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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/184

3:00 p.m, December 28, 1983

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

Executive Directors	Alternate Executive Directors
A. Alfidja	W. B. Tshishimbi
	P. Péterfalvy, Temporary
B. de Maulde	
	J. Delgadillo, Temporary
R. D. Erb	
M. Finaish	T. Alhaimus
T. Hirao	
J. E. Ismael	
	G. W. K. Pickering, Temporary
	C. Robalino
	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
	A. Lindø
N. Wicks	T. A. Clark
Zhang Z.	Wang E.

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

Also Present

European Department: V. Marie. 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, 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, S. M. Hassan, L. Ionescu, J.-C. Obame, 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, C. M. Hull, J. M. Jones, A. K. Juusela, H. Kobayashi, M. J. Kooymans, M. Rasyid, A. A. Scholten, S. Sornyanyontr, Wang C. Y., A. Yasseri.

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

The Executive Directors resumed from the previous meeting (EBM/83/183, 12/28/83) their discussion on the rate of remuneration and their consideration of the Managing Director's statement (see EBM/83/183). They had before them staff papers on the rate of remuneration (EBS/83/237, 11/2/83; Sup. 1, 12/20/83; and Sup. 2, 12/22/83) as well as 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 Deputy Treasurer commented that five tables 1/ would be circulated during the course of the meeting, essentially along the lines he had described at the previous meeting. Table 2 would illustrate Mr. Grosche's proposal, circulated originally as Table 1, amended by the staff to replace the average SDR interest rate by the rate in the last week of the preceding quarter and the rate for the last week of the current quarter. It should be noted that one common feature of all the tables was that none took an average SDR interest rate as a base; another was that all tables still assumed a 5 percent increase in the coefficient on May 1, 1984, irrespective of interest rate developments. Tables 3A and 3B illustrated Mr. Wicks's proposal and showed the effect of hypothetical downward fluctuations in the SDR interest rate, the calculations being based on the decline in the SDR rate in the preceding quarter below the lower of an assumed rate as of April 30, 1984 or the rate used for the last increase in the coefficient, or, below the average in the quarter ended April 30, 1984. Table 4 was essentially the simulation requested by Mr. Erb, showing what would happen to the rate of remuneration and the rate of charge if there was a sharp rise in the SDR interest rate followed by a subsequent decline. Table 5 combined that simulation with an adjustment, as suggested by Mr. Polak, to keep the rate of remuneration at a rate not exceeding the SDR interest rate. It had not been possible to complete the further calculations requested by Mr. Polak on the effect of completely separating the effects of the SDR interest rate.

The new tables differed from the table discussed at the previous meeting in three main ways, the Deputy Treasurer explained. First, the average SDR interest rate had been eliminated as a base; second, the interest rate scenarios had been changed; and, third, the period covered by the tables had been extended.

The staff representative from the Treasurer's Department noted that the difference between Table 3A and Table 3B was that in the latter the remuneration coefficient would change only if the SDR interest rate fell below the lowest level that it had reached previously, while in the former, any decline in the SDR interest rate would call for an increase of the coefficient. Similarly, the main difference between Tables 4 and 5 concerned the level of the interest rate at which the adjustment in the

1/ See Appendix I.

coefficient would take place. For instance, Table 5 incorporated the adjustment mechanism suggested by Mr. Polak under which the remuneration coefficient would not be affected unless the SDR interest rate fell below the level at the beginning of the whole period--April 30, 1984; that mechanism would provide for a slower adjustment. In contrast, Tables 3A and 4 incorporated the method proposed by Mr. Erb, under which any fall in the SDR interest rate, even a decline from a level above that of April 30, 1984 to which the SDR rate might have risen subsequently, would trigger an adjustment in the remuneration coefficient.

Mr. Prowse observed that another important common feature of all the models was what might be called the gearing ratio of 10:1, to which the Deputy Treasurer had referred at the previous meeting but which had not been discussed. It was not clear to him whether that ratio was the result of using various assumptions, for instance, with respect to the level of the Fund's reserves. But, if a choice was to be made, it seemed to him necessary to discuss the significance of the ratio, which had an important bearing on the rate of remuneration and rate of charge.

The Deputy Treasurer explained that the 10:1 ratio had been used by Mr. Polak in his example and by Mr. Grosche in his proposal as well. The staff had thought it not unreasonable, but any ratio, such as the one suggested by Mr. de Maulde of 16:1, could have been used just as easily.

Mr. Polak said that he had chosen a figure that would lead to a change in the rate of remuneration that was at least equal to the change in the SDR interest rate. To obtain a precise correspondence, the gearing ratio would have to be different for each interest rate. A ratio of 10:1 worked exactly up to an interest rate of 10 percent; for any rate below 10 percent, there was some leeway.

