of exchange rates which they hoped would restore a more flexible system of par values. That did not happen.

After the Smithsonian Agreement in December 1971 attention of the monetary authorities in the developed world was turned to long-term reform of the international monetary system. For this purpose an "ad hoc" study group, the Committee of 20 (C-20), was created within the framework of the IMF. The composition of the Committee was determined by the twenty constituencies of members of the Fund that appointed or elected Executive Directors to the Fund.

Meanwhile, pressures from the Third World were also mounting. At the third UNCTAD conference, held in 1972 at Santiago, a resolution on monetary reform was responsible for the creation of a "Group of 20". The New Group undoubtedly increased the bargaining power of the poor countries within the IMF, though this really came only in the 1970's with the shift of financial power to OPEC. Earlier, in the 1960's the Compensatory Finance Scheme sponsored by the IMF were generally unacceptable to the poorer countries as conditions seemed too stringent. For instance, the Compensatory Finance Scheme inaugurated in 1963 stipulated that if a country's export earnings are lower than the average of the earnings of the present and last two years, the IMF will allow the country concerned to draw up to 25 per cent of its IMF quota. The scheme applied only to earnings from merchandise exports, and the IMF allowed a country to benefit from the scheme only if it were convinced that the decline in export earnings had not been deliberately created and was of a relatively short-run nature. Repayment was expected within three to five years. At the instigation of UNCTAD, the IMF extended the scheme to allow an additional compensatory drawing of another 25 per cent of the members quota. However, this facility could be availed of only if the IMF was satisfied that the country concerned was strictly following the recommendations of the IMF to deal with the problem of export instability. The developing countries have generally refrained from making extensive use of the IMF's Compensatory Finance Scheme, though the situation has improved since 1966 when the scheme was liberalised. There were two major reasons attributed to this lack of enthusiasm. First, there was a link between ordinary drawings and compensatory drawings; although the revised IMF scheme placed the compensatory financing facility outside the structure of ordinary drawings, it was nevertheless true that in practice a use of the CFS facility jeopardised the chances of getting future requests for ordinary drawings granted. Second, and more important, the developing countries strongly resented an increased IMF interference in their domestic economic management and decision-making processes.

After several meetings and discussions the C-20 released its *First Outline of Reform* in September 1973. By the time the C-20 completed its work in June 1974, the developments on the world economic scene had completely changed the background to the forum. The oil embargo and the initial oil price increases by the Arab nations had a traumatic effect on both developed and developing countries. This was accompanied by an acceleration of the inflation rate in the developed world. These changed circumstances warranted a review of the approach adopted to reform the international monetary system. Thus the *Outline of Reform* releasleased by the C-20 included a series of "immediate steps" that would be taken to commence an evolutionary approach to reform and to help with the current problems faced by both developed and developing countries. The immediate impact of the report was the establishment of an Interim Committee of the Board of Governors on the International Monetary System.

During the period from October 1974 to January 1976, the Interim Committee and the Executive Board of the IMF were concerned mainly with: (a) the financing of massive balance of payments deficits; (b) an increase in IMF quotas; (c) the exchange rate regime; and (d) the treatment of gold. At the same time, the Executive Board was involved with the revision of the Articles of Agreement of the Fund.

A series of negotiations begun by the Interim Committee reached their final stage at a meeting held in Kingston, Jamaica in January 1976. At this conference a wide range of issues including IMF quota increases, the exchange rate system, treatment of gold and a Trust Fund were discussed. Agreement on these matters was to provide the basis for the amendments to the Articles of Agreement.

Increase Real Resources Transfers

Even so, what was achieved at the Jamaica meeting cannot be underplayed. One achievement was the agreements reached on the increased access to conditional liquidity. These included establishment of the Extended Fund facility, renewal of the oil facility for a second (and final) year, liberalisation of the compensatory financing facility, an average increase in the size of quotas by 33.6 per cent and an agreement to increase temporarily (until quota increases become effective) the size of each credit tranche by 45 per cent. As for developing countries, which expressed their views as a bloc under the Group of Twenty-four (G-24), the Jamaica agreement could not offer much. The main thrust of the arguments put forward by these countries was on the need to increase transfer of real resources. Developing countries primarily aimed at establishing a link between SDR creation and development. However, mainly because of US opposition this proposal was not accepted. Nevertheless, the increase in conditional liquidity and the establishment of the Trust Fund benefitted the developing countries in general.

