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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/186

3:00 p.m., December 30, 1983

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

Executive Directors	Alternate Executive Directors
A. Alfidja	
J. de Groote	H. G. Schneider
B. de Maulde	
A. Donoso	M. Teijeiro
R. D. Erb	
M. Finaish	M. Z. M. Qureshi, Temporary
T. Hirao	T. Yamashita
J. E. Ismael	
	G. W. K. Pickering, Temporary
	C. Robalino
G. Laske	W. Moerke, Temporary
G. Lovato	C. P. Caranicas
R. N. Malhotra	A. S. Jayawardena
	J. E. Suraisry
J. J. Polak	T. de Vries
A. R. G. Prowse	
G. Salehkhou	O. Kabbaj
	E. I. M. Mtei
	S. E. Conrado, Temporary
J. Tvedt	
N. Wicks	T. A. Clark
Zhang Z.	Wang E.

A. Wright, Acting Secretary
K. S. Friedman, Assistant

Also Present

European Department: V. Marie. Exchange and Trade Relations Department: D. K. Palmer, Associate Director. External Relations Department: H. O. Hartmann. Legal Department: J. G. Evans, Jr., Deputy General Counsel. Middle Eastern Department: F. Drees. Research Department: E. A. Milne. Treasurer's Department: D. Williams, Deputy Treasurer; D. M. Brown, K.-Y. Chu, R. B. Hicks, B. E. Keuppens, T. Leddy, T. M. Tran, G. Wittich. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: S. R. Abiad, A. A. Agah, L. K. Doe, K. A. Hansen, S. M. Hassan, H.-S. Lee, Y. Okubo, I. R. Panday, P. D. Péroz. Assistants to Executive Directors: E. M. Ainley, J. Bulloch, M. B. Chatah, G. Ercel, G. Gomel, D. Hammann, N. U. Haque, A. K. Juusela, H. Kobayashi, M. J. Kooymans, M. Rasyid, A. A. Scholten, Shao Z., S. Sornyanyontr, Wang C. Y., A. Yasseri.

1. RATE OF REMUNERATION - ALTERNATIVE APPROACHES

The Executive Directors, continued from the previous meeting (EBM/83/185, 12/30/83), their discussion of alternative approaches to the determination of the rate of remuneration. They had before them a revision of Method C presented in EBS/83/237, Supplement 3 (12/29/83), on the basis proposed by Mr. Wicks and incorporating suggestions made by other Directors at EBM/83/185 (EBS/83/237, Sup. 4, 12/30/83).

The Deputy Treasurer noted that Mr. Wicks had suggested that the interest rate mechanism starting on January 1, 1984 could lead to an adjustment in the remuneration coefficient to 88 or 90 percent by May 1, 1984. However, by that time, there could have been further adjustments, as had been indicated in EBS/83/237, Supplement 3, so that the coefficient could in fact be at 88 or 90 percent. Accordingly, the bracketed portion of paragraph 1 referred to an increase of 3/5 percentage points, rather than an increase to 88 or 90 percent.

Mr. Wicks added that, unless the reference in brackets in paragraph 1 read as the Deputy Treasurer had noted, the effects of proposed paragraphs 1 and 2 could be inconsistent with each other; a reference to a percentage change in paragraph 1 could, in certain circumstances, make the provisions in paragraph 2 inoperative.

Mr. Prowse remarked that paragraph 2(i) would be clearer if it were changed to read: "the rate applicable on the preceding December 31...."

Mr. Pickering said that he wished to be certain that he understood the implications of the revised proposal. If, for instance, the SDR interest rate decreased slightly from, say, 8.75 percent at end-1983 to 8.50 percent at the end of the first quarter of 1984, there would be a change in the remuneration coefficient. If thereafter the SDR interest rate rose to, say, 15 percent by end-1984, that rate would be the basis for calculations of the rate of remuneration for 1985. However, according to the final sentence in paragraph 2, account was to be taken of the rate that had been applicable on December 31, namely, 15 percent, or the rate in effect on the last day of the quarter preceding the last increase in the remuneration coefficient, namely, 8.5 percent according to his scenario. Was he correct in understanding that the 8.5 percent would no longer be operative?

