

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/183

10:00 a.m., December 28, 1983

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

Executive Directors

A. Alfidja  
B. de Maulde  
R. D. Erb  
M. Finaish  
T. Hirao  
J. E. Ismael  
  
G. Laske  
G. Lovato  
R. N. Malhotra  
  
J. J. Polak  
A. R. G. Prowse  
G. Salehkhoul  
  
N. Wicks  
Zhang Z.

Alternate Executive Directors

w. B. Tshishimbi  
P. Péterfalvy, Temporary  
  
J. Delgadillo, Temporary  
  
T. Alhaimus  
  
G. W. K. Pickering, Temporary  
C. Robalino  
  
C. P. Caranicas  
A. S. Jayawardena  
J. E. Suraisry  
T. de Vries  
  
O. Kabbaj  
E. I. M. Mtei  
S. E. Conrado, Temporary  
A. Lindg  
T. A. Clark  
Wang E.

A. Wright, Acting Secretary  
B. J. Owen, Assistant

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Also Present

European Department: V. Marie. Exchange and Trade Relations Department: D. K. Palmer, Associate Director. External Relations Department: H. O. Hartmann. Legal Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy General Counsel; J. M. Ogoola. Middle Eastern Department: F. Drees, S. Thayanithy. Research Department: K.-Y. Chu, N. M. Kaibni, E. A. Milne, T. K. Morrison, H. H. Zee. Treasurer's Department: D. Williams, Deputy Treasurer; M. N. Bhuiyan, K. Boese, D. H. Brown, R. B. Hicks, B. E. Keuppens, T. Leddy, T. M. Tran, G. Wittich. Western Hemisphere Department: S. T. Beza, Associate Director. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: S. R. Abiad, A. A. Agah, E. A. Ajayi, L. K. Doe, K. A. Hansen, S. M. Hassan, L. Ionescu, H.-S. Lee, W. Moerke, Y. Okubo, I. R. Panday, P. D. Péroz, M. Z. M. Qureshi. Assistants to Executive Directors: E. M. Ainley, H. Alaoui-Abdallaoui, J. Bulloch, M. Camara, M. B. Chatah, G. Ercel, G. Gomel, V. Govindarajan, D. Hammann, N. U. Haque, A. K. Juusela, H. Kobayashi, M. J. Kooyans, M. Rasyid, A. A. Scholten, S. Sornyanontr, Wang C. Y., A. Yasserli.

1. RATE OF REMUNERATION, POLICY ON ENLARGED ACCESS, AND ACCESS LIMITS - SPECIAL FACILITIES

The Executive Directors resumed from the previous meeting (EBM/83/182, 12/23/83) their discussion on the rate of remuneration (EBS/83/237, 11/2/83; Sup. 1, 12/20/83; and Sup. 2, 12/22/83). As agreed at the previous meeting, they also had before them proposed decisions on certain aspects of the policy on enlarged access and the access limits for special facilities (EBS/83/270, 12/16/83).

The Managing Director made the following statement:

During the Board's discussions on the rate of remuneration on Friday, December 23 (EBM/83/181 and EBM/83/182), a number of Executive Directors suggested that it would be helpful to bring together drafts of the various decisions that have come to be regarded by many Directors as an interrelated package. Accordingly, a set of draft texts based on the discussions so far, which could help the Board on each of the main issues that require decisions, has been prepared. 1/

With regard to the level and growth of the Fund's reserves and the determination of Fund charges, it was agreed at our meeting on December 19 (EBM/83/177), that there was no need to change the method of determining charges or the target for net income.

With regard to the policy on enlarged access, we had a fruitful discussion on December 19 (EBM/83/177). I believe that we achieved broad agreement on the matters set out in EBS/83/270 (12/16/83) including the three issues requiring decisions and also the understanding that the broad thrust of the staff paper "Considerations Governing Amount of Access" would provide guidance to the staff. The texts of the three draft decisions are set out as I, II, and III in Appendix I. The changes from the previous versions are indicated and I trust that no further amendments will be necessary.