Mr. Prowse commented that there was no particular benefit in a proportionate change; it might be considered advisable to have one that was, say, half the size or twice as much as the change in the interest rate. The Executive Board should take a decision in full knowledge of all the results.

The Chairman explained that the tables would show whether, under the different interest rate scenarios, there would be a smooth transition--without too many abrupt changes or without a large adjustment either at the end or at the beginning of the period--toward the objective sought by Mr. Grosche of equality between the rate of remuneration and the SDR interest rate by May 1, 1987.

Mr. Prowse remarked that one of the factors to be seriously considered would indeed be the rate of adjustment in the middle of the period.

The Deputy Treasurer commented that an interesting feature of the tables was that, as the coefficient rose, it tended to offset the decrease in the rate of remuneration when interest rates were falling. The effect was not built into the 10:1 ratio; the tendency was a function of the profile of interest rate changes assumed in the table, which was fairly smooth and not necessarily realistic.

Mr. Prowse asked whether, if the net income target remained unchanged and if there was a 10:1 gearing ratio, a fall in the SDR interest rate would of itself provide enough of a money effect to offset the cost of increasing the coefficient, or whether there would be a positive or negative impact on actual net income.

The Deputy Treasurer replied that the outcome would depend on the size of the fall in the SDR interest rate and on the estimated size of balances subject to remuneration and to charges, which had of course been held constant in the tables. It should be recalled that the Executive Board had agreed not to change Rule I-6, which established the net income target and the rate of charge. A fall in the SDR interest rate would have an impact on the estimates of net income for the following six months, but if the target was met and net income permitted it, the Executive Board could either agree to an automatic adjustment in the rate of remuneration, in accordance with present Rule I-6(4)(b), or change it in accordance with a formula to be incorporated in Rule I-10 based on an agreement reached at the present meeting.

Mr. Moerke said that when Mr. Grosche had made his proposal, he had not had a special ratio in mind. His basic idea had been to permit the rate of remuneration to increase during the first 18 months without having to increase charges.

The Chairman remarked that the objective was met under the various assumptions on which Table 2 was constructed. There would be a stabilization of the rate of charge under the formula proposed by Mr. Grosche.

The Deputy Treasurer added, in response to a question by the Chairman, that with a decline in the SDR interest rate of 2 percentage points, instead of 1 percentage point, the results would be the same, again fortuitously because of the interest rate scenarios assumed, but the period would be shortened because the equality of the two rates would be reached much earlier.

Mr. Conrado remarked that if the rate of interest fell sufficiently fast, both the rate of remuneration and the rate of charge could vary.

The Chairman responded that equality would be reached sooner, and it would be unnecessary to provide for the catching-up period mentioned in Mr. Grosche's proposal.

Mr. Prowse added that, as a general proposition, it would seem legitimate to make an exact compensation for downward changes in the SDR interest rate and the increase in the remuneration coefficient so that there would be no effect on the net income position. The ratio of the new and old coefficients could be related to the ratio of the new and old interest rates so that net income surpluses would not emerge as the rate of decline in the SDR rate increased.

Mr. Erb remarked that that would be another way of saying that the effective rate of remuneration should be held constant until the coefficient reached 100 percent.

Mr. Conrado remarked that he had understood that the idea was to devise a system under which charges would not be increased; any net additional income would in any event be used to increase the rate of remuneration.

Mr. Erb said that it was a matter of different assumptions as to what was held constant. Holding the effective rate of remuneration constant, under the assumption that interest rates fell, and adjusting the coefficient would mean that the impact of the increase in the coefficient on the remuneration rate would be sterilized, and that the effect on charges could not be determined because of the impact of other factors. It would be different if the rate of charge was held constant from the beginning because of those other factors, which would vary.

Mr. Conrado remarked that Mr. de Maulde's original proposal was for a system in which the coefficient could be increased without any increase in charges, which would be fixed, and additional net income would be used for remuneration.

The Executive Directors exchanged views on the draft tables circulated, making various requests for technical clarifications. After some discussion, it was agreed that some corrected tables would have to be distributed. 1/

Mr. Zhang questioned the value of the tables, which were based on forecasts of interest rates that could prove unrealistic. It might be better to make annual adjustments in the remuneration coefficient on a retroactive basis.

The Chairman responded that because the Fund had always avoided forecasting interest rate developments, the Executive Board could only be asked to consider what would happen under various hypothetical circumstances. Annual adjustments had in fact been included in one of the proposed formulas.

Mr. Salehkhou observed that agreement on the objective of a remuneration coefficient of 100 percent, to be reached according to a given timetable, was presupposed in all the tables. Yet there was no consensus on those two issues, and unless there was, he saw no point in considering further calculations.

The Chairman replied that the staff had provided examples illustrating various methods proposed by Executive Directors for raising the rate of remuneration simply to show the consequences.