The Executive Board completed its work on the amendments on March 24, 1976 and the Board of Governors (which had succeeded the Committee of Twenty) approved the amended Articles on April 30, 1976 after which they were presented to the members for their acceptance.

All in all, what has emerged after a long series of negotiations and deliberations is not exactly an international monetary "system" in so far as the term implies but a well defined and precise set of rights and obligations. Furthermore, in many important areas there was no agreement. For instance, on the rules for assigning adjustment responsibilities, the lack of which was one of the basic weaknesses of the Bretton Woods system. There was also no agreement on a design of a viable adjustment mechanism; and the meaning and content of "firm surveillance" was not adequately defined.

These failures are the result of a number of factors that were in operation during the period in which moves for reforms were in progress. The economies of the industrial and developing countries were in a state of turmoil. Inflation, oil price hikes, current account deficits and the breakdown of the par value system brought an unsettled state to the world economy during much of the period when this Amendment was being discussed. Furthermore, at the stage of negotiation the conflict of national interests often prevented unanimity in agreement on the issues discussed.

The main modifications to the existing system, brought about by the Amended Articles, can be summarised as follows:

(1) New Exchange Arrangements and Surveillance by the Fund.

(2) A reduction in the role of gold, including disposition of the Fund's own holdings of gold.

(3) Changes in the characteristics and expansion of the possible uses of the Special Drawing Right so as to assist it to become the principal reserve asset of the International Monetary System.

(4) Simplification and expansion of the types of the Fund's financial operations and transactions particularly those conducted through the General Department.

(5) The possible establishment of the Council as a new organ of the Fund.

(See pages 8 and 9 on Major Changes).

Perhaps the most important aspect of the Second Amendment was the provision of exchange arrangements. In the view of Joseph Gold, the General Consul of the IMF's legal department "in legalising freedom for members to choose their exchange arrangements, including floating, the second amendment represents a complete departure from the central feature of the original articles, namely the par value system. The emphasis in the new provisions are intended to bring about a shift to "orderly economic and financial conditions that will promote a stable system of exchange rates". In order to achieve such a stable system, however, members are subject to certain obligations in relation to their external and domestic policies and the Fund is required to maintain surveillance of the compliance of members with their obligations."

The role of the Fund as the centre for collaboration on international monetary problems does not depend on the nature of the exchange system. In most respects, its responsibility is greater with floating exchange rates than with par values. The second amendment states that the Fund shall oversee the international monetary system in order to ensure its effective operation and the compliance of members with their obligations of