With regard to access limits under special facilities, I put forward at EBM/83/167 (12/2/83), a compromise proposal for a limit of 85 percent of quota on the compensatory financing facility (both under the export shortfall decision and the cereal decision), a combined access limit of 105 percent of quota, a 50 percent of quota threshold for the upper and lower portions of the compensatory financing facility, and a limit of 45 percent of quota for the buffer stock financing facility. At the meeting on December 19, there was rather wide support for my proposal. Several Directors continued to feel that the limit

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1/ See Appendix I.

on the compensatory financing facility should be of the order of 80 percent of quota but they could accept a somewhat higher percentage--perhaps 82 or 83 percent of quota; at present these Directors are of the view that the threshold should be at the midpoint of the limit. Some Directors also continued to consider that the buffer stock facility limit should be at 40 percent of quota. There was general agreement on the wording of the provisions for review (paragraph (d) of the text). In light of the discussion so far, most of the sets of square brackets have been left unchanged in the text of the draft decision which is set out as IV in Appendix I. I believe that the differences of view that remain on this issue are small and that we are close to achieving agreement.

With regard to the rate of remuneration, I believe that the discussions on December 23 helped to clarify some of the technical issues. There are still some points on which there are fairly wide differences of opinion--in particular whether we should go to 100 percent of the SDR rate, the time period during which such an objective might be achieved, and whether there should be a mechanism to prevent the rate of charge exceeding the SDR interest rate as a result of increasing the rate of remuneration in relation to the SDR rate. However, there was a considerable convergence of views around some form of Method 3 in EBS/83/237, Supplement 2. The proposal made by Mr. Grosche is a variant of Method 3 and illustrates very well the main components that were emerging as a possible basis for an agreement; it can perhaps be regarded as offering a middle ground and as having sufficient flexibility to enable Executive Directors to come to an agreement around a set of figures very close to those he has suggested. The text of his proposal, including the addition suggested by Mr. Polak, is set out as V in Appendix I, together with a draft amendment to Rule I-10. Some technical clarifications will probably be needed, and the staff will be ready to provide these in the course of the discussion.

I trust that we will be able to make sufficient progress today so that we can reach agreement on the package before the end of the year.

The Deputy Treasurer explained that draft decision V set out in Appendix I reproduced Mr. Grosche's proposal on the rate of remuneration as it had been presented to the Executive Board at the previous meeting. Because it was important to make clear in paragraph 1 that any increase in the remuneration coefficient in the method suggested by Mr. Grosche would be irreversible, the text should be corrected to read: "...the rate of remuneration shall be increased progressively to reach 100 percent of the SDR interest rate by not later than May 1, 1987."

A number of points arose on paragraph 3, which would need to be redrafted extensively, the Deputy Treasurer remarked. An arithmetical point was the need to multiply by ten, replacing the reference to 0.01 percent and 1/10 of 1 percent of a point by references to percentage points. A fall of 1/10 of 1 percent of a point in the SDR interest rate would lead to an increase of 1 percent in the remuneration coefficient. The second point concerned difficulties with the use of an average SDR rate that went beyond technicalities. Although a more stable adjustment over time would be achieved, the average could also go against the trend. Consideration had therefore been given to using, as in the method suggested by Mr. Polak during a previous discussion (EBM/83/181, 12/23/83), the SDR interest rate in the last week of each period that was being compared rather than the average SDR rate, but that could also give rise to difficulties in that the interest rate on a single date could be unrepresentative.

Another point of concern in paragraph 3 related to the frequency of adjustment of the coefficient, the Deputy Treasurer added. The average SDR interest rate, compared with the quarter ending April 30, 1984, could be lower but at the same rate in two successive quarters. The question was whether there should be a fall in the coefficient in those two successive quarters.

Another question was whether the three equal installments in paragraph 4 should be supplemented by the application of the 1 in 10 adjustment under paragraph 3, the Deputy Treasurer added. Interest rates might fall sharply after January 1, 1984, yet there might be little change in the average rate in the whole period covered by paragraph 3. The change in the remuneration coefficient might therefore take place entirely in the last period in which the fall in the SDR interest rate itself took place.

Paragraph 5 incorporated Mr. Polak's suggestion, and it was in square brackets because, unlike Mr. Grosche's proposal itself, the Deputy Treasurer explained, it permitted the higher remuneration coefficient, however long it had been in effect, to be reduced, if the rate of charge rose above the SDR interest rate, to whatever coefficient above 80 percent might equalize the rate of charge and the interest rate.

Rule I-10 would also have to be amended further to implement Mr. Grosche's proposal, the Deputy Treasurer noted. For the time being, the only correction to note was that the phrase in paragraph (a) "but subject to (e)" should be in square brackets because it referred to Mr. Polak's proposal.