1/ For corrected Tables 3A, 3B, and 5, see Appendix II.

Executive Directors agreed to adjourn in order to give themselves an opportunity to look more closely at the tables.

The meeting was adjourned at 4:20 p.m. and reconvened at 5:05 p.m.

Mr. Malhotra stated that the position of his chair had been that any increase in the rate of remuneration that would at present lead to an increase in the rate of charge would be most inappropriate. But considering the viewpoint of others, and despite his lack of conviction about the justification for it at the present difficult time, he could nevertheless accede to an increase in the remuneration coefficient, to a point to be agreed. His preference would be for an increase in the coefficient from 85 percent to 87.5 percent, or to 88 percent if that was considered more appropriate. Like every other policy of the Fund, that relating to remuneration could be reviewed at any time; in the present case it could be reviewed every year. In short, he supported the position taken by Mr. Zhang.

Mr. Mtei recalled that, like Mr. Malhotra, he had previously indicated that he might be able to agree to an arrangement that guaranteed that the rate of remuneration would be raised gradually, as circumstances permitted, to whatever level was considered appropriate, provided that its impact on other Fund operations was taken into account. Therefore, he considered that the Executive Board should agree simply to state that under the Articles of Agreement, the rate of remuneration could be increased to a maximum of 100 percent of the SDR rate, rather than stating that the rate of remuneration should be increased progressively to equality with the SDR interest rate. The Articles did in fact enjoin the Executive Board to take into account the rate of charge in considering the rate of remuneration. It would then not be necessary to impose the time limit of May 1, 1987. On May 1, 1984, the rate of remuneration could be increased to, say, 87.5 percent of the SDR interest rate, with further increases being determined by the Executive Board in the light of evolving circumstances over the next three or four years. In that way, the Executive Board would have enough flexibility to settle on an appropriate target, having regard to all factors affecting the international economy.

Mr. Erb observed that it was a very big leap from Mr. Grosche's proposed formula to the other proposal put forward for moving the coefficient up to 88 percent or 87.5 percent. Two points that had come to light during the course of the discussion needed to be kept in mind. The first was that any adjustment of the rate of remuneration to 100 percent of the SDR interest rate should be made before discussions began on the Ninth General Review of Quotas, which presumably would be sometime in early 1987 at the latest. Second, and perhaps the overriding point, was that most Directors did not want a sudden large increase in the coefficient to lead to a precipitous movement in the rate of remuneration and the rate of charge. It was therefore necessary to formulate a plan for adjusting the coefficient upward over time. To take a step on May 1, 1984 of the order of magnitude mentioned by Mr. Malhotra and Mr. Mtei, would leave a much larger gap to be adjusted at some point in the future in order to reach 100 percent.

Mr. Polak agreed with Mr. Erb that the most serious effort possible should be made to reach agreement on the Grosche proposal before taking up other proposals. He was prepared to accept Mr. Grosche's proposal.

Mr. Pickering remarked that his authorities would be prepared to accept a proposal based on the one submitted by Mr. Grosche at EBM/83/182, possibly amended to calculate further increases in the remuneration rate from a base period rather than on an average rate in the preceding period. The methods illustrated in the latest tables presented more difficulties. For example, Mr. Erb's proposal, as simulated in Tables 4 and 5, which would allow for some increase in the rate of remuneration if the SDR interest rate increased by a large amount and then fell back, was not acceptable to his authorities. Nor would his authorities wish to accept continuous corrections of the rate as interest rates rose and fell. Mr. Grosche's original proposal did not contain either of those two features.

Mr. Wicks said that he would be grateful to Mr. Erb for a fuller explanation of the approach he was sketching out, because the implications were not fully apparent to him.

Despite the very different attitudes taken during the discussion, Mr. Wicks continued, Executive Directors nevertheless seemed to hold some points in common. Most were willing to accept some increase in the remuneration coefficient on May 1, 1984, although whether the increase should be to 87/88 percent or to 90 percent was an unresolved question. Most Directors wanted to build into the decision an opportunity to review the rate of remuneration and the consequent level of charges. Some Directors were seeking a clearly defined program under which it would be known in advance that the remuneration coefficient would reach 100 percent by a certain date; that approach was obviously causing real difficulties for some other Directors.

