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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/3

3:00 p.m., January 4, 1983

J. de Larosière, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors	Alternate Executive Directors
A. Alfidja	W. B. Tshishimbi
J. Anson	C. Taylor
	H. G. Schneider
B. de Maulde	A. Le Lorier
	M. Teijeiro
R. D. Erb	C. Dallara
M. Finaish	T. Alhaimus
	Jaafar A.
T. Hirao	T. Yamashita
R. K. Joyce	M. Casey
A. Kafka	
G. Laske	
G. Lovato	C. P. Caranicas
R. N. Malhotra	A. S. Jayawardena
Y. A. Nimatallah	J. E. Suraisry
J. J. Polak	T. de Vries
A. R. G. Prowse	K. G. Morrell
	O. Kabbaj
F. Sangare	E. I. M. Mtei
	J. L. Feito
	L. Vidvei
Zhang Z.	Wang E.

L. Van Houtven, Secretary
J. C. Corr, Assistant

Also Present

African Department: F. d'A Collings. Asian Department: K. A. Al-Eyd. European Department: P. J. F. Nyberg. Legal Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy General Counsel; Ph. Lachman. Middle Eastern Department: A. S. Shaalan, Director; G. Tomasson. Research Department: W. C. Hood, Economic Counsellor and Director; R. R. Rhomberg, Deputy Director; A. D. Crockett, Deputy Director; J. S. Smith. Secretary's Department: A. P. Bhagwat. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; D. Williams, Deputy Treasurer; O. Roncesvalles, M. A. Tareen. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: S. R. Abiad, E. A. Ajayi, J. R. N. Almeida, S. E. Conrado, J. Delgadillo, A. B. Diao, S. El-Khouri, H.-S. Lee, P.-C. Maganga-Moussavou, I. R. Panday, P. D. Péroz. Assistants to Executive Directors: H. Alaoui-Abdallaoui, H. Arias, R. Bernardo, L. E. J. Coene, G. Ercel, I. Fridriksson, M. Hull, J. M. Jones, M. J. Kooymans, P. Leeahtam, V. K. S. Nair, Y. Okubo, J. G. Pedersen, G. W. K. Pickering, E. Portas, M. Z. M. Qureshi, J. Reddy, H. Suzuki, P. Verly, A. A. Yousef.

1. EXECUTIVE DIRECTOR

The Chairman welcomed Mr. wa Bilenga Tshishimbi as Alternate Director to Mr. Alfidja.

2. EIGHTH GENERAL REVIEW OF QUOTAS - DRAFT REPORT TO INTERIM COMMITTEE

Executive Directors considered a draft report to the Interim Committee on the Eighth General Review of Quotas (SM/82/249, 12/30/82) together with tables showing illustrative individual quota calculations (EB/CQuota/82/15, 12/30/82). They also had before them a note by Mr. Vidvei on the relationship between an equiproportional increase in quotas and the adjustment coefficient, as well as a note by Mr. Joyce on a proposed addition to the draft report.

Mr. de Maulde commented that the summary of main issues in the report was so good that it could serve as a substitute for the report, with the remainder of the text serving as an appendix.

Mr. Zhang observed that the first paragraph of the draft, setting out the purpose of the review, included a reference to the case for maintaining a proper balance between the different groups of countries. However, reference to the proper balance was inadequately discussed in the rest of the report and appeared to have been omitted from the summary of the main issues.

Mr. Prowse stated that some of his authorities regretted the rushed manner in which the Board was handling its work at present. Sometimes they did not have an opportunity to consider the papers and, therefore, to register their views with him. Some papers had been discussed by the Board long before it had been possible to get copies of them to the authorities concerned. They recognized the general context in which the Board had to deal with such matters, but it remained regrettable that such complex issues had to be dealt with so hurriedly.

The general structure of the paper was satisfactory, Mr. Prowse considered, but it lacked an appendix presenting the major variables in algebraic form, as requested by Directors. He was not satisfied with the accuracy of the report in some regards, particularly the section on the size of the quota increase. That section did not appear to reflect precisely the relevant discussions in the Board. He recognized that it was a most difficult task to record the views of Directors with the required precision. However, some passages from previous summing ups by the Chairman could usefully have been inserted in place of certain sentences or paragraphs in the report.

A number of issues had not been incorporated in the draft report, Mr. Prowse continued, such as the question of minimum quotas, basic votes, the payment withdrawal mechanism for the reserve tranche, the length of the review period, and the sensitive question of access policy.

The Chairman commented that a report by the Executive Board to the Interim Committee inevitably had to be written in a short period, and it was the responsibility of Executive Directors to ensure that the report adequately reflected the views of their authorities.

The Secretary noted that it had not been the practice to observe the normal circulation period for reports by the Executive Board, such as reports to the Interim Committee or the Annual Report.