Mr. Laske said that the proposal introduced by Mr. Grosche on a personal basis, in an attempt to reconcile opposing positions, had since received the full backing of the German authorities. The clarifications by the Deputy Treasurer were mostly technical, although they had important substantive effects, and they would probably also be acceptable to his authorities.

Mr. Polak observed that in addition to the helpful clarifications of Mr. Grosche's proposal by the Deputy Treasurer, it would be necessary, in order to make sure that only successive cumulative falls in interest rates were counted, to state that the interest rate in the week in question should be lower than the lowest rate in any previous week that had counted.

In drafting the amendment to Rule I-10 to put into effect his own suggestion, Mr. Polak remarked, the staff had introduced an unintended idea. The statement in square brackets in paragraph (e) that "If, solely because of the increases in the rate of remuneration as a percentage of the SDR interest rate...the rate of charge...would have to be set...at a rate higher than the average of the SDR interest rates for the quarter preceding the review..." seemed to limit the safeguard clause he had included to the period of adjustment and not thereafter. He had meant the feature to be permanent.

The Deputy Treasurer responded that the staff had had in mind that each adjustment should be on the basis of a rate lower than the rate preceding it. The amendment to Rule I-10(e) had been difficult to draft and would certainly need to be amended further.

A table had been prepared at the request of the Chairman, the Deputy Treasurer continued, illustrating the impact on the rate of remuneration and the rate of charge of a fall in the SDR interest rate of 1 percentage point, the coefficient being increased by 1 percentage point for each 1/10 percentage point decline in the average SDR rate of the preceding quarter. <sup>1/</sup> The table was being distributed to Executive Directors. It should be noted that in the table it was assumed that the rate of charge was changed on a quarterly basis, whereas under the existing Rule I-6(4), which Executive Directors had agreed not to change, the rate of charge was adjusted semiannually.

In the belief that any adjustment in the remuneration coefficient would take effect on May 1, 1984, the Deputy Treasurer said, it had been assumed that the average SDR interest rate for the present quarter would apply throughout the entire quarter from February 1984 to April 1984. In order to distribute the 1 percentage point change evenly throughout the year, it had also been assumed that the SDR interest rate would fall by 250 basis points in each successive quarter, beginning on May 1, 1984. Similarly, it had been assumed that the remuneration coefficient would be increased by 5 percent on May 1, 1984, without reference to interest rates.

The staff representative from the Treasurer's Department added that the assumption that the decline in interest rates would begin only in May 1984 accounted for the difference between the adjustment of the remuneration coefficient in the third and fourth quarters. If the decline in interest rates had started at the beginning of the calendar year, the

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<sup>1/</sup> See Appendix II.

average interest rate would have declined by the same number of percentage points during the whole year, and the coefficient would have been increased by the same amount each quarter.

The Deputy Treasurer, in response to a question by Mr. Zhang, explained that the table did not go beyond the next financial year, ending in April 1985, because the staff could not foresee the average balances that would be subject to charges and to remuneration. Furthermore, the use of the Fund's resources in 1985 would depend on the access limits agreed for that year. Under Mr. Grosche's proposal, the rate of remuneration would in any event be raised, after January 1, 1986 and by no later than May 1, 1987, to 100 percent of the SDR rate.

In response to a question by Mr. Polak, the Deputy Treasurer confirmed that the increase in the average rate of charge was also due to such factors as the considerable use of the Fund's resources anticipated throughout the coming financial year. The balances subject to remuneration would rise, and SDR income would fall, as a result of the decline in SDR holdings and the fall in the SDR interest rate. No other assumptions had been made however with respect to administrative expenditures. In response to a remark by Mr. Malhotra, he said that, similarly, if there was a sharp contraction in the use of the Fund's resources in 1986 and a continued fall in SDR interest rates, charges could continue to rise, although at the SDR interest rates and remuneration rates assumed in the table, a continued fall in SDR interest rates would probably lead to a fall in the rate of charge.

The Chairman observed that the increment in the rate of remuneration in each subperiod would not be compounded if the concept of an average was not used. He suggested that the table should be revised to show the results of applying the discrete rate for the preceding week rather than the average.