Quotas in the Fund With and Without Sixth Review Increases

Member (currency)	Quota Without Increase: Million SDRs	Quota Without Increase: Per cent of total	Quota With Increase: Million SDRs	Quota With Increase: Per cent of total
Afghanistan (afghani)	.37	0.13	45	0.12
Algeria (dinar)	130	0.44	285	0.73
*Argentina (peso)	440	1.51	535	1.37
Australia (dollar)	665	2.28	790	2.02
Austria (schilling)	270	0.92	330	0.85
Bahamas (dollar)	20	0.07	33	0.08
*Bahrain (dinar)	10	0.03	20	0.05
*Bangladesh (taka)	125	0.43	152	0.39
*Barbados (dollar)	13	0.04	17	0.04
*Belgium (franc)	650	2.22	890	2.28
*Benin (franc)	13	0.04	16	0.04
*Bolivia (peso)	37	0.13	45	0.12
*Botswana (pula)	5	0.02	9	0.02
*Brazil (cruzeiro)	440	1.51	665	1.70
*Burma (kyat)	60	0.21	73	0.19
Burundi (franc)	19	0.07	23	0.06
Cambodia	25	0.09	31	0.08
Cameroon (franc)	35	0.12	45	0.12
*Canada (dollar)	1,100	3.76	1,357	3.48
Central African Empire (franc)	13	0.04	16	0.04
Chad (franc)	13	0.04	16	0.04
*Chile (peso)	158	0.54	217	0.56
China, Republic (new Taiwan dollar)	550	1 88	550	1.41
*Colombia (peso)	157	0.54	193	0.49
Comoros[1] (franc)	1.9	0.01	1.9	0.01
Congo, People's Republic (franc)	13	0.04	17	0.04
Costa Rica (colon)	32	0.11	41	0.11
Cyprus (pound)	26	0.09	34	0.09
Denmark (krone)	260	0.89	310	0.79
Dominican Republic (peso)	43	0.15	55	0.14
*Ecuador (sucre)	33	0.11	70	0.18
Egypt (pound)	188	0.64	228	0.58
*El Salvador (colon)	35	0.12	43	0.11
Equatorial Guinea (ekuele)	8	0.03	10	0.03
*Ethiopia (birr)	27	0.09	36	0.09
*Fiji (dollar)	13	0.04	18	0.05
*Finland (markka)	190	0.65	262	0.67
France (franc)	1,500	5.13	1,919	4.92
*Gabon (franc)	15	0.05	30	0.08
*Gambia, The (dalasi)	7	0.02	9	0.02
*Germany, Federal Rep (deutsche mark)	1,600	5.48	2,156	5.52
*Ghana (cedi)	87	0.30	106	0.27
*Greece (drachma)	138	0.47	185	0.47
*Grenada (East Caribbean dollar)	2	0.01	3	0.01
Guatemala (quetzal)	36	0.12	51	0.13
Guinea (syli)	24	0.08	30	0.08
Guinea-Bissau[1] (peso)	3.2	0.01	3.2	0.01
*Guyana (dollar)	20	0.07	25	0.06
*Haiti (gourde)	19	0.07	23	0.06
*Honduras (lempira)	25	0.09	34	0.09
*Iceland (króna)	23	0.08	29	0.07
*India (rupee)	940	3.22	1,145	2.93
*Indonesia (rupiah)	260	0.89	480	1.23
*Iran (rial)	192	0.66	660	1.69
Iraq (dinar)	109	0.37	141	0.36
*Ireland (pound)	121	0.41	155	0.40
*Israel (pound)	130	0.44	205	0.53
*Italy (lira)	1,000	3.42	1,240	3.18
*Ivory Coast (franc)	52	0.18	76	0.20
*Jamaica (dollar)	53	0.18	74	0.19
Japan (yen)	1,200	4.11	1,659	4.25
Jordan (dinar)	23	0.08	30	0.08
Kenya (shilling)	48	0.16	69	0.18
*Korea (won)	80	0.27	160	0.41
*Kuwait (dinar)	65	0.22	235	0.60
Lao People's Dem. Rep. (kip)	13	0.04	16	0.04
Lebanon (pound)	9	0.03	12	0.03
*Lesotho (rand)	5	0.02	7	0.02
*Liberia (dollar)	29	0.10	37	0 10
*Libya (dinar)	24	0.08	185	0.47
Luxembourg (franc)	20	0.07	31	0 08
Madagascar (franc)	26	0.09	34	0 09
*Malawi (kwacha)	15	0.05	19	0 05
*Malaysia (ringgit)	186	0.64	253	0.65
Maldives[1] (rupee)	0.7	0.002	0 7	0 002
*Mali (franc)	22	0.08	27	0.07
Malta (pound)	16	0.05	20	0 05
Mauritania (ouguiya)	13	0.04	17	0 04
*Mauritius (rupee)	22	0.08	27	0 07
*Mexico (peso)	370	1.27	535	1 37
*Morocco (dirham)	113	0.39	150	0 38
*Nepal (rupee)	14[2]	0.04	19	0 05
*Netherlands (guilder)	700	2.40	948	2 43
New Zealand (dollar)	202	0.69	232	0 59
Nicaragua (córdoba)	27	0.09	34	0 09
*Niger (franc)	13	0.04	16	0 04
*Nigeria (naira)	135	0.46	360	0 92
*Norway (krone)	240	0 82	295	0 76
Oman (rial Omani)	7	0.02	20	0 05
*Pakistan (rupee)	235	0.80	285	0 73
*Panama (balboa)	36	0.12	45	0 12
*Papua New Guinea (kina)	20	0 07	30	0 08
*Paraguay (guarani)	19	0 07	23	0 06
*Peru (sol)	123	0 42	164	0.42
*Philippines (peso)	155	0.53	210	0 54
*Portugal (escudo)	117	0.40	172	0 44
*Qatar (riyal)	20	0.07	40	0 10
Romania (leu)	190	0.65	245	0 63
*Rwanda (franc)	19	0.07	23	0.06
São Tomé and Principe[1] (dobra)	1.6	0.01	1 6	0 01
*Saudi Arabia (riyal)	134	0 46	600	1 54
*Senegal (franc)	34	0.12	42	0 11
Seychelles[1] (rupee)	1	0.003	1	0 003
*Sierra Leone (leone)	25	0 09	31	0 08
Singapore (dollar)	37	0.13	110	0 28
Somalia (shilling)	19	0.07	23	0 06
*South Africa (rand)	320	1.10	424	1.09
*Spain (peseta)	395	1.35	557	1 43
Sri Lanka (rupee)	98	0.34	119	0.30
*Sudan (pound)	72	0 25	88	0.23
*Swaziland (lilangeni)	8	0 03	12	0.03
*Sweden (krona)	325	1 11	450	1.15
Syrian Arab Republic (pound)	50	0.17	63	0 16
Tanzania (shilling)	42	0.14	55	0 14
*Thailand (baht)	134	0.46	181	0.46
*Togo (franc)	15	0.05	19	0 05
*Trinidad and Tobago (dollar)	63	0.22	82	0.21
*Tunisia (dinar)	48	0.16	63	0 16
Turkey (lira)	151	0.52	200	0 51
Uganda (shilling)	40	0.14	50	0 13
*United Arab Emirates (dirham)	15	0.05	120	0 31
*United Kingdom (pound)	2,800	9.58	2,925	7.49
*United States (dollar)	6,700	22.93	8,405	21.53
*Upper Volta (franc)	13	0.04	16	0.04
*Uruguay (new peso)	69	0.24	84	0.22
*Venezuela (bolivar)	330	1.13	660	1.69
Viet Nam (dong)	62	0.21	90	0,23
Western Samoa (tala)	2	0.01	3	0.01
Yemen Arab Republic (rial)	10	0.03	13	0 03
Yemen, People's Dem. Rep. (dinar)	29	0.10	41	0.11
Yugoslavia (dinar)	207	0.71	277	0.71
Zaire (zaire)	113	0.39	152	0.39
*Zambia (kwacha)	76	0.26	141	0.36
Total	29,213	100.00	39,041.4	100.00[3]

