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04

September 13, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Final Minutes of Executive Board Meeting 84/45

The following corrections have been made in the final minutes of EBM/84/45 (3/26/84):

Page 38, title of second full paragraph should read:

"DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING"

Item 3, lines 3 and 4: delete "as set forth in EBD/84/188 (3/20/84)"

A corrected page is attached.

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use of SDRs, because it was not consistent with the original concept of that reserve asset. Finally, the Executive Board had discussed the issue of an allocation of SDRs on many occasions since 1981. He hoped that the present discussion would enable the Chairman to move a step forward toward an eventual allocation.

Mr. Erb recalled that the subject of an SDR allocation had been discussed at great length two months previously. The views of his authorities had not changed since that time; they did not believe that the conditions for an SDR allocation specified in the Articles of Agreement had been satisfied. He would like more time to review and discuss with his authorities the proposals put forward by Directors exploring the idea of a conditional allocation.

Mr. Prowse remarked that the views of the members of his constituency had not changed since the previous Board discussion of an allocation of SDRs. Eight of the nine authorities in his constituency would support an allocation. The authorities of one country had indicated that they wished to consider the present discussion before making a decision, which they would make known at the Interim Committee meeting. Those members of his constituency in favor of an allocation considered that a growth in reserves was necessary to support the expansion of trade that was under way. Part of that increase in reserves should be met through an allocation of SDRs as it would reduce both the need for countries to obtain additional borrowed reserves and the proportion of reserves that must be held in the form of currencies, thus easing the vulnerability of the international monetary system to changes in interest and exchange rates. Furthermore, in the circumstances, they did not believe that an allocation would generate inflationary pressures. In sum, the adjustment process and the smooth functioning of the international monetary system would be assisted by a judicious allocation of SDRs.

Commenting on EBS/84/41, Mr. Prowse said that it was reasonable to conclude that the net use by members of Fund resources in excess of projected balance of payments deficits suggested provision for repayment of arrears and for increases in official reserves. While those objectives were desirable, it could be said that the excess of net use of Fund resources above balance of payments deficits suggested that the present level of Fund assistance was adequate. Those projections were not helpful in establishing the case for an allocation. Furthermore, he was not sure that emphasis on balance of payments deficits per se was useful in shedding light on the issue of an SDR allocation. Implicit in the figures were the severe trading conditions, particularly the severe compression of imports that might have harmful effects over the long run.

With respect to Mr. de Groote's proposal, Mr. Prowse remarked that all of his authorities would be willing to discuss it further. However, would a conditional SDR allocation adversely affect the credibility of the SDR as a reserve asset and therefore be contrary to the objective of making it the principal reserve asset in the international monetary system? Would the effective increase in Fund lending implied by a conditional SDR

allocation be consistent with the previous decisions to increase members' quotas and to establish new limits on access to Fund resources?

Mr. de Groot's proposal could be seen as a quota increase; if Directors were prepared to agree to a conditional allocation, he presumed that they would be prepared also to agree on larger quotas or different access limits. Finally, would the conditional use of SDRs involve a form of forced lending that might necessitate changes in the composition of foreign reserve portfolios of member countries?

The Executive Directors agreed to continue their discussion in the afternoon.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/84/44 (3/23/84) and EBM/84/45 (3/26/84).

3. MADAGASCAR - RELEASE OF INFORMATION

The Executive Board approves the proposal to make available to participants in an aid donors' meeting, to be held in Paris on April 5-6, 1984, recent staff papers on Madagascar, as set forth in EBD/84/88 (3/20/84).

Adopted March 23, 1984

4. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 83/152 and 83/153 are approved. (EBD/84/86, 3/19/84)

Adopted March 23, 1984

APPROVED: September 5, 1984

LEO VAN HOUTVEN
Secretary