The staff representative from the Treasurer's Department noted that if that course was followed, the remuneration coefficient in columns (3), (4), and (5) would be 92.5 percent in August-October 1984, 95 percent in November 1984-January 1985, and 97.50 percent in February-April 1985; if the rate of interest continued to decline at the same rate, it would reach 100 percent one quarter thereafter.

Mr. Wicks remarked that, as he understood Mr. Grosche's original proposal, if there was initially a fall in the SDR interest rate and then a stabilization of the rate, the impact of the fall would nevertheless be felt in the first quarter affected and in subsequent quarters as well. He asked whether it was possible to have a system in which the average SDR interest rate for one quarter could be compared with the average rate for the preceding quarter without running up against the problem of double counting.

The Deputy Treasurer confirmed Mr. Wicks's understanding of Mr. Grosche's proposal; the staff had considered it inappropriate to adjust a constant. The average would continue to be a problem, whether

using a base period or a preceding period. The conclusion of the staff had been that the interest rate would have to be successively lower than the rate with which it was compared, and the period of time taken for the comparison should be short.

Mr. Erb commented that if there was a general rise in interest rates from the current level over a period of a year and a half, the upward adjustment in the rate of remuneration should perhaps start from that high point.

Mr. Wicks remarked that the logic of the objective was, as Mr. Erb's suggestion showed, to smooth out the effect on the rate of charge, which would presumably be rising with interest rates. The advantage of the subsequent reduction in interest rates should not go only to the payers of charges, but should be directed also to the receivers of remuneration.

The Chairman proposed that the staff should prepare illustrative tables, based on the suggestions made during the discussion, and that Executive Directors should meanwhile adjourn to enable him to verify with Mr. Erb, Mr. Polak, and Mr. Wicks the concepts they had in mind.

The meeting was adjourned from 10:45 a.m. until 11:35 a.m., when Executive Directors resumed the discussion.

The Deputy Treasurer informed Executive Directors that the new tables that were being prepared would cover two financial years, 1985 and 1986. Further, in accordance with a suggestion by Mr. Polak, the balances subject to charge and subject to remuneration had been held constant at the level of May 1, 1984; that was, however, an extremely limiting assumption because the expectation was that use of the Fund's resources would rise, rather than remain constant.

Several different models would be illustrated, the Deputy Treasurer added, including an amendment of the model in the table already circulated (Table 1) to show a comparison of the SDR interest rate in the last week of the preceding quarter and the rate in the last week of the current quarter, with each successive week at the end and the beginning of each successive quarter being compared, in order to avoid averaging. There was a slight risk of an upward or downward movement in interest rates in the last week of the quarter, but, on balance, the illustration would be an improvement. Another model would show the impact of upward and downward changes in SDR interest rates over two years along the lines suggested by Mr. Wicks. A third model would illustrate the effects of Mr. Erb's proposal under which a sharp rise in the SDR interest rate followed by a sharp fall would lead to an adjustment of the remuneration coefficient in line with the successive declines in the SDR interest rate. It would be difficult in the time available to make the calculations requested by Mr. Polak, showing the impact of the decline in the SDR interest rate on charges both before and after the change in the remuneration coefficient.

Mr. Prowse asked whether it would be possible to show, for each of the individual models proposed, the impact on the rate of remuneration and on charges of the various different assumptions with respect to movements in the SDR interest rate. The most meaningful comparison of course would be between the original Methods 3A and 3B.

Mr. Conrado remarked that if he understood Mr. Erb's logic, all decreases in interest rates would increase the remuneration coefficient, but that increases in interest rates would affect only charges.

Mr. Erb explained that the logic of his position was to spread out the impact on charges of raising the remuneration coefficient. The approach he had suggested initially was to accomplish the increase in the rate of remuneration in three steps, over a period of, say, one and a half years. The proposals by Mr. Grosche and Mr. Polak could also be viewed as a way of stretching out the adjustment period if interest rates rose. His suggestion for increasing the remuneration coefficient from the plateau to which interest rates had risen over perhaps one or two years would provide a safety valve during periods of adjustment, but once interest rates began to fall, the remuneration coefficient would be increased. Flexibility would thus be built into the adjustment path. The simulations unfortunately did not reveal the underlying logic of any of the systems.

In response to a question by Mr. Prowse, Mr. Erb said that his preference was indeed for some variation of Method 3B, although he could accept either 3A or 3B as a means of spreading out the adjustments.

