January 14, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Final Minutes of Executive Board Meeting 84/84

The following correction has been made in the final minutes of EBM/84/84 (5/30/84):

Page 5, Item 2, line 3: For "and Sup. 1, 4/21/84)" read
"and Sup. 1, 5/21/84)"

A corrected page is attached.

Att: (1)

Other Distribution:
Department Heads

Fund to finance such purchases after deducting the amounts of currency held in the Borrowed Resources Suspense Accounts.

Decision No. 7710-(84/84), adopted May 30, 1984

2. INCOME POSITION FOR FINANCIAL YEARS 1984 AND 1985 - REVIEW

The Executive Directors continued from the previous meeting their consideration of a staff paper on the review of the Fund's income position for the financial years 1984 and 1985 (EBS/84/91, 4/24/84; and Sup. 1, 5/21/84).

The Chairman recalled that the differences of views among Executive Directors on the rate of charge for the coming period were very small. Under the staff proposal, the rate would rise to 7.07 percent. If, as some Executive Directors favored, all the net income in 1984, or a part of it equal to the 1985 income target, were deemed to be net income for 1985 for the purpose of determining the rate of charge, the rate would be either 6.89 percent or 6.92 percent, respectively. If, as the other Directors preferred, the amount deemed were limited to SDR 20 million, the rate of charge would need to be raised to 6.97 percent. If the amount deemed were limited to SDR 15 million--the compromise proposed by some Executive Directors--the rate would be 7 percent.

Mr. Laske said that the difference between the two main positions was very small. The best solution was to place all of the net income in 1984 to reserves and to raise the rate of charge to 7.07 percent. However, in the light of comments by other Executive Directors, and as the rate of charge would have to be increased automatically by December 15, 1984 if the Executive Board were unable to reach an agreement by then, he was prepared to accept Mr. Nimatallah's compromise proposal for setting the rate of charge at 7 percent and deeming SDR 15 million of 1984 income to be income for 1985.

Mr. Clark stated that he felt strongly that prudent financial management called for setting the rate of charge at 7.07 percent. In the present uncertain environment, that solution would help prevent sudden and substantial shifts in the rate of charge in coming months. However, in a spirit of compromise, he could accept a rate of charge no lower than 7 percent. If a consensus around that figure did not emerge, the staff should explore fully the possible consequences for the adjustment to be made at the time of the midyear review of leaving the rate of charge at the present level.

Mr. Hirao said that he could accept Mr. Nimatallah's compromise proposal for setting the rate of charge at 7 percent. He shared Mr. Clark's views on the proposal.

Mr. Morrell commented that he too could accept a compromise of 7 percent.

Ms. Bush said that she continued to prefer a rate of charge of 7.07 percent. However, to protect the Fund's income position and presumably to make it unnecessary to increase substantially the rate of charge at the time of the midyear review, she could accept a rate of charge of 7 percent. She agreed with Mr. Laske and Mr. Wicks that there should be a review of the Fund's income and reserve position to determine whether or not the present 3 percent net income target or guideline was adequate.

Mr. Coene considered that, in a spirit of compromise, he was prepared to accept a rate of charge of up to 7 percent.

Mr. Mtei considered that the most rational approach was to deem all of the excess income in 1984 as income for 1985. As a compromise, he was willing to deem half of the excess 1984 income as income for 1985 and to set the rate of charge at 6.97 percent, on the condition that, if net income at the time of the midyear review were larger than had been forecast, the rate of charge would automatically be decreased.

Mr. Joyce said that setting the rate of charge at 7 percent would be an acceptable compromise.

Mr. Ismael remarked that half of the excess income should be placed to reserves and half should be deemed as income for 1985 for the purpose of determining the rate of charge. Accordingly, the rate of charge should be set at 6.97 percent; if income increased in 1985, the rate of charge should be reduced.

Mr. Polak said that he could accept any solution that resulted in a rate of charge rounded to 7 percent.

Mr. Jayawardena, Mr. Doe, and Mr. Arias said that their position was the same as that of Mr. Mtei.

Mr. Donoso stated that he too supported Mr. Mtei's position. A further comment on the precise implications of that proposal for the conduct of the midyear review would be helpful.

The Treasurer remarked that, at the time of the midyear review, the Executive Board would consider, the extent to which the income target--including any deemed income--had been met. In so doing, the Executive Directors would take into account both the actual results of the first half of the financial year and the prospects for the second half of the year. At that time, the Executive Board could decide either that the target had been met, or that it had not been met; if the Board wished to do so, it could make any adjustments on the basis of its conclusion.