Mr. Prowse stated that he accepted the Chairman's remarks in relation to the draft report on the Eighth General Review of Quotas, but that he had intended his comment to apply more generally to other documents recently circulated to the Board.

Mr. Vidvei observed that Directors had reached a stage in the Eighth General Review of Quotas at which possible final solutions were being considered. He expressed apprehension at the possible outcome of the negotiations taking place, particularly since the final solutions that might be arrived at did not represent the first choice of his authorities. The likely outcome of the negotiations on the Eighth General Review appeared to leave the Fund in a much more exposed and dependent financial position than his authorities had aimed at. He believed that, unless a dramatic change in the Fund's lending policy was implemented, it was entirely unrealistic to expect that the agreed package would be "large enough to enable the Fund to perform its functions in an effective manner in the 1980s," as mandated by the Interim Committee in Toronto.

A miraculous change in the world economy would have to take place, Mr. Vidvei considered, if the pressure on the Fund's resources was to subside. Inter alia, a tremendous improvement in developing countries' current accounts and a corresponding change in the current accounts of oil producing and industrial countries would have to occur. Since it was difficult to believe in miracles, it was more realistic to expect that the Fund would exhaust its own usable resources in the foreseeable future, unless a better balance was secured between Fund resources and access to those resources. What would happen if the Fund depleted its usable resources? Who would be prepared to lend to the Fund? How would a potential lender judge the Fund's liquidity position, solvency, and the like? Those were some of the frustrating and unpleasant questions that the Executive Board had avoided. The compromise that appeared to be emerging on the Eighth General Quota Review was not especially promising. Directors had ample reasons to be concerned about the future problems that they would encounter.

Commenting on the draft report, Mr. Vidvei stated that his authorities welcomed the attempts to reach compromises; they were willing to consider compromises, even if the implied solutions were not their first choice. However, they could not give their final support to the different elements in the package until the picture as a whole was clearer.

At a previous discussion of the distribution of the quota increase, Mr. Vidvei recalled, Mr. Polak had suggested that a mathematician could be asked to look into the matter. However, that advice had not been followed, and, as a result, the written exposition in Section III of the draft was not as clear as it could be. The content of the section was amenable to fairly elementary algebra, and it should therefore be possible to give a simple and precise presentation of the algebraic exercise in written form in plain English. The tables and the graphical representation contained in the note that he had circulated to Executive Directors might be helpful in clarifying some of the basic relationships. Perhaps it would be better to postpone discussion on Section III until another version of it had been prepared, perhaps by a small group of Executive Directors. It would not be useful for the Board to discuss at length the validity of elementary algebraic relationships.

The Chairman remarked that further written suggestions from Mr. Vidvei or other Directors could be useful in preparing a revised draft.

Mr. Anson commented that the first draft by the staff was helpful, although it needed refinement. Perhaps, as Mr. de Maulde had suggested, a short description of the main issues at the beginning of the report would be useful. Such a summary would need to be carefully considered to take into account the point made by Mr. Zhang.

Directors had discussed at length the statistical basis for the options that Ministers might consider, Mr. Anson noted, but it should be possible to spare them the statistical argument, and simply to present the main options. In particular, if the concept of the adjustment coefficient was eliminated from the main body of the report, it should be possible to shorten considerably the discussion of the distribution of the quota increase.

Mr. Malhotra said that he agreed with Mr. Zhang that the case for maintaining a proper balance between the different groups of countries would have to be included in the report and in the summary of main issues. He also agreed with Mr. Prowse that the discussion of the size of the Fund was inadequate, both in the main body of the report and in the summary. In his recollection, a large number of Directors had favored a Fund of SDR 125 billion, a point mentioned only in passing. There was also no reference to the strong statistical and other evidence produced by the staff on the question of the appropriate size of the Fund for meeting the challenge of the 1980s. The draft appeared to have been written in a hurry and, as Mr. Prowse had suggested, some of the remarks by the Chairman at the conclusion of previous discussions would have provided better formulations of Directors' positions. The constraints preventing a general agreement in the Board should be recognized because, ultimately, the questions would have to be decided at the political level in the Interim Committee. Finally, the paragraph in the draft report dealing with the General Arrangements to Borrow would have to be reconsidered in light of the forthcoming discussion of that question by Directors.

Mr. de Maulde said that he strongly supported the suggestion by Mr. Anson to eliminate the references to the adjustment coefficient in the body of the report.

Mr. Joyce remarked that he supported the points made by Mr. de Maulde and Mr. Anson. The introduction of the concept of the adjustment coefficient or of algebraic formulas would not help Ministers to grasp the essentials of the report. The report should: first, identify the issues; second, set out the principles upon which the Board had reached agreement, insofar as it did reach agreement; third, describe the options considered by Executive Directors; and fourth, set out the conclusions arrived at. Sometimes the conclusions could be expressed in terms of what a majority or many Executive Directors thought, in which case the report had to reflect accurately the views that others had expressed and the reasons for those views. The detailed calculations could perhaps be included in an appendix.