But there was another way, Mr. Wicks considered, which might be called an open-ended Grosche approach, incorporating a proposal made at one stage by Mr. de Maulde. It would be agreed that there should be a one-step increase on May 1, 1984; consequently, falls in the SDR interest rate would result in increases in the rate of remuneration, which, it was hoped, over a period of time would reach 100 percent of the SDR interest rate. Of course, that might take a long time--possibly many years--and several Directors wanted to see equality of the rates much sooner. Certainly, many parliaments, including his own, had well-known legislative problems in approving quota increases; questions were always raised about the cost of an increase in a country's quota. Therefore, some Fund members needed a certain assurance that the remuneration coefficient would be 100 percent by the time of the Ninth Quota Review. But perhaps Executive Directors might be willing not to take a decision at the present stage on the precise date at which equality should be reached, deciding only to move toward that objective over a period of time, in the manner he had suggested. He was willing to have his suggestion explored further, unless it was unacceptable to others, although he could not be sure that his authorities would agree with it. It went without saying that his proposal would have consequences for the position he had taken on other related matters.

Mr. de Maulde said that he gave his full support to Mr. Wicks's proposal, which resembled the method he himself had originally proposed.

Mr. Hirao remarked that an interesting combination of proposals had been put forward by Executive Directors that provided a good basis for agreement. He could support the Grosche proposal, as modified by the staff, or as it might be further modified to avoid the drawbacks of the original version. He had no strong preferences regarding the technical modalities to be employed during the intermediate period as long as the rates were equalized within the specified time.

Mr. Erb added that the variation of the Grosche proposal that would be acceptable to him would include some of the technical changes suggested by the staff at the previous meeting, including use of the SDR interest rate in the last week of the quarter rather than a quarterly average rate. However, it would also be important to make provision for adjusting the base on which the Grosche plan would be implemented at the beginning of each year, depending on the level to which interest rates had moved at the end of the preceding year. In that way, a point would never be reached at which large discrete upward adjustments in the remuneration coefficient would have to be made if no adjustments were made under the original Grosche formula based on falls in the average SDR interest rate, in the period from May 1, 1984 to October 1, 1985. The adjustment in the coefficient and its impact would be smoother. In addition, if there was an upward drift in interest rates over the course of the following year, it would be reflected in the establishment of a new base period at the beginning of the subsequent year.

Mr. de Maulde remarked that it did not seem reasonable to provide for yearly adjustments when the period contemplated in Mr. Grosche's method was from May 1, 1984 to January 1, 1986; only one yearly adjustment would be made, if he understood Mr. Erb's method correctly.

Mr. Polak commented that he could no longer support the Grosche proposal if it was hardened substantially, as proposed by Mr. Erb.

Mr. Wicks remarked that under Mr. Grosche's original proposal, a date was specified by which the remuneration coefficient would reach 100 percent. The other proposal that had been mooted would not necessarily specify the date, although there could be a one-step increase in the remuneration coefficient on May 1, 1984, and the rate of remuneration could continue to rise thereafter, corresponding to falls in the interest rate. That proposal should not be regarded as a hardening of the formula, but in a sense as a softening of it.

The Chairman remarked that it would be necessary under such a variation of Mr. Grosche's proposal to define a method for adjusting the rate of remuneration in relation to changes in the interest rate.

Mr. Erb said that his suggestion was for a method somewhere between Mr. Wicks's proposal and Mr. Grosche's original proposal. His suggestion would not harden Mr. Grosche's proposal but would smooth out the adjustments by softening the chance of a sudden large upward adjustment between October 1985 and May 1987, or even in the preceding period from May 1, 1984. If there was an upward drift in interest rates, the new base would be set at the beginning of 1985; if there was subsequently a downward drift in interest rates, the adjustment in the remuneration coefficient would begin at that point and would not be delayed until the three discrete increases were made later in the period. His proposal was within the context of the Grosche method, which would not be changed in any major way; it would simply make provision for setting a new base, and allowed for some adjustment of the remuneration rate earlier in 1985 that otherwise might not take place until the end of 1985.

Mr. de Maulde remarked that he was prepared to go along with Mr. Grosche's method, with the various amendments advanced by Mr. Polak, including the use of the SDR rate in the last week of the quarter and in particular the provision for setting the rate of remuneration, if necessary, at a level that would reduce the rate of charge to the SDR interest rate. There might also be some advantage, as Mr. Polak had mentioned at the previous meeting, in working out a method for continuing to take account of further declines in interest rates. As he had already stated, he was willing to accept Mr. Grosche's method if the period during which it would apply was extended from two years to four years. He might also be prepared to go along with a shorter period that would coincide, for instance, with the beginning of the Ninth Quota Review, if it could be shown that the next quota exercise would begin within five years. Of course, his acceptance of the Grosche method for a period of less than four years would depend upon approval of the Managing Director's compromise proposal for an access limit of 85 percent for the compensatory financing facility.

Mr. Erb explained that in accepting the Grosche proposal, with the modifications that he himself had suggested, he was not at the same time accepting Mr. Polak's amendment to that proposal, which would create serious problems for him. Because the period of adjustment under Mr. Grosche's method would be a lengthy one, he would have difficulty going beyond an access limit of 80 percent for the compensatory financing facility, with a threshold at the midpoint.