*Member had consented to quota increase as of March 31, 1978
[1] Country became a Fund member after Sixth General Review of Quotas
[2] Includes installments to be paid not later than 30 days after the Second Amendment of the Articles of Agreement
[3] Due to rounding, components may not add to totals shown

Data. IMF Treasurer's Department

IMF quota increases under the Sixth General Review were consented to on March 31, this year, by members who together held over 75 per cent of total Fund quotas. The above table reveals the position of the quotas in the Fund, with and without Sixth Review increases. Sri Lanka had 98 million SDR's or 0.34 per cent of the Fund's total without quota increases; while after the increase it went upto 119 million SDRs or 0.03 per cent of the total quotas. The U.S.A. the largest quota holder, had 6,700 million SDRs or 22.93 per cent of the total without the increases and 8,405 million SDRs or 21.53 per cent of the total after the Sixth Review increases.

exchange policies. This is a mandate to the Fund to play a more active role than it did under the system of par values.

Senior Fund officials commenting on the significant changes at a Press Conference, shortly before the Second Amendment entered into force, emphasised that "it was now possible for a virtually full range of free choices for members as to the exchange system they would adopt. But it also gives the Fund powers of surveillance over the conduct of exchange rate policies by members. So for the first time in some years now, it puts us in a position to declare the arrangements of all members fully consistent with the Articles of Agreement of the Fund and enjoins us to exercise firm surveillance over their conduct in applying those arrangements and gives us additional powers.