He agreed with Mr. Prowse that the report did not include all the relevant issues, Mr. Joyce continued. For example, the access issue had to be mentioned, if only to say that it would be examined in detail at a later date. Similarly, the length of the review period had been discussed in the course of the Eighth Quota Review. He shared the deep concerns expressed by previous speakers concerning the accuracy with which some positions of groups of Executive Directors had been put in the draft report. While the draft was usually technically correct, it sometimes expressed positions in a way that left some Directors feeling that their views had not been adequately taken into account.

Mr. Kafka commented that he fully agreed with Mr. Joyce. Another issue that ought to be mentioned in the report was the need for an SDR allocation.

Mr. Erb noted that Ministers would have to make a number of basic decisions over a two-day period. The draft report should not become too elaborate with explanations and statements of positions. It was important to identify the issues on which Executive Directors had reached agreement and those issues on which compromise could be reached or that would be resolved at a later date even if differences of view remained among members of the Executive Board at present. He agreed with those Directors who had suggested that the draft report was not sufficiently comprehensive. Views obviously differed, for example, on the question of the size of the Fund, and he believed that insufficient attention had been focused on the size of the Fund discussed by his authorities. He had, therefore, requested the staff to circulate calculations based on a Fund of SDR 85 billion. Directors should bear in mind that there was agreement to accelerate the process of the Eighth General Review of Quotas as much as possible. Therefore, the effective increase in quotas would take place probably in the first half of 1984, rather than in late 1985 or early 1986 as originally envisaged. The increase in the size of the Fund was not, therefore, effective for "the rest of the 1980s," but for the period through 1988.

Mr. Schneider said that he agreed broadly with the points made by Mr. Joyce. The draft report could be shortened and simplified, with the technicalities put into an appendix. He supported the suggestion made by Mr. de Maulde and Mr. Anson that the summary of main issues should be placed at the beginning of the report so that Ministers would have a clear indication of the contents. It would be preferable to avoid too detailed a description of the positions of different Directors, as such an approach could ultimately lead to describing 22 separate positions. However, reference should be made to the length of the review period and to access policy.

The Chairman said that the staff would produce a revised draft report taking into account the general comments made by Directors. He invited Directors to comment briefly on the report on a paragraph-by-paragraph basis.

Paragraph 1

No comment.

Paragraph 2

Mr. Prowse suggested that the report should refer to the reasons why the next meeting of the Interim Committee might be held before April 1983. There should also be a reference early in the report to the discussions that Executive Directors had held on the question of enlarging the GAB.

Paragraphs 3-4

Mr. Nimatallah remarked that the two paragraphs could be restructured more logically. The first four sentences of paragraph 3 could remain as drafted. They should be followed by, in order, the penultimate sentence of paragraph 5, the fifth sentence of paragraph 3, the final sentence of paragraph 4, the final sentence of paragraph 3, the first sentence of paragraph 4, and the second sentence of paragraph 4.

Mr. Kabbaj commented that the views of Executive Directors on the size of the Fund could be set out more clearly. It would also be helpful if, as Mr. Malhotra had suggested, the conclusions of the staff report on the size of the Fund were incorporated early in paragraph 3, particularly the desirability of re-establishing the size of the Fund, relative to world imports and international liquidity, to the level of the 1960s. Furthermore, the phrase "especially of a conditional nature" in the first sentence of paragraph 3 should be deleted.

Mr. Anson observed that interweaving the general arguments for and against an issue with the breakdown of the range of views among Executive Directors was confusing. It would be better to set out the arguments for different sizes of the Fund, and then to include a sentence such as "in the light of these considerations, there was a range of views in the Board." That sentence could be followed by a description of the range of views.

Mr. Schneider commented that the view expressed in the final sentence of paragraph 3 was described as that of "a few Directors," but in his recollection only one Director had expressed that view.

The Deputy Treasurer replied that, in the past, it had been normal to refer to one Director as "a few."

The Chairman remarked that the draft could read "a view was expressed...."

Mr. Malhotra agreed with Mr. Kabbaj that the words "especially of a conditional nature" were unnecessary.

Mr. Prowse remarked that the phrases "a few," "a number of," "many" and the like did not appear to reflect accurately the discussions held by Executive Directors. In that respect, the draft report could have borrowed from the Chairman's summings ups of Board discussions, particularly his summing up of the meeting of the Committee of the Whole of November 10, 1982 (EB/CWQuota/82/15).