The Deputy Treasurer replied that Mr. Pickering's understanding was correct. The starting point for calculating the remuneration coefficient would be the SDR interest rate on January 1, 1984 and again on January 1, 1985.

The Chairman suggested that the second sentence could perhaps be redrafted to show more clearly the intention of the provisions.

Mr. Polak noted that, while the effective date in paragraph 1--May 1, 1984--was the beginning of the Fund's fiscal year, one of the effective dates in paragraph 2--January 1, 1984--was the beginning of the calendar year. It seemed confusing to mix calendar year dates and Fund fiscal year dates in the same decision.

Mr. Wicks remarked that he had suggested January 1, 1984 merely because it was a date in the immediate future. February 1, 1984, or the beginning of the Fund's financial year, would also be an acceptable date for the purpose of the proposed text.

Mr. Erb added that the date of May 1, 1984 in paragraph 1 represented a compromise; some Executive Directors had preferred increasing the remuneration coefficient to 90 percent on January 1, 1984. In any event, the starting date of January 1, 1984 had the advantage of closeness in time and of providing some certainty about the starting point. Waiting until May 1, 1984 to adjust the remuneration coefficient would lend some uncertainty to the exercise.

Mr. Zhang said that he preferred the previous formulation of paragraph 2, which referred to an increase in the remuneration coefficient to a specific figure.

Mr. Polak stated that he too preferred a formulation of paragraph 1 on the basis of paragraph 2 of the previous version.

Mr. Finaish inquired about the voting majority that would be required for the review under draft paragraph 3. On a separate point in paragraph 4, mention was made of a rate of remuneration of 85 percent of the SDR rate, but the Articles mentioned a minimum rate of 80 percent.

The Deputy General Counsel replied that a simple majority was required to complete the review under draft paragraph 3. According to Article V, Section 9(a), the figure in draft paragraph 4 could range from 80 percent to 100 percent.

Mr. Polak suggested that paragraph 4 could be changed to provide that, if the rate of charge exceeded the SDR interest rate, the Executive Board would review the remuneration coefficient and would consider whether the rate of remuneration should be reduced, within the limits set by Article V, Section 9(a), to a level that would permit setting the rate of charge equal to the SDR interest rate in effect at the time of the review.

Mr. Wicks said that he agreed that including a reference to Article V, Section 9(a), would be useful. Accordingly, in conducting the review called for under paragraph 4, the Executive Directors would be constrained by the requirements of the Articles and actual developments at the time of the review.

Mr. Wicks noted that he continued to believe that the mechanism provided in paragraph 2 should start before the date specified in paragraph 1. The latter date could be February 1, 1984, rather than January 1, but he hoped that identical dates would not be used in both paragraphs.

Mr. Polak considered that a reasonable solution would be to use the date of February 1, 1984 in paragraph 1 and May 1, 1984 in paragraph 2.

Mr. Wicks remarked that, under the approach that he favored, creditors would be certain that the remuneration coefficient would reach at least a certain level by May 1, 1984.

Mr. Malhotra noted that the SDR interest rate had fluctuated considerably in the recent past. It was conceivable that, in the coming months, a significant decline in the SDR interest rate--similar to declines in the recent past--could quickly bring the remuneration coefficient up to 100 percent. On the other hand, the SDR interest rate could conceivably increase significantly. However, the proposed mechanism seemed to be weighted heavily or entirely in favor of an early increase in the remuneration coefficient.

After recessing for one hour, the Executive Directors resumed their discussion on the basis of a further revision of the proposed decision (EBS/83/237, Supplement 5).

Responding to a question, the Deputy General Counsel explained that the words "or part thereof" in the second sentence of paragraph 2 had been added because the rate of remuneration could conceivably change by less than one percentage point.

Mr. de Maulde said that he preferred to have a round number for the rate of remuneration. The references to "or part thereof" should be eliminated.