Mr. Wicks recalled his observation at an earlier stage of the discussion that the provision proposed by Mr. Polak as an amendment to Mr. Grosche's method, and which was reflected in square brackets in paragraph (e) of the draft amendment to Rule I-10, was a somewhat mechanical approach that would prejudge action by the Executive Board in circumstances that could not be fully foreseen at present and that would also remove the incentive to control administrative expenditures. While he accepted that there could be a problem if the rate of charge exceeded the SDR interest rate, he would prefer to deal with it slightly differently. He had in mind an amendment to paragraph (e) of Rule I-10 to read "If...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, the Executive Board will review the rate of remuneration and, in particular, consider whether that rate 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...at the average of the SDR interest rates for the preceding quarter...."

Mr. Erb commented that a problem with that formulation was that the burden of adjustment would be placed entirely on the remuneration rate and not on other factors that might need to be adjusted, including the way in which charges were set. Perhaps mention could be made of the need to review such other factors as well.

The Chairman remarked that the proposal by Mr. Wicks for a review of the rate of remuneration would not necessarily preclude other action.

Mr. Wicks confirmed that his intention was to consider the rate of remuneration in relation to the rate of charge, if the circumstances described in paragraph (e) did transpire. There would obviously be various possibilities for action by the Executive Board, but those could not be prejudged and would have to be considered at that time.

Mr. Polak said that a more flexible provision along the lines suggested by Mr. Wicks would be a move in the right direction. He suggested that the precise wording be considered when it was known whether Mr. Grosche's proposal, amended to include such a provision, was generally acceptable.

Mr. Zhang stated that he still failed to see the logic underlying the proposal to reach a remuneration coefficient of 100 percent at a particular time. Reference was being made to the various components of a package, but since none of the other components incorporated such a set pattern, surely the mechanism for adjusting the rate of remuneration in future should be based on a more flexible mechanism. Equality of the rate of remuneration and the SDR interest rate at an early stage would not be precluded, and a review could be held annually.

Mr. Salehkhou said that he shared Mr. Zhang's feeling that there was really no basis either for reaching 100 percent or for setting a timetable for doing so.

The Chairman considered that there were two issues at stake: the principle of a 100 percent remuneration coefficient, in which he personally saw some logic on the grounds that it was perhaps anomalous for one group of providers of funds to the institution to be remunerated at a lower rate than all other groups performing the same function; and the setting of a date by which to reach it, which was largely a matter of perception. Some Directors were anxious to achieve equality by a certain date, not on grounds of logic but for political reasons; and there was some fear of launching the Ninth Quota Review with a discrepancy between the rate of remuneration and the SDR interest rate.

Another way to approach the matter, the Chairman went on, was to acknowledge the desirability of equality, but to introduce an element of flexibility into the mechanism for reaching it. One method of doing so would be to take advantage of falls in interest rates; it would obviously be easier to increase the remuneration coefficient when the interest rate fell because the rate of charge would not have to be increased. There were three components embedded in Mr. Grosche's solution: an initial increase from 85 percent to 90 percent; a period during which the rate of remuneration would increase in response to falls in interest rates; and a catching-up period to reach 100 percent before May 1987. It would be possible to arrange matters so that, during the intermediate period in Mr. Grosche's method, there would only be a change in the remuneration coefficient if there were a downward movement in the interest rate. Such a period would be open-ended, and the date at which equality would be achieved would depend on the circumstances of the time. As the numerical examples had shown, under Mr. Grosche's formula, equality could be achieved even before the end of the intermediate period.

To recapitulate, the Chairman continued, there would be a first increase from 85 percent as an earnest of future steps in the same direction. Then there would be an open-ended period during which the rate of remuneration would move up as interest rates declined; and there would be a provision for reconsidering the rate of remuneration, inter alia, if the rate of charge became equal to the SDR interest rate. Finally, there would be a move to equality by May 1987. It would be helpful if a decision could be drafted along those lines. No individual would be fully satisfied, but the elements of a consensus might be within reach.

Mr. de Maulde remarked that he was willing to attempt to find a compromise. Unless the Fund moved toward a rate of remuneration equal to the SDR interest rate, it was evident that creditors would provide less financing. But the creditors had to compromise on the rate of charge.

Mr. Mtei said that, as he read Article V, Section 9(a), the rate of interest had to be between 80 percent and 100 percent of the rate of interest on the SDR. The question was whether it would be contrary to the logic and to the spirit of the Articles of Agreement to state as an objective that the rate of remuneration should be 100 percent of the SDR interest rate, especially if it was most unlikely that it would ever be agreed that the rate should consequently be reduced.