Mr. Laske remarked that, in his recollection, the meeting that Mr. Prowse had referred to had witnessed a considerable narrowing of views on the size of the Fund. The draft report appeared to reflect that discussion accurately in the sentence: "Many Directors consider that an overall increase ranging from SDR 90 billion to SDR 100 billion...would be acceptable." It was preferable to emphasize the areas of consensus so that Ministers would not have to go over the arguments again. He agreed that the draft could be improved, but it should avoid describing the detailed positions of individual Directors.

Mr. Anson said that he agreed entirely with Mr. Laske. He also agreed that the use of phrases such as "a few," "many" and the like should be used carefully; in particular, the word "majority" was open to misinterpretation.

The Chairman stated that the revised draft would attempt to reflect accurately the positions of Directors.

Mr. Prowse observed that there was a difference between what Directors might consider "acceptable" and what they might consider "appropriate." Although Directors might be willing to compromise, their first or preferred positions should not be ignored.

Mr. de Maulde suggested that the problem of "numerical adjectives" could be solved if there were agreement that certain words matched certain numbers. For example, "a few" could correspond to one to three, "certain" could correspond to three to six, and the like. He recalled that he had initially favored a Fund size of SDR 190 billion.

Mr. Nimatallah agreed that it would be helpful if the Secretary could produce a "code" to match the words with the relevant numbers. It would also be helpful if it could be made clear whether the descriptions referred to the initial positions of Directors or to their positions as they had evolved.

The Chairman observed that it was important to show the Interim Committee that there had been a considerable convergence of views.

Mr. Erb agreed that the report should emphasize the areas of consensus, otherwise the report would have to contain each Director's starting position. Directors should indicate to Ministers where negotiations stood at present, so that Ministers could make the necessary final decisions.

Mr. Sangare remarked that the language of the report was confusing. If it could be codified, as suggested by Mr. de Maulde, it would become clearer. He supported the suggestion to delete the phrase "especially of a conditional nature."

Mr. Zhang asked whether it was being proposed that actual numbers be substituted for the numerical adjectives used in the report. In addition, when the staff described the position of a group of Directors, did it have in mind the actual number of Directors or their combined voting power? Perhaps it would be better to set down both the number of Directors supporting a position and their combined votes.

The Deputy Treasurer replied that the staff had based its descriptions on the number of Directors rather than on voting power. The staff had also tried to indicate the shades of positions among Directors, some of whom, while they might prefer one position, were prepared to accept another.

The Chairman said that it had not been traditional to include in reports of the Executive Board the specific number of Directors agreeing on any given position.

Mr. de Maulde commented that to set out specific numbers would be confusing. Perhaps they could be included in an appendix.

Mr. Erb observed that the concept of a "payments imbalance" had been loosely used in the draft report. The Fund's role was not to finance a payments imbalance but to enable a country to deal with a maladjustment in its balance of payments position. In that regard, the section of the draft report on the size of the Fund should reflect the range of factors influencing judgments about the appropriate size. Not only had there been differences among Directors with regard to their empirical judgments about the future state of the world economy and the future course of balance of payments flows, but there had also been a range of views on the financial role of the Fund. His own contributions had emphasized the financial role of the Fund in dealing with maladjustments in a country's balance of payments position, and he had emphasized the temporary character of Fund financing.

In paragraph 4, Mr. Erb continued, it was stated that:

> In this connection, a number of Directors believed that unless the overall increase in quotas would be relatively large, it would be difficult for the Fund to maintain its financial role in the international monetary system without continued recourse to borrowing after the new quotas come into effect.

The statement was incomplete, because the size of the Fund could be quadrupled, or even quintupled, but the need for borrowing would probably continue unless the issue of enlarged access was dealt with. There was, therefore, a logical relationship between the need for borrowing and the extent to which enlarged access was used in practice. The draft report should include a reference to the agreement reached among Directors on the quota formulas and to the issues in connection with the quota formulas that had not been fully resolved to all Directors' satisfaction.

Mr. Kafka agreed that there had been a logical element missing from paragraph 4. Mr. Erb's point could be met by adding "even" before the phrase "after the new quotas come into effect" in the relevant sentence. He also agreed that Directors' views had differed on the adequacy of the quota formulas.

Mr. Joyce commented that perhaps it would be useful, as Mr. Zhang had suggested, to refer to both the number of Directors taking a given position and to their combined voting power.

The Treasurer noted that the problem of how to describe precisely the positions of Executive Directors had been discussed by the Board in the past. It had not normally been judged appropriate to be too specific, because Directors had usually considered it useful to emphasize the areas of agreement. If positions were described by exact numbers there might be a tendency to repeat arguments that had already been put forward, and for those positions to freeze. The Board had always sought to avoid voting, if possible, and to establish its views through consensus.

Mr. Prowse suggested that the relevant paragraph in the report of the Executive Board to the Interim Committee meeting in Toronto could be adopted to deal with the point made by Mr. Erb regarding quota formulas.