Mr. Erb noted that under proposed draft paragraph 2, part of a change in the SDR interest rate would not be reflected in the movement in the rate of remuneration if the SDR interest rate change were very small.

Mr. Wicks remarked that Mr. Erb had noted an important problem which, however, could be solved by using the word "triggered" or "caused" instead of "resulted" in the penultimate line of paragraph 2.

Mr. Prowse commented that the words "as and when" in the second line of paragraph 2 did not accurately describe the mechanism that was intended under the proposed draft. In fact, the rate of remuneration would not be increased as and when the SDR interest rate declined. Instead, the rate of remuneration would be raised after the SDR interest rate had declined and consistent with specified rules. The text in question could read: "The rate of remuneration shall be raised, consistent with Article V, Section 9(a) of the Articles of Agreement, on the basis of declines in the SDR interest rate as follows."

After a further brief discussion, Mr. Erb suggested that one solution to the problem of the choice of the dates in paragraphs 1 and 2 would be to start the adjustment procedure on January 1, 1984 and have the first period of adjustment be four months, rather than three months, so that thereafter the adjustment period could be based on the Fund's fiscal year.

After a further brief debate, Mr. Malhotra remarked that the extent of the debate on the choice of dates in paragraphs 1 and 2 was somewhat surprising. After all, as several Executive Directors had stressed, the process of adjusting the rate of remuneration could be spread out over a number of years. In paragraph 1, he preferred the date of May 1, 1984 and the figure of 88 percent for the remuneration coefficient.

Mr. Pickering stated that he favored the date of May 1, 1984 in paragraph 1 and an increase in the remuneration coefficient by 5 percentage points on that date. Mr. Erb's suggestion for making the initial adjustment on January 1, 1984 and the next adjustment four months later, rather than three months later, in order to base the system on the Fund's financial year, was useful.

Mr. Ismael suggested that the date in paragraph 1 should be May 1, 1984, and the remuneration coefficient in that paragraph should be 88 percent.

Mr. Wicks commented that in paragraph 1 he preferred to provide for a 5 percentage point increase in the remuneration coefficient and a date of May 1, 1984.

Mr. Malhotra said that he continued to be surprised by the suggested speed with which the increase in the rate of remuneration was sought to be made under the various proposals put forward thus far. He preferred to make no increase in the remuneration coefficient before May 1, 1984, and to look at the possibility of applying the suggested interest rate mechanism set out in paragraph 2 no sooner than that.

The Chairman remarked that the compromise proposal was meant to reflect the preference of some Executive Directors for an increase in the remuneration coefficient to 90 percent, rather than the 88 percent that was being proposed as a compromise. He doubted whether the Executive Directors who favored a higher remuneration coefficient would be willing to delay the increase until May 1, 1985.

Mr. Wicks expressed agreement with the Chairman.

Mr. Moerke, Mr. Hirao, Mr. Lovato, Mr. Pickering, Mr. Lindø, Mr. Polak, and Mr. Schneider said that the compromise proposal was acceptable.

After a further brief debate, Mr. Malhotra commented that the mechanisms proposed in paragraph 2 were one sided in the sense that they provided only for an increase in the remuneration coefficient if the SDR interest rate moved in a certain direction; there was no provision for a decline in the coefficient if the SDR interest rate moved the other way.

After a further brief discussion, Mr. Erb remarked that the proposals in paragraph 2 reflected a long and evolutionary process. A number of proposals for specifying the rate of increase in the remuneration coefficient over time had been rejected. Some Executive Directors had favored a specific agreed time path over which the remuneration coefficient would gradually increase in order to lend some certainty to the exercise. Moreover, some Executive Directors had preferred a specific deadline by which the rate of remuneration would reach 100 percent. In fact, however, the Executive Directors had gradually moved far away from that approach, preferring to leave the adjustment period open ended. If the SDR interest rate remained steady or rose gradually during the coming two or three years, there would be no change in the remuneration coefficient. That deficiency in the proposed approach was serious and was one of the reasons why he had great difficulty in going along with it. If the adjustment period were to be open ended, the mechanism in paragraph 2 should at least permit some increase in the remuneration coefficient over time in the event that interest rates fell.