The Chairman responded that his understanding was that the principle of 100 percent was not being embodied permanently in a decision. He saw some logic in present circumstances for treating countries with different claims on the Fund in the same way. Under the method proposed by Mr. Polak and Mr. Wicks, provision would be made for reconsidering the rate of remuneration if the rate of charge exceeded the SDR interest rate, so that the 100 percent principle would not be set as an immovable rule.

The Deputy General Counsel added that Article V, Section 9(a), in stating that the rate of remuneration should not be more than the SDR rate of interest, did state that the rates of charge were to be taken into account in establishing the rate of remuneration. An automatic formula was neither mentioned nor prohibited; it was left to the discretion of the Executive Board to determine the impact on the rate of charge of decisions taken with respect to the rate of remuneration.

In response to a question by the Chairman, the Deputy General Counsel confirmed that to state in a decision that the objective was to reach a remuneration rate equal to the SDR interest rate would not be contrary to Article V, Section 9(a) when, in moving to meet that objective, the effects on the rate of charge had been taken into account. It should be noted that in draft Rule I-10(e) it was stated that the rate of remuneration should be reviewed every time the rate of charge was considered.

Mr. Malhotra said that he strongly supported Mr. Mtei's position. The Articles clearly stated a maximum and a minimum rate of remuneration, and for the Executive Board to decide that the maximum was the objective and that a timetable should be set for reaching it would detract from the flexibility inherent in the range set out in the Articles. In spirit, if not technically, such a decision would be tantamount to amending the Articles.

Article V also indicated that whenever the rate of remuneration was considered, the rate of charge would also be taken into account, Mr. Malhotra continued. If a mechanical timetable were adopted for raising the coefficient to 100 percent, it would be impossible to consider the impact of future increases in remuneration on the rate of charge, because future charges and the evolution of variables entering into their determination could obviously not be predicted. Thus, another specific direction in Article V would be undermined.

Even though Mr. Polak's proposal recognized more specifically the need to provide a safeguard against an undue increase in the rate of charge, Mr. Malhotra said, he remained unconvinced that it took care of other important problems for which further solutions would have to be explored. The Fund was a multifunctional institution, and was not merely in the business of lending money and collecting it back. Even if the Fund had no financing arrangements with members, the organization's administrative expenditures would not decline greatly. There was a standing staff which had many functions; it collected statistics and other material, held discussions with national authorities under Article IV consultations, and monitored the world economy. Any scheme that would place on the borrowers all incremental administrative expenditures and reserves in future would be totally unacceptable. All members, whether lenders or borrowers, had an interest in the proper functioning of the Fund. Depending on the pace at which the Fund's expenditures rose--and they could rise rapidly in a few years--the problem of burden-sharing would become increasingly visible and important. Further, borrowers were already bearing, through front-end fees alone, about one third of the Fund's total expenditures. That issue was distinct from that of concessionality.

He accepted the point made by the Chairman in his recapitulation of the discussion that creditors were seeking a reasonable return, Mr. Malhotra commented. As he had already indicated, he was prepared to meet the concern of those Executive Directors who wanted to show their authorities or parliaments that there would be an upward movement in the rate of remuneration, even though he was not convinced that the time for such movement was right. Similarly, he had been willing to compromise on the access limits under the compensatory financing facility, although he saw no good reason for reducing them. But he had definite difficulties, legal and conceptual, in adopting a time plan for reaching the objective of a 100 percent remuneration coefficient. He urged Directors not to overlook what he believed were weighty considerations in working toward a consensus.

Mr. Erb remarked that his authorities had also been making compromises along the way on all of the issues. In addition to the logic to which the Chairman had referred, namely, of paying the same rate of interest on all claims on the Fund, there was another compelling logic, relating to the fact that most creditors, in lending to the Fund, would be obtaining the funds in their own capital markets. Governments took advantage of their credit standing and privileged access to the markets to obtain capital at a very favorable rate, which they re-lent to the Fund. The question that his authorities always put to him, and that they could not explain to the Congress, was why the United States had to bear a budgetary cost in lending to the Fund because the rate of remuneration was less than the general cost of capital the U.S. Government had to pay.

The Deputy General Counsel observed, in response to Mr. Malhotra's comments, that whenever a decision was taken under the authority of Article V, Section 9(a) to change the rate of remuneration, whether by means of a formula or by specific amounts, taking that specific decision limited the scope for taking another and different decision. The Executive Board was not however precluded from taking another decision on the rate of remuneration in the future in accordance with that Article. A decision to set the rate of remuneration at the bottom of the range had the same limiting effect on the "flexibility" under the Article as setting the rate at the top of the range, or at any point in between.

Mr. Mtei asked whether, by stating as an objective that the rate of remuneration should reach 100 percent of the SDR interest rate, the enjoinder in Article V, Section 9(a) that the Fund should take into account the rates of charge would be respected. He continued to feel that it was inconsistent to adopt the maximum permissible coefficient of 100 percent unless it could at the same time be stated that its application could be withdrawn, if necessary, to comply with the requirement that the rates of charge should be taken into account in setting the rate of remuneration.