The Executive Directors agreed to return to the discussion later in the day, when the new illustrative tables would be available.

The Chairman then invited Executive Directors to comment on the revised texts of draft decisions I, II, III, and IV (see Appendix I).

Mr. Malhotra observed that in EBS/83/270, in which the first drafts of the decisions in question were set out, specific reference was made to the voting majority needed for the fourth decision on access under the Fund's special facilities. There was a statement that since one aspect of that decision, namely, the continuation of the exclusion under Article XXX(c) of the cereal facility--required an 85 percent majority, the entire decision also required an 85 percent majority. He asked the staff to clarify what would happen if an 85 percent majority did not favor the changes in access limits under the special facilities proposed in decision IV. Would the existing decision continue to apply? If so, the proposed changes could not be put into effect if a small minority of, say, 16 percent was against them.

The Deputy General Counsel explained that the requirement of an 85 percent majority related to one of the various parts of the proposed decision, which had been presented as a package. If separate decisions were taken on each point, the 85 percent majority would apply only to the proposed continuation of the exclusion under Article XXX(c) of amounts purchased as excess imports under the cereal imports decision.

Mr. Malhotra reiterated his concern about the way in which the legal issue was being handled. Right from the start, he had pointed out that mixing one aspect of the compensatory financing facility decision, namely, whether or not the cereal facility should "float," with other aspects relating to the establishment of, or changes in, the relevant policies complicated matters greatly. For practical reasons, the decision adopted in 1981 had encompassed policies on the compensatory financing of export fluctuations and of the excess costs of cereal imports, and established, inter alia, a combined access limit. He foresaw difficulties if every decision for a change in the relevant access limits had to be approved by an 85 percent majority simply because of one feature of the existing decision. In pointing out that a small minority could prevent the proposed decision from being adopted, his intention was not to take advantage of that position but to underscore the need for a more reasonable legal approach to such matters. The view that if present access limits under those facilities were reduced, they would become new facilities subject to a new 85 percent majority decision if the floating character of one of those facilities was to be maintained, was unreasonable and inflexible. The establishment of a facility and changes in the access limits under it were one matter and the floating character was quite another matter; each should be dealt with separately. He would be grateful if the whole issue could be examined in further detail.

The Deputy General Counsel responded that the staff could give further explanations on the issue raised by special majorities. The issue was complicated when a high majority was needed for one aspect of any particular facility. The other aspect of the problem was how a policy could be said to continue to exist for the purpose of a decision under Article XXX(c) when many of the features had been changed by a simple majority. The integration of cereal import costs and export shortfalls in the Fund's compensatory financing facility provided a further complication. In the past, the conclusion had been that, when the 85 percent majority was required under Article XXX(c) to "float" a facility, that decision was taken with respect to the policy adopted and a change in the facility required the same majority under Article XXX(c) in order to continue the floating.

The Chairman commented that the staff paper had simply pointed to the fact that one element in the decision would require an 85 percent majority if the decision itself was changed. The issue of overriding importance was to reach agreement of substance on all the matters before the Executive Board at present. On the special facilities, the Interim Committee had asked the Board to reach a conclusion at the earliest possible date on limits between 68 percent and 85 percent, subject to review at the time of each review of the enlarged access policy.

Mr. Malhotra remarked that he was prepared to proceed to take a decision, on the basis outlined in the draft. His intention had been to point out how the application of the voting majority provisions as interpreted by the staff could affect the Fund's decision. He had discussed the matter extensively with the Legal Department and was prepared to continue his discussions.

Mr. Erb asked for confirmation of his understanding that the reference in draft decision II to the term "net of scheduled repurchases" was confined to the cumulative limits of 408 or 500 percent of quota. On a related issue, he drew attention to the Managing Director's summary of the position of several Directors who continued to feel that the compensatory financing limit should be of the order of 80 percent of quota or somewhat higher. That summary did not bring out the fact that the willingness of those Directors, including himself, to move up to 80 percent from a much lower figure depended on the outcome of the discussion on the rate of remuneration.

The Deputy General Counsel said that Mr. Erb's understanding was correct.

The Chairman asked Executive Directors whether they could accept the first three draft decisions, which had been amended to reflect the previous discussion at EBM/83/177.

No comments were made on draft decisions I, II, and III.