Mr. Hirao suggested that in paragraph 1, the remuneration coefficient should be raised to 90 percent. In the second sentence of paragraph 2 he preferred an increase in the remuneration coefficient by one percentage point for each one tenth, rather than one sixth, of a percentage point that the SDR interest rate had declined.

Mr. Wicks, Mr. Lindø, and Mr. Pickering said that they agreed with Mr. Hirao.

Mr. Donoso stated that he preferred the first method in paragraph 2.

Mr. Conrado remarked that he favored a ratio of one sixth, rather than one tenth, in paragraph 2. In paragraph 1, the remuneration coefficient should be raised to 88 percent.

Mr. de Maulde said that his position on paragraph 2 was flexible. A simple formula without yearly revisions of the base would be the best solution, but there were certain trade-offs involved in possible solutions. Recalculating the base each year, and an increase in the remuneration coefficient in the second sentence of paragraph 2 of one sixth, would be acceptable.

Mr. Alfidja stated that he agreed with Mr. de Maulde.

Mr. Prowse remarked that he too had a flexible attitude toward paragraph 2. He could accept a starting date of either February 1, 1984 or May 1, 1984. Starting on January 1, 1984 would be neither elegant nor logical. The whole process should begin with an increase in the remuneration coefficient and subsequent periodic adjustments according to changes in the SDR interest rate, beginning on May 1, 1984. The choice of the gearing ratio in the second sentence of paragraph 2 depended on a number of factors; one fifth might be an acceptable ratio. The second mechanism in paragraph 2 was difficult to accept because it embodied the Variant of Method C, under which the remuneration coefficient could conceivably rise to 100 percent within 15 months of the starting dates of the proposed mechanisms.

Mr. Schneider commented that, while his position was flexible, his first preference was a ratio of one tenth of a percentage point.

Mr. Robalino said that his position was the same as that of Mr. Conrado.

Mr. Moerke observed that, like Mr. Erb, he had reservations about paragraph 2 because of the open-ended nature of the adjustment. Neither of the proposed mechanisms in paragraph 2 was fully acceptable, and the second one would certainly be unacceptable if the gearing ratio were one sixth.

Mr. Mtei said that the date in paragraph 1 should be May 1, 1984, and the remuneration coefficient should be raised to 88 percent on that date. The mechanism in paragraph 2 should be started some time after May 1, 1984, say, three or six months later.

Mr. Zhang stated that he preferred a gearing ratio in paragraph 2 of one fifth.

Mr. Ismael remarked that the first of the two mechanisms suggested in paragraph 2 seemed preferable, with a gearing ratio of one sixth, and adjustments each six months, rather than every quarter.

Mr. Malhotra considered that the gearing ratio in paragraph 2 should be one fifth, and adjustments should be made every six months, rather than each quarter.

Mr. Erb said that it might be useful to establish a relationship between the gearing ratio and the level of interest rates. For instance, it could be stated that, if the interest rate level rose from the base period by, say, three percentage points, the gearing ratio would be changed to, say, one sixth; in other words, the higher the interest rate level, the lower the gearing ratio.

Mr. de Maulde commented that Mr. Erb's idea was worth exploring.

Mr. Polak considered that the number of variables involved in the mechanisms proposed in paragraph 2 was becoming excessively large. It seemed best to use a relatively simple approach, namely, an automatic variable gearing ratio. Accordingly, the remuneration coefficient would be adjusted in inverse proportion to the SDR interest rate, so as to keep the rate of remuneration constant.

Mr. Malhotra commented that the proposals continued to be one sided: under all of them, the remuneration coefficient would be steadily increased. There would be no opportunity to slow or reverse the increase. Of the two methods proposed in paragraph 2, the first one was preferable, but both were open to the objection mentioned by him.

Mr. Polak remarked that it might be best to agree on the simple solution under which the rate of remuneration would be increased in the same proportion that the rate of interest on the SDR had decreased.