Mr. Anson said that he supported the points made by the Treasurer. In the end, the issues would be resolved through the decisions of Ministers. He recalled that in the previous report to the Interim Committee his own position had not been described specifically, but he had accepted the draft because he had felt that it had adequately described the range of opinions in the Board. If positions were to be set out in terms of numbers, the report would become much too complex, as each Director might wish to include the nuances of his position.

The Chairman agreed with Mr. Anson. The staff would take great care in describing the positions of Directors in the revised draft report, and Directors would be informed of the numerical basis for the different expressions used.

Mr. Vidvei said that he sympathized with the views expressed by Mr. Joyce and Mr. Zhang on the clarity of the language in the draft report.

Paragraphs 5-12

Mr. Kafka commented that the issue of preserving the proper balance between the groups of countries, a mandate from the Interim Committee, had been omitted from the draft report. It should be reinstituted. In addition, it would be possible to take account of the points made by Mr. Erb with regard to the quota formulas in a short sentence such as: "For the purposes of the present review, the Executive Board agreed to use the quota formulas which were presented in August 1982."

Mr. Polak considered that paragraph 8 could be considerably shortened. Paragraph 6 could be deleted, in line with the suggestion by Mr. Anson to minimize references to the adjustment coefficient. Paragraph 10 could also be shortened. However, he would not wish to delete all reference to the adjustment coefficient. It was a useful yardstick for measuring the degree to which the Eighth General Review would adjust members' quotas in the direction of their positions in the world economy, as desired by the Interim Committee.

Mr. Joyce remarked that his understanding was that Directors preferred to avoid the use of the term "adjustment coefficient" in the body of the report but to include it, with explanation and examples, in an appendix.

Mr. Kafka agreed with Mr. Joyce.

Mr. Prowse said that he, too, believed that the section on the distribution of quotas could be considerably shortened. The range of views in the Board could be explained without reference to an "adjustment coefficient." That concept could be explained in an appendix; even there, his preference would be to use the concept of a "discrepancy index," the reverse of the adjustment coefficient.

Mr. Polak said that he accepted the points made by other Directors. The question remained of what parts of paragraph 10 should be included in the revised draft report.

Mr. Anson commented that the revised paragraph could mention that a broad consensus had been reached, while noting that a considerable range of views remained on the balance between the two elements in the adjustment of quotas, and it could describe that range. The paragraph would therefore be much shorter.

Mr. Malhotra said that paragraph 10 should not be shortened too much. It should include the views of those Directors who had stressed the need to avoid abrupt changes in the quota shares of members and to ensure that each member received a meaningful increase in its quota. The point made in paragraph 11 concerning the need to avoid a fall in the share of the non-oil developing countries should be linked to the reference in paragraph 10 to the position of those Directors who favored 75 per cent of the overall increase in quota being distributed in the form of an equiproportional increase. In addition, the tables in the appendix describing the apportionment of the overall increase into equiproportional/selective increases could provide more detailed options.

Mr. Dallara said that he accepted the suggestion to omit the reference to an adjustment coefficient in the text. It could be included in the tables in the appendix. With reference to the tables, it was not clear what was the dependent variable and what was the independent variable--the degree of balance between equiproportionality/selectivity or the adjustment coefficient.

The Deputy Treasurer replied that, in the tables, the staff had tried to respond to two different requests from various Directors. Some Directors had wanted to see what would be the effect of a given degree of adjustment resulting from certain divisions of the overall increase into an equiproportional/selective increase. Others had wished to see the effect on the adjustment coefficient of different examples of the equiproportional/selective choice. Inevitably, the result had been to make the tables difficult to compare with each other.

Mr. Malhotra suggested that the tables should include a column showing an equiproportional/selective ratio of 66/33.

Mr. Joyce commented that the divisions in the tables ought to be approximately symmetrical, i.e., they should include ratios of 75/25, 66/33, 50/50, 33/66, 25/75, and 0/100.

The Treasurer observed that the divisions 66/33 and 33/66 would require footnotes to point out that they did not add up to 100 per cent.

Mr. Prowse added that another footnote should explain the basis for the classification into industrial and nonindustrial countries. In addition, the tables could be reworked to present the information more straightforwardly. The current presentation, showing the rapidly declining share of the equiproportional increase as a percentage of current quotas, might lead the reader inadvertently toward the left hand end of the table when choosing among the options. Furthermore, paragraph 11 could be reconstructed to begin with the reference to the Interim Committee's view that "the case for maintaining a proper balance between the different groups of countries" should be taken into account.

Mr. Finaish proposed that the term "developing countries" should be substituted for "nonindustrial countries" in the tables.

Mr. Vidvei remarked that the tables used different concepts and different expressions to describe essentially the same thing. They could be simplified on the basis of a uniform set of concepts.

Mr. Malhotra said that he agreed with the point made by Mr. Prowse regarding paragraph 11. The view of the Interim Committee on the case for maintaining a proper balance should be taken as given, not described as the view of a few Directors.