The Chairman then invited Directors to state their views on draft decision IV on access limits under special facilities, on the understanding that the decision would remain open until agreement had been reached on the rate of remuneration.

Mr. Malhotra said that his chair was in favor of the original proposal put forward by the Chairman as a compromise: a limit of 85 percent of revised quota under the compensatory financing facility, a combined limit of 105 percent for the cereal and export components of the compensatory financing facility, 50 percent of revised quota as the threshold between the lower and upper segments, and a limit of 45 percent of revised quota for the buffer stock financing facility.

Mr. Finaish said that his position was the same as that of Mr. Malhotra. The 50 percent threshold was particularly important.

Mr. Alfidja, Mr. Conrado, Mr. Delgadillo, Mr. Ismael, Mr. Mtei, Mr. Péterfalvy, Mr. Robalino, Mr. Suraisry, and Mr. Zhang said that they supported the position taken by Mr. Malhotra and Mr. Finaish.

Mr. de Maulde said that he could go along with the 85 percent limit, and with a midpoint, provided that a satisfactory solution emerged concerning the rate of remuneration.

Mr. Lovato commented that he could support the Chairman's proposal. Although his preference was for a midpoint, he could also accept 50 percent of quota as the threshold.

Mr. Prowse reiterated that, as he was mainly interested in resolving the matter, he would support the Chairman's proposal; accordingly, he could accept 82 percent in lieu of 85 percent, and the midpoint instead of 50 percent of quota.

Mr. Laske recalled that, in indicating in previous discussions his preference for a limit of 80 percent under the compensatory financing facility, he had expressed his willingness to be flexible and to accept a higher figure, provided that the midpoint was accepted. Subject to that proviso, he might be prepared to accept 85 percent, even though it was on the high side, within the framework of an overall package.

Mr. Wicks remarked that his position was similar to that of Mr. Laske, except that he would put more emphasis on a figure between 80 and 85 percent--say, 82 or 83 percent--for access to the compensatory financing facility. He too would attach certain provisos to his position, extending to the agreement on the rate of remuneration.

Mr. Pickering noted that his chair could accept the Chairman's proposal. A level of access slightly below 85 percent would also be acceptable, as would a threshold at the midpoint.

Mr. Lind<sup>2</sup> stated that he could accept the Chairman's compromise proposal, with a threshold of either 50 percent of quota or a midpoint.

Mr. Hirao commented that he could go along with the Chairman's proposal, but with the midpoint as the threshold, and subject to agreement on an appropriate structure of remuneration and charges.

Mr. Erb added that he attached importance to the midpoint.

The Chairman remarked that a limit somewhat below 85 percent, say, of 83 percent, would not result in an absolute reduction in any member's access. There was still some uncertainty about a figure that would be acceptable in that respect, and on the midpoint versus the 50 percent of quota threshold. The important outstanding issue was the rate of remuneration, and he proposed that Executive Directors should meet again in the afternoon, when the additional tables described by the Deputy Treasurer would be available.

The meeting was adjourned at 12:30 p.m.

#### DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/83/182 (12/23/83) and EBM/83/183 (12/28/83).

#### 2. OPERATIONAL BUDGET FOR DECEMBER 1983-FEBRUARY 1984 - AMENDMENT

The Executive Board approves the amendment to the operational budget for the period December 1983-February 1984 as set out in EBS/83/259, Supplement 2 (12/22/83).

Decision No. 759C-(83/183), adopted  
December 23, 1983

3. LIBERIA - REVIEW UNDER STAND-BY ARRANGEMENT

In concluding the review pursuant to paragraph 4(c) of the stand-by arrangement for Liberia (EBS/83/175, Sup. 1), the Fund notes that satisfactory progress has been made in rescheduling of payments due on public debt to official creditors, and finds that no further understandings are necessary under this review. (EBS/83/175, Sup. 2, 12/23/83)

Decision No. 7591-(83/183), adopted  
December 27, 1983

4. ZAIRE - STAND-BY ARRANGEMENT - EFFECTIVE DATE

1. The Fund takes note of the arrangements toward the reduction of Zaïre's debt service obligations for 1983 and 1984 to a level consistent with Zaïre's program, as described in EBS/83/257, Supplement 3 (12/22/83).

2. The stand-by arrangement for Zaïre set forth in EBS/83/257, Supplement 2 (12/22/83) shall enter into effect on December 27, 1983.