After a further brief discussion, the Chairman said that he wondered whether Executive Directors who had difficulty in accepting the first method in paragraph 2 would be more inclined to accept the second method if the gearing ratio were one sixth. That approach might meet the concern of Executive Directors who were worried that the upward adjustment of the remuneration coefficient might be very rapid. Accordingly, there would be an adjustable base, starting with a gearing ratio of one sixth. The gearing ratio would be adjusted periodically in line with changes in the SDR interest rate.

Mr. Prowse remarked that the problem with the second method in paragraph 2 was that an increase or decrease in the SDR interest rate at critical stages could produce substantial changes in the remuneration coefficient from one quarter to the next.

Mr. Conrado commented that the review provided for in paragraph 3 would not act as a safeguard against rapid increases in the remuneration coefficient, as the majority required to change any aspects of the agreed formula for the rate of remuneration would be 70 percent.

Mr. de Maulde observed that he could go along with the proposal for automatic adjustments and a ratio of one sixth, provided that it proved to be consistent with the decisions that were to be taken soon on access to Fund resources.

Mr. Schneider stated that he too would be willing to consider such a proposal.

The Chairman said that he understood that some Executive Directors were worried about the possibility of an excessively rapid increase in the remuneration coefficient followed by a rise in interest rates. The concern might be met by a combination of a gearing ratio of one sixth of 1 percent and proportional adjustments in the SDR interest rates and the remuneration coefficient. Alternatively, the first method in paragraph 2 could be adopted with a relatively strict gearing ratio.

After further discussion, Mr. Mtei remarked that he continued to be concerned that a gearing ratio of one tenth would pave the way for a possible increase in the remuneration coefficient to 100 percent by as early as May 1, 1984. Such an outcome would certainly be inconsistent with the basic objective of the present exercise.

The Chairman responded that such an outcome would be possible under the approach toward which the Executive Directors seemed to be heading. On the other hand, in the situation that Mr. Mtei had described, the general financial environment would be significantly improved. A decline of 1 percentage point in interest rates resulted in savings on interest payments of SDR 3-4 billion a year for non-oil debtor countries. In addition, there would not necessarily be corresponding increases in charges.

Mr. Polak commented that it seemed fully appropriate to permit the remuneration coefficient to rise as the interest rate climate became more favorable. The first mechanism in paragraph 2 would provide for such an outcome, but the second one might produce a higher remuneration coefficient in a less favorable interest rate climate. The SDR interest rate could fluctuate in the first two quarters of 1984, thereby resulting in an increase in the rate of remuneration to 100 percent at a time when interest rates were higher than they were at present. Apparently the idea of a movable reference point was designed to accelerate the increase in the remuneration coefficient to 100 percent. He was not interested in accelerating the pace, particularly at the risk of an increase in charges.

Mr. Erb remarked that the second method in paragraph 2 was not designed to accelerate the pace of adjustment in the remuneration coefficient up to 100 percent. The rate would rise to 100 percent in a relatively short period only in certain circumstances. If interest rates rose or remained constant, there would be no adjustment in the remuneration coefficient.

After a brief debate, Mr. Donoso commented that Executive Directors obviously had problems in accepting the methods contained in paragraph 2. The main objective seemed to be to provide for some adjustment of the rate of remuneration in an appropriate interest rate environment. The best way to achieve that objective was to set a predetermined trend of adjustment. Accordingly, the rate of adjustment in the remuneration coefficient would be accelerated in line with declines in the SDR interest rate, but the adjustment of the coefficient would be slowed if the SDR interest rate started to rise. There would be predetermined increases in the rate of remuneration, and additional increases as well, but only in response to declines in the SDR interest rate.

Mr. Wicks remarked that Mr. Donoso's idea was worth exploring. As he understood it, there would be a predetermined but gradual upward slope in the adjustment in the rate of remuneration to 100 percent. Adjustment along the slope could be accelerated or slowed, but it could not fall below the predetermined slope.

Mr. Donoso said that, under his approach, the need for certainty could be met by agreeing at the outset that the rate of remuneration would reach 100 percent by no later than a specified year.