It is useful to note that one of the powers of the Fund, over time, will be to make recommendations with respect to general exchange arrangements. Therefore, although new exchange arrangements cannot be imposed on members, and they always will have freedom of choice — even if in future a par value system were restored under the new Articles — the Fund can make recommendations for general exchange arrangements. Because a very high proportion of voting power is necessary for those decisions, the likelihod is that much of the membership of the Fund would switch to exchange arrangements of that kind. The understanding of what one means by "general exchange arrangements" is, of course, flexible: there is no precise formulation in the Articles. This technique is, in a way, typical of much of the new Articles. The spirit of the Articles will change from a rather rigid code, full of formulae, full of closely defined obligations, to a set of what has been called "enabling powers". As a result although one might not be able to point to an immediate and striking change the next day, on April 2nd, that will make headlines, over time there are adequate and quite important powers to modify the international monetary system and to bring about changes, incidentally, without further amendment. That is indeed a big change in the spirit of the Fund and its possibilities for the future. Amendment is no easy task. This one has taken, in all, some five or six years to bring about.

The Fund adopted, almost a year ago, the rules for surveillance that come into effect next week."

Sri Lanka and the Amendments

The second Amendment to the Fund's Articles of Agreement entered into force following its acceptance by 60 per cent of the Fund's members representing 80 per cent of the total voting power. As stated at the outset, the amended Articles went into force for all 133 members of the Fund. This means that each member is required to discharge obligations that arise from the amended Articles even if the member had not accepted them. This may not be possible for some members under their existing laws. It was for this reason that the National State Assembly passed the Bretton Woods Agreements (Special Provisions) Law, No. 10 of 1978. The legislation enables the Sri Lanka Government to accept and to carry out and discharge all the obligations which would follow the enforcement of the Second Amendment.

This law has made provisions by way of amendments to the Bretton Woods Agreements Act No. 20 of 1950, which enabled Sri Lanka to become a member of the Fund, and to the Monetary Law Act of 1949. The main amendments effected to these two Acts are summarised below.

(i) Section 3 of the Bretton Woods Act as amended by Section of the Bretton Woods Agreement (Special Provisions) Law, No. 10 of 1978 enables Sri Lanka to pay its subscription to the Fund, in accordance with the provisions of Section 1 and 4 of Article III of the Fund Agreement, in Sri Lanka currency, or Special Drawing Rights or such other currency as may be specified by the Fund. According to the previous Articles, 25 per cent of the quota of a member had to be spent in gold except under special circumstances.

(ii) Section 6 of the Amended Law introduces a new section 8B to the Bretton Woods Act. This new section requires Sri Lanka to ensure that the balances of Sri Lanka rupees purchased from the IMF by another member can be exchanged at the time of purchase

(Continued on page 14)

The Second Amendment Brings Major Changes in Practices of the Fund

— the IMF Viewpoint

(a) Exchange Arrangements and Surveillance by the Fund

Members undertake a general obligation to collaborate with the Fund and with other members in order to assure orderly exchange arrangements and to promote a stable system of exchange rates. Members must perform this obligation by observing certain undertakings of a general nature with respect to domestic and external economic and financial policies. These undertakings require each member to endeavour to direct its economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability, with due regard to its circumstances. Each member is required to seek to promote stability by fostering orderly underlying economic and financial conditions and a monetary system that does not tend to produce erratic disruptions; each member must 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. Members must follow exchange policies compatible with these undertakings. Although the obligations are general in scope, the differing circumstances, needs, and problems of members will be recognized.

The general obligation and specific undertakings apply to all members at all times. Members are free to apply the exchange arrangements of their choice, except that they may not maintain a value for their currencies in terms of gold. They are required to notify the Fund of the exchange arrangements they intend to apply and of any subsequent changes in these arrangements. The Fund is required to oversee the international monetary system in order to ensure its effective operation and to oversee the observance by each member of its obligations. Members are required to provide the Fund with the information necessary for surveillance, and, when requested by the Fund, shall consult with it on their exchange rate policies. In essence, the amendments give members freedom of choice in their exchange arrangements, but not freedom of behaviour, in the sense that all members are bound by certain obligations and subject to surveillance by the Fund.