Decision No. 7592-(83/183), adopted  
December 27, 1983

5. MALDIVES - TECHNICAL ASSISTANCE

In response to a request from Maldives for technical assistance, the Executive Board approves the proposal set forth in EBD/83/329 (12/20/83).

Adopted December 27, 1983

6. EXECUTIVE BOARD TRAVEL

Travel by an Executive Director as set forth in EBAP/83/311 (12/23/83) is approved.

APPROVED: May 8, 1984

LEO VAN HOUTVEN  
Secretary

Draft Decisions on Policy on Enlarged Access, Access Limits Under  
Special Facilities, and Rate of Remuneration

I. Period and annual review of Policy on Enlarged Access

(a) The Fund may approve a stand-by or extended arrangement that provides for enlarged access under Decision No. 6783-(81/40) until the end of 1984, provided that the Fund may extend this period.

(b) The Fund will review Decision No. 6783-(81/40) on the "Policy on Enlarged Access," not later than December 31, 1984, and annually thereafter as long as the Decision remains in effect, in order to consider the future of the Enlarged Access Policy, [~~including its termination, its gradual phase-down, or its extension~~] in light of all relevant factors, including the magnitude of member's payments problems and developments in the Fund's liquidity.

II. Guidelines on access limits under Policy on Enlarged Access

(a) Access by members to the Fund's general resources under Decision No. 6783-(81/40) on the "Policy on Enlarged Access" during the period ending on December 31, 1984 shall be subject to annual limits of 102 or 125 percent of quota, three-year limits of 306 or 375 percent of quota, and cumulative limits of 408 or 500 percent of quota net of scheduled repurchases, depending on the seriousness of the member's balance of payments needs and the strength of its adjustment effort. The annual and triennial access limits shall not be regarded as targets. Within these limits, the amounts of access in individual cases will vary according to the circumstances of the member in accordance with criteria established by the Executive Board. The Fund may approve stand-by or extended arrangements that provide for amounts in excess of these access limits in exceptional circumstances.

(b) The guidelines will be reviewed before the end of 1984 at the time of the annual review of Decision on the Policy on Enlarged Access.

III. Use of ordinary and borrowed resources under the  
Policy on Enlarged Access

The Fund, having reviewed the proportions of ordinary and borrowed resources to be used under a stand-by or extended arrangement approved under Decision No. 6783-(81/40) on the "Policy on Enlarged Access," decides that:

1. The proportions after the [~~Eighth General Review of Quotas becomes~~] effective date of this decision will be as follows:

(a) Under a stand-by arrangement purchases will be made with ordinary and borrowed resources in the ratio of 2 to 1 in the

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first credit tranche, and 1 to 1 in the next three credit tranches. Thereafter, purchases will be made with borrowed resources only.

- 2. In accordance with subparagraph 8(d) of Decision No. 6783-(81/40), the proportions in (1) above shall apply to amounts that may be purchased under existing arrangements after the effective date of this decision on the basis of the member's quota at the time the arrangement for the member was approved.

IV. Access limits under Special Facilities

(a) In paragraph 3 of Decision No. 6224-(79/135) "100 percent" shall be changed to "[85] percent" [and "50 percent" to "[42.5] percent," respectively].

(b) The following changes shall be made in paragraphs 9 and 14(a) of Decision No. 6860-(81/81):

- (i) "125 percent" shall be changed to "[105] percent";
- (ii) "50 percent" shall be changed to "[42.5] percent"; and
- (iii) "100 percent" shall be changed to "[85] percent."

(c) In paragraph 2 of Decision No. 2772-(69/47), as amended, "50 percent" shall be changed to "[45] percent."

(d) The new percentages of quota under (a), (b), and (c) above shall be reviewed [~~from time to time~~] not later than December 31, 1984 and annually thereafter [~~at the time of each review of the Policy on Enlarged Access~~] in the light of all relevant factors, including the magnitude of members' payments problems and developments in the Fund's liquidity position.

V. Rate of Remuneration

(a) Mr. Grosche's proposal with Mr. Polak's addition

1. The Executive Board agrees that the rate of remuneration shall be increased progressively to 100 percent of the SDR interest rate by not later than May 1, 1987.