The Chairman observed that part of the attractiveness of Mr. Donoso's proposal was the symmetry that it would provide: the rate of remuneration would be on an upward trend over time, but it could conceivably fall at some times--although not below the established trend line--in response to an increase in the SDR interest rate.

The Executive Directors recessed the meeting for an hour and forty-five minutes.

Mr. Donoso said that his proposal could read:

> The remuneration coefficient each quarter shall be the higher of:
>
> (i) the remuneration coefficient existing on January 1, 1984 increased by 3 percentage points at the beginning of each of the next five financial years; and
>
> (ii) the remuneration coefficient existing on January 1, 1984 increased or decreased by 1 percentage point for each (one tenth) (one sixth) of 1 percentage point of which the SDR interest rate on the day before the beginning of a quarter is below or above the *SDR interest rate on April 30, 1984;*
>
> provided that the remuneration coefficient shall not exceed 100.

After a further brief discussion, Mr. de Maulde remarked that Mr. Donoso's proposals seemed to meet the basic concerns that Executive Directors had expressed about the previous proposals.

Mr. Prowse, however, expressed doubt whether Mr. Donoso's proposal would appeal to Executive Directors from countries that were likely to be paying charges. After all, under the new proposal, as under Mr. Erb's original suggestion, there would be a steady rate of increase in the remuneration coefficient. Moreover, under the new proposal, the rate of increase could be accelerated.

Mr. Donoso commented that the Executive Directors who favored Mr. Erb's original proposal might accept a lower predetermined rate of adjustment in exchange for the possibility of some acceleration in the rate of adjustment over time. The rate of increase in the remuneration coefficient was likely to be less steep under his proposal than under Mr. Erb's original proposal. Moreover, his proposal might also be attractive because it would prevent a decline in the rate of increase in the remuneration coefficient from falling below the established floor, namely, the predetermined trend line of the rate of increase in remuneration.

Mr. Polak said that Mr. Donoso's proposal did not constitute an improvement over previous proposals. It would not suit those Directors who, like Mr. Erb, had favored a ratchet effect on the rate of remuneration, something that was not provided for under the new proposal. Nor would they favor the possibility of lifting the rate of remuneration to a certain level only to let it fall again. As for Executive Directors from countries that paid charges, they would certainly not welcome the regular upward adjustments in the rate of remuneration under Mr. Donoso's proposal.

Mr. de Maulde commented that the possible acceleration or deceleration of the rate of increase in the remuneration coefficient under Mr. Donoso's proposal would be appropriate. The acceleration would occur only when interest rates declined; therefore, countries paying charges would be compensated for the acceleration in the remuneration rate by a decline in the rate of interest on external debt. When interest rates increased, there would be a kind of compensation in the form of a decline in the remuneration coefficient.

Mr. Conrado said that he agreed with Mr. de Maulde that Mr. Donoso's proposal should have wide appeal. Further thought would have to be given to the appropriate rate of increase in the remuneration coefficient at the beginning of each year, and to the maximum rate that remuneration should be permitted to reach in each year.

Mr. Malhotra remarked that Mr. Donoso's proposal should perhaps include the possibility of permitting the remuneration coefficient to fall below the predetermined trend line.

Mr. Wicks responded that Mr. Malhotra's amendment would make Mr. Donoso's proposal asymmetrical and significantly less attractive. As it stood, Mr. Donoso's proposal was balanced and provided a trade off, in the sense that, while it gave some certainty about the trend in the rate of remuneration over a period that some Executive Directors felt was very long, it also raised the possibility of accelerating the rate of increase in the remuneration coefficient in certain circumstances.

The Chairman said that he agreed with Mr. Wicks. Moreover, permitting the rate of increase in remuneration to fall below the trend line could cause operational difficulties in the final stage of the operation, as a steep increase in the rate of remuneration in a short period might be needed to bring the rate up to 100 percent.