(b) A Reduction in the Role of Gold in the International Monetary System

The most important changes in this respect are as follows: (i) the function of gold as the unit of value of the SDR has been eliminated and gold could not again become a common denominator for par values of currencies even if at some future time par values were introduced; (ii) the official price of gold has been abolished and members will be free to deal in gold in the market and among themselves without reference to any official price; (iii) obligatory payments in gold by members to the Fund and by the Fund to members have been abrogated, and the Fund will be able to accept gold only under decisions taken with a high majority of the total voting power; (iv) the Fund will be required to complete the announced program of disposing of a total of 50 million ounces of gold, and will have powers to make further gold sales both on the basis of prices in the market and at the official price in effect before the Second Amendment (SDR 35 per ounce); (v) profits beyond the former official price on any such further sales of gold will be placed in a Special Disbursement Account for use in the ordinary operations and transactions of the Fund or for other uses, including balance of payments assistance for the benefit of developing members in difficult circumstances; (vi) the Fund, in its decisions on gold, will be required to avoid the management of the price, or the establishment of a fixed price, in the gold market, and (vii) members will undertake to collaborate with the Fund and with other members in order to ensure that their policies with respect to reserve assets will be consistent with the objectives of promoting better international surveillance of international liquidity and of making the SDR the principal reserve asset in the international monetary system.

(c) Changes in the Characteristics and Expansion of the possible uses of the SDR

The modifications in the provisions relating to the SDR are intended to contribute to the attainment of the objective of making the SDR the principal reserve asset in the international monetary system. Under the amended Articles (i) the method of valuing the SDR may be determined by the Fund by high majorities; (ii) participants are able to enter into transactions by agreement without the necessity for general or special decisions by the Fund, and transfers of SDRs in such transactions are not subject to the requirement of need to use reserve assets; (iii) the Fund may, subject to appropriate safeguards, authorize operations involving SDRs between participants that are not otherwise provided for by the Articles; (iv) the Fund may broaden the categories of other holders of SDRs, although not beyond official entities, and the operations and transactions in which they may engage; (v) the Fund may review the rules for reconstitution of participants' holdings of SDRs at any time and may adopt, modify, or abrogate the rules by a lower majority of the total voting power than has been necessary in the past; (vi) the SDR replaces gold in certain payments by members to the Fund and by the Fund to members, and its possible use in operations and transactions conducted through the Fund's General Department (formerly the General Account) will be expanded; and (vii) the value of the currencies held in the General Resources Account of the General Department must be maintained in terms of the SDR in accordance with exchange rates determined for the purpose of transactions in SDRs.

(d) Simplification and Expansion of the types of the Fund's Financial Operations and Transactions

The Fund's holdings of the currencies of all members will be usable by the Fund in its operations and transactions in accordance with its policies. For use of the Fund's general resources, which is no longer provided for in terms of a particular currency needed for making payments in that currency, the Fund will select the currencies to be sold on the basis of policies that take into account the balance of payments and reserve position of members and developments in the exchange markets. This change in the Articles is in accordance with established Fund practice, but the "operational budgets" established on the basis of these policies will now have an express legal basis comparable to the legal basis of the designation plans in accordance with which participants are designated by the Fund to accept transfers of SDRs at the request of a participant. Members purchasing other members' currencies from the Fund can be certain that they will be able to use them, directly or indirectly, to meet their balance of payments needs because of the assurance that the currencies are either freely usable or will be exchanged by the issuing members for such currencies.

The Fund's policy on repurchase, i.e., the repayment of credit transactions, which is designed to ensure that the use of the general resources will not extend beyond three to five years unless a longer period is permitted under a special policy on use, has been incorporated in the Articles. The detailed formulas of the original Articles on repurchase and on the calculation of monetary reserves that governed the accrural of repurchase obligations and the determination of the media of payment have been deleted from the Articles. There is, however, a new provision under which a member is expected to repurchase in the light of improvement in its balance of payments and reserve position even before the fixed date for completing repurchase.

The Fund will be able to provide a participant with the currencies of other members in return for SDRs or with SDRs in return for the currencies of other members.

The Fund will have more extensive authority to permit members to engage in transactions under special policies, for example, the Fund's buffer stock facility, without at the same time foregoing their reserve tranche positions (formerly called gold tranche positions), which they regard as reserve assets.

Source: *IMF PRESS RELEASE.*