The Deputy General Counsel responded that the only requirement in Article V, Section 9(a) was that the rates of charge would be taken into account when the rate of remuneration was established. There was no requirement for continued review.

The Chairman noted that Executive Directors had in fact been taking into consideration the rates of charge in examining the impact of the various proposals for calculating the rate of remuneration in relation to the SDR rate of interest. Some Directors might place greater weight on the need to consider the impact on the rates of charge than others. At the same time, all the methods proposed had attempted to soften the impact on the rates of charge. It was basically a matter of arriving at an agreement on the merits of using a formula as opposed to discrete increases. An initial increase in the rate of remuneration to 90 percent of the SDR rate of interest would limit the scope for future flexibility. A formula that would move the remuneration rate toward 100 percent of the SDR interest rate, at the same time providing for a halt to the increase should the rate of charge be increased above the SDR interest rate, would also limit the room for flexibility. But in no case could it be said that the rate of charge was not being taken into account.

Mr. Conrado recalled that on various occasions his chair had drawn attention to the different treatment accorded to members' claims on the Fund that devolved from the nature of the quota system. Not all claims on the Fund carried voting rights with them; Saudi Arabia, for instance, was one of the largest holders of claims on the Fund but it did not have comparably large voting rights. If the Fund borrowed on the market, it might not necessarily treat the credit obtained in the same way as it treated other claims.

He was also worried about the objective of equality between the rate of remuneration and the SDR interest rate, Mr. Conrado remarked, not so much about bringing the remuneration coefficient up to 100 percent at a given time, as about the underlying concept. Setting such an objective was in effect tantamount to a decision that the rate of remuneration should actually be and remain 100 percent of the SDR interest rate.

Mr. Suraisry said that for some Executive Directors, the difficulty with the various proposals under discussion stemmed from the attempt to achieve the twofold objective of a 100 percent coefficient and a given timetable. The proposal by Mr. Wicks was of interest as a possible compromise. Since a decision was not likely to be reached at the present meeting, it would be helpful to have Mr. Wicks's proposal in writing, further refined if necessary, for discussion at a subsequent meeting.

Mr. Malhotra stated that his understanding of the enjoinder in the Articles of Agreement that the rates of charge be taken into account in setting the rate of remuneration was not satisfied by the technical exercises reflected in the tables that had been circulated to Executive Directors. Those tables were based on certain assumptions about the future course of interest rates and other variables, whereas the intention of Article V, Section 9(a) was that remuneration and charges should be considered together when the rate of interest and the movement of other relevant variables, in the recent past, or some months ahead, could be known with fair certainty. The concept of setting a target for the achievement of a remuneration coefficient of 100 percent was inherently deficient. He saw no alternative to an approach under which the rate of remuneration, along with the rate of charge, would be considered from time to time.

It was not that he was oblivious to the needs of creditors, Mr. Malhotra said. The role of creditors in providing the Fund with resources, both ordinary and borrowed, could not be ignored. At the same time, to think of quotas in the Fund as just another investment was to take a limited view. As Mr. Conrado had rightly pointed out, quotas carried great decision-making power, which was not to be scoffed at. Another point to be borne in mind, as he had already submitted, was the fairness with which future costs of the Fund would be distributed among members. All the relevant factors should be considered in working out an agreement.

The Deputy General Counsel said that taking into account the effect of any rate of remuneration on the rate of charge did not mean that a fixed relationship was intended. It was a policy matter for the Executive Board to decide at what percentage of the SDR interest rate the rate of remuneration should be set, taking into account all factors, in particular, the effect on the rate of charge. Under the rules, the rate of charge was set once a year to meet the net income target for the year of 3 percent of reserves, or such other percentage as the Board might decide. If in the middle of the financial year the actual net income was appreciably above or below the target, the Executive Board must consider how to deal with the matter. It would then again consider the rate of charge and other factors, including the rate of remuneration.

Mr. Salehkhou remarked that the Chairman's reference to the interest of the providers of the Fund's liquidity in increasing the rate of remuneration was an illustration of the view that he had expressed in previous discussions that the proponents of a high remuneration rate based their contentions primarily on commercial considerations. That was precisely why his chair had been asking for a larger quota increase, to provide the Fund with its own resources, and precisely why he had urged that as far as possible the Fund refrain from borrowing. As for the problem of the U.S. authorities, the view taken by the U.S. Congress of the Fund was that it was a commercial institution and not a cooperative one. His strong belief was that such views of the Fund should be avoided. If he were in Mr. Erb's position, he would refer congressmen to the Articles of Agreement, and in particular, to Article I, stating the purposes of the International Monetary Fund, which included the promotion of international monetary cooperation and the expansion and balanced growth of international trade.