Responding to a question, Mr. Donoso explained that his proposal was meant to remove the bias that Mr. Malhotra had seen in previous proposals. Apparently Mr. Malhotra had objected to the fact that, under previous proposals, the remuneration coefficient would continue rising even if the SDR interest rate fell in one period but rose in the next period. His proposal centered not so much on the specific figure of 3 percentage points in paragraph 1, as on the introduction of a basic structure that would provide for a specified increase in the remuneration coefficient each year together with the possibility of slowing or temporarily reversing the upward movement, therefore providing minimal certainty about the future course of remuneration while removing the pure upward bias in previous proposals. Moreover, his proposal could stipulate that, in keeping with the provisions of the Articles, the remuneration coefficient would not exceed 100 percent and would cover the full five-year period. Accordingly, if the rate of remuneration reached 100 percent at, say, the end of the second year, and if interest rates increased at the beginning of, say, the fourth year, the rate of remuneration would fall to 97 percent until the end of the fifth year.

Mr. Moerke inquired whether the possible relatively short-term fluctuations in the rate of remuneration under Mr. Donoso's proposal would pose any practical problems for the staff.

The Deputy Treasurer replied that the fluctuations would pose no practical problems. The rate of remuneration was already determined on a weekly basis.

Mr. Erb remarked that, if the structure of Mr. Donoso's proposal were acceptable, the Executive Directors would have to decide on the length of the adjustment period and the size of the step increases in the rate of remuneration each year. One solution would be to agree on an increase in the remuneration coefficient of 5 percentage points at the beginning of each of the next three financial years.

Mr. Conrado suggested that the remuneration coefficient could be increased by 2 percentage points in each of the coming five financial years, thereby bringing the coefficient up to 95 percent at the end of the period. There would also be an agreement that the rate need not reach 100 percent by the end of the period. At the end of the period, the rate of remuneration could be permitted to float.

Mr. Malhotra said that he agreed with Mr. Conrado that, if the remuneration coefficient were to be adjusted, it should be kept below a ceiling of about 95 percent in the agreed period. Thereafter, adoption of a further decision should depend on a review. If the increase in the rate of remuneration were to be predetermined under Mr. Donoso's proposal, the annual step increases should be much less than 3 percentage points, say, 2 percentage points.

Mr. de Maulde commented that Mr. Donoso's proposal had the great advantage of simplicity, particularly in comparison with the previous proposals. The best approach might be to accept the structure that Mr. Donoso had proposed and to center the rest of the debate on the length of the period of adjustment and the size of the increase in the remuneration at the beginning of each financial year. The 3 percentage point increase in the five-year period that Mr. Donoso had proposed seemed appropriate.

The Chairman considered that Mr. Donoso's proposal had some important advantages. It was relatively simple, and it would accelerate the rate of increase in the remuneration coefficient only when the interest rate environment improved. Moreover, it would lend some certainty to the likely course of the rate of remuneration in the established period. The need to choose the size of the annual step increase in the remuneration coefficient and the period of adjustment remained, but Mr. Donoso's proposal provided a good framework within which to make those decisions.

Mr. Suraisry remarked that Mr. Donoso's proposal warranted further examination. It was a promising way of simplifying the system and of meeting the various concerns that had been expressed.

Mr. Pickering said that his authorities hoped that the rate of remuneration would reach 100 percent by the time of the next general quota review. One solution might be to increase the remuneration coefficient to 95 percent in steps over the next three years, and to introduce another mechanism under which the coefficient would rise to 100 percent before completion of the next general review of quotas. Mr. Donoso's proposal seemed to be a possible basis for compromise.

Mr. Wicks observed that the difference between the rate of remuneration and the SDR interest rate was a particular cause for concern when governments presented legislation on quota increases to their parliaments. As he understood it, under Mr. Donoso's proposal the rate of remuneration would equal the SDR interest rate by the time parliaments considered quota increases under the next general review.

The Deputy General Counsel explained that the Executive Board would have to appoint a Committee of the Whole on Quotas on March 31, 1987. The report of the Executive Board should be presented to the Board of Governors for adoption by March 31, 1988.