Mr. Hirao suggested that paragraph 7, lines 2-3, could be redrafted to read: "...the distribution of the total or a part of the given overall increase...." In paragraph 10, the order of the different views in favor of a high or a low adjustment should be reversed. Similarly, the order of the views described in paragraph 9 should also be reversed.

Mr. Kabbaj wondered whether graphs might be better than tables to present the information given in the appendix.

Mr. de Maulde said that he agreed with those Directors who wished to shorten considerably paragraphs 5-12. The structure of the section on the distribution could be more logically organized, and it should include a reference to the issue of basic votes.

Mr. Kafka observed that the reference to "the Fund's need to maximize the additions to its holdings of usable assets" in paragraph 10 was out of context. Countries' balance of payments positions could change rapidly. If paragraph 10 was to be shortened, that point should be omitted.

The Deputy Treasurer commented that, while it was true that it was impossible to predict exactly which countries would be in balance of payments surplus, it was certain that within the industrial countries as a group, in which the larger adjustments would take place, some, if not a considerable proportion, would be in surplus, and therefore would be able to provide the Fund with resources.

Mr. Zhang commented that the row containing the adjustment coefficient in the tables was not very helpful. It would perhaps be clearer to Ministers if adjustment were described in terms of an index.

The Deputy Treasurer remarked that to do so would be to repeat the figures for the proportion of the selective increase in the headings to the tables.

Mr. Polak added that the adjustment coefficient as set out in the tables, i.e., not as an index, described how far countries' shares would move in the direction of the calculated quotas.

Mr. Prowse considered that paragraph 12 did not adequately describe Directors' views on minimum quotas. Those views had been better described in the précis of the meetings of the Committee of the Whole on Review of Quotas that had taken place on December 21, 1982 (EB/CWQuotas 82/18 and 82/19).

The paragraph should also indicate that those Directors supporting the proposal thought that it could be accepted at very little cost. It was important that the terms used to describe the views of a group of Directors should be consistent with those used in earlier parts of the report. He would be happy to provide alternative drafting for the next revision of the draft report.

Mr. Malhotra said that he supported Mr. Prowse's comment.

The Chairman stated that the revised draft report would use the appropriate numerical adjectives consistently.

Mr. Mtei remarked that the point should be made that some Directors believed that the issue of basic votes was an important element in maintaining the cooperative nature of the Fund.

Paragraphs 13-15

Mr. Joyce noted that he had circulated a possible addition on the issue of a further allocation of SDRs.

Mr. de Maulde commented that Mr. Joyce's draft appeared reasonable.

Mr. de Vries added that he, too, could support Mr. Joyce's suggested addition.

The Director of the Legal Department said that Mr. Joyce's suggested addition required a small technical amendment. A new allocation of SDRs could be agreed to by the Board of Governors on the basis of a proposal by the Managing Director, not, as stated in Mr. Joyce's draft, on the basis of a report of the Executive Board.

Mr. Joyce stated that he had been seeking to find some middle ground that would enable those Directors who had expressed the view that payment should be made in SDRs or in members' own currencies to support the concept of payment in reserve assets, provided that they had an assurance that the subject of an SDR allocation would be looked at in the near future. His proposed addition suggested that an allocation be looked at "quickly" and that, at the same time, there would be an undertaking that the matter would be discussed by the Board of Governors at the next Annual Meeting. His addition also suggested that the question of an SDR allocation be looked at, not in the context of the quota increase, but in light of world inflation and world liquidity.

The Chairman suggested that perhaps the legal technicalities could be dealt with by amending Mr. Joyce's draft to read:

> (ii) ...the Executive Board to review latest trends in world inflation and liquidity as a matter of urgency, so that the Governors could consider at the next Annual Meeting whether a new allocation of SDRs was called for at that time.

Mr. Kafka commented that the Chairman's suggested formulation was acceptable. In addition, the penultimate sentence of paragraph 15 of the draft report gave the wrong impression. It should read:

> It may be recalled that many Directors favor an allocation of SDRs.... These Directors believe....

It could continue as currently drafted. Without such an amendment, the sentence gave the impression that those Directors who favored an allocation of SDRs did so only in the context of the quota increase.

The Treasurer said that he agreed with Mr. Kafka. Perhaps the substance of his point could be incorporated in Mr. Joyce's draft so as to delete the word "provided," thereby avoiding legal difficulties. On the question whether satisfactory arrangements existed for members to draw on their reserve tranche following payment of 25 per cent of the quota increase, he believed that such methods could be arranged, with the cooperation of other members of the Fund, so that restoration of reserve assets could be made in a satisfactory and prompt way for a member that represented that it had a balance of payments need. Some minor redrafting of Mr. Joyce's addition might be required to take that point into account.