2. As of May 1, 1984, the rate of remuneration shall be increased to [90] percent of the SDR interest rate.

3. Further increases in the rate of remuneration in relation to the SDR interest rate in the period from May 1, 1984 to October 1, 1985 shall be made at the beginning of each quarter of 0.01 percent for every 1/10 of 1 percent that the average SDR interest rate in the preceding quarter has fallen below the average of the SDR interest rate in the quarter ending April 30, 1984.

4. The rate of remuneration shall be raised in three equal installments to achieve 100 percent of the SDR rate on May 1, 1987 starting January 1, 1986 unless equality with the SDR rate has already been achieved under 3 above.

[5. If the rate of charge that would follow from the rate of remuneration determined in accordance with paragraphs 2, 3, and 4 above, would exceed the SDR interest rate, the rate of remuneration will be set at [85 percent] of the SDR interest rate or at the level that will reduce the rate of charge to the SDR interest rate, whichever is the higher.]

(b) Draft Amendment to Rule I-10 to reflect Mr. Grosche's proposal with Mr. Polak's addition

Rule I-10. (a) The rate of remuneration shall be 85 percent of the rate of interest on holdings of SDRs under Rule T-1(b) (hereafter referred to as the "SDR interest rate"). The rate of remuneration shall be increased from 85 percent to 100 percent of the SDR interest rate by May 1, 1987, in accordance with (b), (c), and (d), but subject to (e), below. The rate of remuneration, while less than 100 percent, shall be rounded to the nearest two decimal places.

(b) On May 1 1984, the rate of remuneration shall be increased to [90] percent of the SDR interest rate.

(c) From May 1, 1984 through November 1, 1985, the percentage shall be increased at the beginning of each quarter by 1 percentage point for each 1/10 of 1 percentage point of the reduction in the average of the SDR interest rates for the preceding quarter below the average of the SDR interest rates for the quarter ending April 30, 1984.

(d) If the percentage, as increased under (c) above, has not reached 100 percent by November 1, 1985, the percentage shall be increased on February 1, 1986, and November 1, 1986, each time by an amount equal to 1/3 the difference between 100 percent and the percentage in effect on November 1, 1985 rounded to the nearest whole percentage point, and shall be increased to 100 percent on May 1, 1987.

(e) The rate of remuneration shall be reviewed on the occasions of the annual reviews of the SDR interest rate under Rule T-1(b) and the rate of charge under Rule I-6(4). [If, solely because of the increases in the rate of remuneration as a

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percentage of the SDR interest rate required under (b), (c), and (d) above, the rate of charge on holdings specified in Rule I-6(4) would have to be set, in the application of Rule I-6(4)(a) or (b), at a rate higher than the average of the SDR interest rates for the quarter preceding the review, the rate of remuneration shall be reduced to 85 percent of the SDR interest rate or to such higher percentage as would permit the rate of charge to be set under Rule I-6(4)(a) or (b) at the average of the SDR interest rates for the preceding quarter referred to above and still meet the target amount of net income for the financial year.]

Table 1. - Mr. Grosche's Proposal: Effect of a Hypothetical One Percentage Point Decline in the SDR Interest Rate on the Rate of Remuneration and Rate of Charge

	Feb. 84-Apr. 84 (1)	May 84-July 84 (2)	Aug. 84-Oct. 84 (3)	Nov. 84-Jan. 85 (4)	Feb. 85-Aug. 85 (5)
<u>SDR Interest Rate</u>					
Average of preceding quarter	8.75	8.75	8.625	8.375	8.125
Beginning of quarter	8.75	8.75	8.50	8.25	8.00
End of quarter	8.75	8.50	8.25	8.00	7.75
<u>Rate of Remuneration Coefficient</u>					
At end of preceding quarter		85	90	91.25	93.75
+ Increase due to interest rate decline 1/		5 2/90	1.25	2.5	2.5
= At beginning of quarter		90	91.25	93.75	96.25
<u>Rate of Remuneration</u>					
Beginning of quarter		7.88	7.76	7.73	7.74
End of quarter	7.44	7.65	7.53	7.50	7.50
<u>Average rate of charge required to achieve net income target</u>					
	7.39	7.10	7.26	7.36	7.44

1/ The coefficient is increased by 1 percentage point for each 1/10 percentage point decline in the average SDR rate of the preceding quarter below the lower of (i) average in the quarter ended April 30, 1984 (assumed at 8.75 percent) or (ii) the quarterly average used for the last increase in the coefficient.

2/ Agreed increase.