Mr. de Maulde noted that, if the first upward adjustment in the remuneration coefficient were made by May 1, 1984, the fifth and final adjustment would be made in time to meet Mr. Pickering's concern.

Mr. Conrado said that he would have difficulty in accepting any proposal under which the remuneration coefficient would definitely be increased to 100 percent in a specified period.

Mr. Erb noted that his authorities would have to consult the Congress before the Government could agree to establishing a Committee of the Whole on Quotas. It was for that reason that he felt that the period in which the remuneration coefficient would be increased to 100 percent should end no later than early 1987; accordingly, the period of adjustment should be from two and one-half to three years. Within that period, adjustments could be made every, say, six months. It might be feasible to leave a small adjustment up to 100 percent at the end of the period, but the bulk of the adjustment should be completed before the date of the establishment of the Committee of the Whole on Quotas.

Mr. Pickering said that governments that had to ask parliaments to approve quota increases would find it helpful to have increases in the remuneration coefficient of 3 percentage points on May 1, 1984, May 1, 1985, and May 1, 1986, thereby bringing the coefficient up to 94 percent; the rest of the adjustment up to 100 percent could be made in the year May 1, 1986-April 30, 1987.

Mr. Donoso commented that if the period of adjustment of the remuneration coefficient were significantly shortened to three or four years, there should be no provision for accelerating the rate of adjustment in response to declines in the SDR interest rate. His proposal was meant to provide preagreed adjustment together with possible accelerations in the process.

Mr. de Maulde remarked that, under Mr. Donoso's proposal, the adjustment in the remuneration coefficient would be completed by May 1988, or before parliaments considered legislation on quotas. In any event, parliaments would know from the experience in the four years before May 1988 that the rate of remuneration had been adjusted at a predetermined pace, and they would be confident that the adjustment would continue as agreed.

Mr. Schneider commented that Mr. Donoso's proposal was consistent with his own views on the best way to increase the rate of remuneration over time. The period of the adjustment of the remuneration coefficient should not extend beyond May 1988.

Mr. Malhotra said that, like Mr. Conrado, he could not accept an agreement under which the remuneration coefficient would definitely be raised to 100 percent within the period specified under Mr. Donoso's proposal. He was willing to consider an adjustment to a figure of less than 100 percent, with the possibility of a further review of the remuneration coefficient at the end of the agreed period, which would probably coincide with the consideration by member governments and their parliaments of a further increase in quotas.

The Chairman commented that it was important not to underestimate the likely difficulties in gaining approval of the quota adjustment under the next General Review. The Fund had been fortunate that the complex and difficult negotiations on the previous adjustment in the quota of the United States had finally been successfully concluded. But one had to think ahead. One of the difficulties in the Fund's case presented to members of Congress was the existence of a subsidized rate of remuneration and the cost to the Treasury of the difference between the SDR interest rate and the rate of remuneration. The reluctance of some Executive Directors to see the rate of remuneration increased to 100 percent was understandable, but it was important to bear in mind the requirements for a successful conclusion of the next General Review of Quotas. It was important to maintain the support of the member countries that enabled the Fund's resources to continue expanding.

Mr. Malhotra considered that parliaments' perceptions of the level of subsidization with respect to the rate of remuneration would change once the remuneration coefficient reached 94 percent. The adjustment in the rate of remuneration need not necessarily stop once it had reached 94 percent. On the other hand, once it had reached that level, the time would be ripe to review the situation.

After a further brief discussion, the Chairman remarked that the Executive Directors might wish to examine Mr. Donoso's proposal further in the hope of reaching a compromise.

The Executive Directors agreed to return to the subject of the rate of remuneration on January 2, 1984.

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/83/185 (12/30/83) and EBM/83/186 (12/30/83).

2. PEOPLE'S DEMOCRATIC REPUBLIC OF YEMEN - TECHNICAL ASSISTANCE

In response to a request from the Yemeni authorities for technical assistance, the Executive Board approves the proposal set forth in EBD/83/334 (12/23/83).

Adopted December 30, 1983

APPROVED: May 17, 1984

LEO VAN HOUTVEN
Secretary