Mr. Malhotra commented that the draft report could be strengthened with an addition along the lines:

> Many Directors took the view that there is a need to supplement reserves through a fresh allocation of SDRs, an issue which should be addressed urgently. This could also facilitate payment of subscriptions in SDRs by many members.

He supported Mr. Joyce's addition, as amended by the Chairman.

Mr. Taylor said that he, too, found Mr. Joyce's addition acceptable, as amended by the Chairman. Perhaps it could be formulated even more briefly.

Mr. Prowse asked what the implications of the review called for by Mr. Joyce were for the Executive Board's normal consideration of the World Economic Outlook.

The Chairman said that the World Economic Outlook would address the question of inflation and would probably touch on the issue of international liquidity. Mr. Joyce's request was for a more specific report focusing on global liquidity in relation to world inflation.

Mr. Kabbaj commented that he agreed with Mr. Joyce's addition, as amended by the Chairman. He also agreed with Mr. Malhotra's suggested amendment to paragraph 15.

Mr. Malhotra asked what the implications were if a member that had a reserve tranche position used it to pay 25 per cent of the quota subscription. What happened if it required additional assistance in the form of upper tranche drawings?

The Director of the Legal Department replied that the situation as described by Mr. Malhotra would be the same as if the member had been allowed to pay the full amount of the increase in its own currency.

The Treasurer recalled that the Board had previously discussed the case of a member that, with no reserve assets, had had to borrow in order to pay its quota subscription and that had subsequently had to draw on the newly created reserve tranche position to repay the borrowing. The example offered by Mr. Malhotra was of a member that used an existing reserve tranche position to pay its quota increase. In both cases, there would have to be a representation of a balance of payments need. That representation could not be challenged by the Fund.

Mr. Erb suggested that there might not be any need to make a reference to an SDR allocation in the context of a discussion about the quota increase. The allocation issue could be discussed separately by the Interim Committee.

Mr. de Maulde commented that Mr. Joyce's wording was a compromise to take account of the views of different Executive Directors. It was important that some reference to the SDR allocation question be made in the report to the Interim Committee.

Mr. Joyce hoped that his suggested wording would make it easier for Directors who favored an SDR allocation to accept that payment of the quota subscription should be made in reserve assets.

Mr. Erb said that he was concerned that, if too many issues were raised in the Interim Committee, it might make it more difficult to achieve early agreement on all of them.

The Chairman recalled that he had expressed similar concerns at the previous meeting of the Committee of the Whole on the Review of Quotas (EB/CWQuota/82/20, 12/22/82). However, he believed that Mr. Joyce's suggestion was aimed at avoiding the need for extensive discussion of an SDR allocation and global liquidity at the next meeting of the Interim Committee.

Mr. Malhotra commented that his authorities had originally wished that all relevant issues, including the question of an SDR allocation, should be discussed at the next meeting of the Interim Committee. However, in a spirit of compromise, he was willing to accept Mr. Joyce's proposal to the effect that the question of an SDR allocation would be discussed separately but urgently.

Mr. Kafka commented that the Chairman's suggested formulation was acceptable. In addition, the penultimate sentence of paragraph 15 of the draft report gave the wrong impression. It should read:

> It may be recalled that many Directors favor an allocation of SDRs.... These Directors believe....

It could continue as currently drafted. Without such an amendment, the sentence gave the impression that those Directors who favored an allocation of SDRs did so only in the context of the quota increase.

The Treasurer said that he agreed with Mr. Kafka. Perhaps the substance of his point could be incorporated in Mr. Joyce's draft so as to delete the word "provided," thereby avoiding legal difficulties. On the question whether satisfactory arrangements existed for members to draw on their reserve tranche following payment of 25 per cent of the quota increase, he believed that such methods could be arranged, with the cooperation of other members of the Fund, so that restoration of reserve assets could be made in a satisfactory and prompt way for a member that represented that it had a balance of payments need. Some minor redrafting of Mr. Joyce's addition might be required to take that point into account.

Mr. Malhotra commented that the draft report could be strengthened with an addition along the lines:

> Many Directors took the view that there is a need to supplement reserves through a fresh allocation of SDRs, an issue which should be addressed urgently. This could also facilitate payment of subscriptions in SDRs by many members.

He supported Mr. Joyce's addition, as amended by the Chairman.

Mr. Taylor said that he, too, found Mr. Joyce's addition acceptable, as amended by the Chairman. Perhaps it could be formulated even more briefly.

Mr. Prowse asked what the implications of the review called for by Mr. Joyce were for the Executive Board's normal consideration of the World Economic Outlook.

The Chairman said that the World Economic Outlook would address the question of inflation and would probably touch on the issue of international liquidity. Mr. Joyce's request was for a more specific report focusing on global liquidity in relation to world inflation.

Mr. Kabbaj commented that he agreed with Mr. Joyce's addition, as amended by the Chairman. He also agreed with Mr. Malhotra's suggested amendment to paragraph 15.

Mr. Malhotra asked what the implications were if a member that had a reserve tranche position used it to pay 25 per cent of the quota subscription. What happened if it required additional assistance in the form of upper tranche drawings?

The Director of the Legal Department replied that the situation as described by Mr. Malhotra would be the same as if the member had been allowed to pay the full amount of the increase in its own currency.

The Treasurer recalled that the Board had previously discussed the case of a member that, with no reserve assets, had had to borrow in order to pay its quota subscription and that had subsequently had to draw on the newly created reserve tranche position to repay the borrowing. The example offered by Mr. Malhotra was of a member that used an existing reserve tranche position to pay its quota increase. In both cases, there would have to be a representation of a balance of payments need. That representation could not be challenged by the Fund.

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Mr. Erb said that he was concerned that, if too many issues were raised in the Interim Committee, it might make it more difficult to achieve early agreement on all of them.

The Chairman recalled that he had expressed similar concerns at the previous meeting of the Committee of the Whole on the Review of Quotas (EB/CWQuota/82/20, 12/22/82). However, he believed that Mr. Joyce's suggestion was aimed at avoiding the need for extensive discussion of an SDR allocation and global liquidity at the next meeting of the Interim Committee.

Mr. Malhotra commented that his authorities had originally wished that all relevant issues, including the question of an SDR allocation, should be discussed at the next meeting of the Interim Committee. However, in a spirit of compromise, he was willing to accept Mr. Joyce's proposal to the effect that the question of an SDR allocation would be discussed separately but urgently.

Mr. Joyce observed that, if Directors agreed to his proposal, the work of the Interim Committee would be reduced because the Executive Board could report that there was a consensus in favor of payment in reserve assets. In order to reach that consensus, a number of Directors were suggesting that the question of an SDR allocation, in its own right, should not be put aside. While no one could prejudge the outcome of the review, the important point was that a review would be undertaken.

Paragraph 16

Mr. Prowse recalled that he had suggested that the question of minimum quotas and access policy be included in the summary of main issues.

The Deputy Treasurer noted that there appeared to have been a consensus among Directors, when the question of minimum quotas had last been discussed, that the issue would be resolved in light of whatever the agreed quota increases were. That point was reflected earlier in the draft report. It had also been agreed that the question of access policy need not be placed on the already crowded agenda of the Interim Committee at its next meeting.

Mr. Malhotra said that he supported Mr. Prowse's view that the question of minimum quotas be included in the summary of main issues. Furthermore, he would prefer to see the order of views summarized in paragraph 16.1 reversed; in addition, "SDR 100 billion" should be substituted for "between SDR 90 billion and SDR 100 billion." In paragraph 16.2, there should be a reference to the need to avoid abrupt changes in the existing balance between different groups of countries. He believed that it would be more accurate to say that most Directors preferred an adjustment coefficient in the range of "8-25 per cent" rather than, as drafted, "16-25 per cent."

Mr. Hirao commented that, in his opinion, paragraph 10 more accurately summarized Directors' views on the adjustment coefficient. The consensus range appeared to be 20-25 per cent.

The Chairman suggested that, if the body of the report adequately described the issues and the shades of opinion among Directors, it might not be necessary to include a summary. The staff would produce a revised draft report taking into account the various comments made by Directors. The report would present to the Interim Committee the areas in which agreement had been reached as well as the differences that remained among Directors. The Interim Committee would no doubt be engaged in extensive discussion before final agreement was reached, but considerable progress had already been made, and the possibilities for a consensus were beginning to emerge. The revised draft would be prepared for Directors' consideration by January 11, 1982, and discussion would be scheduled for January 12, 1982.

The Executive Directors took note of the Chairman's remarks.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/83/2 (1/3/83) and EBM/83/3 (1/4/83).

3. BARBADOS - EXCHANGE SYSTEM

The approval under Decision No. 7017-(81/159) of Barbados' multiple currency practice is extended until May 31, 1983 or the completion of the 1983 Article IV consultation with Barbados, whichever is the earlier.

Decision No. 7290-(83/3), adopted
January 4, 1983

4. PAKISTAN - 1982 ARTICLE IV CONSULTATION - POSTPONEMENT

Notwithstanding the period of three months specified in Procedure II of the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5395-(77/63), adopted April 29, 1977, the Executive Board agrees to postpone its consideration of the Article IV consultation with Pakistan until not later than February 4, 1983.

Decision No. 7291-(83/3), adopted
January 3, 1983

5. EXECUTIVE BOARD TRAVEL

Travel by an Executive Director as set forth in EBAP/82/446 (12/30/82) is approved.

APPROVED: June 14, 1983

LEO VAN HOUTVEN
Secretary