Furthermore, Mr. Salehkhou considered, the providers of credit to the Fund had a great stake in the countries that borrowed from the Fund, based on trade, investment, and the settlement of outstanding indebtedness, which were the fundamental issues of the moment. Creditors should at least spare the Fund from commercialization and pay more attention to its cooperative nature; otherwise, the Fund would be very little different from a commercial bank.

Those were the reasons for his opposition to a target of 100 percent, aside from the legal issues, Mr. Salehkhou stated. It had not been the practice so far to set deadlines; the Executive Board was able at any time to make adjustments in the rate of remuneration. He failed to understand why a target should be set or why there should be a deadline for meeting it.

Mr. Erb said that neither he nor his authorities were seeking the commercialization of the Fund. A much higher rate of interest than the SDR rate would be needed if their objective was to earn a commercial rate of return on their creditor position. As for the meaning of cooperation, should creditor members have to incur a cost to lend to the Fund, as implied under the present system? By the same token, creditors were not asking to make a profit on their lending to the institution, whose cooperative character they respected. He recalled that Mr. de Maulde had addressed that very question in a preceding discussion.

Mr. Salehkhou commented that to ignore the concessional aspect of Fund financing was more or less tantamount to making it a commercial institution. Cooperation called for a balance of concessions both on the borrowing and on the lending sides.

The Chairman considered that it could be argued that, as long as the Fund's rate of charge was less than what a country would have to pay to borrow on the market, users of Fund resources enjoyed an element of concessionality. It could also be said that, as long as the rate of charge was not high enough to meet the cost to the Fund of borrowing at a market rate--not to mention the administrative costs of the institution and the amount of net income needed to build up reserves--an element of concessionality would remain. There was no argument that an element of concessionality existed in the Fund's operations: the issue was to what degree. It was up to the Executive Board to decide whether the rate of remuneration should remain at 85 percent of the SDR interest rate, or whether it should be moved toward 100 percent. Clearly, there would be less concessionality as the rate moved toward 100 percent, but concessionality would not be eliminated if the Executive Board adopted a mechanism under which the rate of remuneration did in fact reach 100 percent of the SDR interest rate.

Mr. Malhotra remarked that the rate of charge was additional to other costs, such as front-end fees, paid by borrowers. The amount of other costs would of course vary with, inter alia, the level of commitment of Fund resources every year. But at present, those costs aggregated about SDR 70 million a year. It was therefore possible to argue that with a rate of remuneration set at 100 percent of the SDR interest rate, there would be no concessionality left. As far as he knew, the measure of concessionality in Fund lending had never been derived by comparison with the cost of commercial bank financing. Concessionality in the Fund derived essentially from lower remuneration agreed in the context of the Fund being a cooperative institution.

References to the cost of borrowing in domestic currencies and its comparison with the SDR interest rate were problematical. It might appear to the authorities of a country that they were paying too high a domestic rate of interest to lend to the Fund. But the SDR rate was a combined rate, which followed from the decision to adopt the SDR as a unit of account. The implications of that decision would have to be accepted.

The Chairman pointed out that it could be seen from Table 3B. (corrected), under the particular assumptions that had been indicated, that when the remuneration coefficient reached 100 percent, the rate of charge would be 7.63 percent, or less than the SDR interest rate and rate of remuneration, which would be 8 percent at that point. Thus, he would contend that such a rate of charge was concessional; it would remain so as long as the institution financed its lending operations at a rate that was less than the rate of remuneration plus the earnings needed to cover administrative costs and accumulation of reserves.

Mr. Erb noted that it would be necessary to amend the Articles to enshrine the rate of remuneration permanently at 100 percent of the SDR interest rate. But to avoid misperceptions on that score, a formulation along the lines suggested by Mr. Wicks should make it clear that, under whatever formula, the adjustment of the rate of remuneration to 100 percent of the SDR interest rate would not be permanent but that consideration would be given to adjusting the rate of remuneration, should charges ever reach or exceed the SDR interest rate. The problem with a formulation stating that charges rather than the remuneration coefficient would automatically be adjusted downward, if ever the rate of charge reached the SDR rate, was that the adjustment would be permitted in only one direction. It would after all be in accordance with the Articles of Agreement to state that the increase in the remuneration coefficient should not exceed 100 percent and there would be no implication that the coefficient would remain forever at 100 percent.

Mr. Malhotra said that it was not clear why it was necessary to state that the remuneration coefficient should reach 100 percent when that possibility was already contemplated in the Articles. The Executive Board could raise the remuneration coefficient to 100 percent at any time it found that to be advisable. No new principle was to be established, and indeed none was called for. As he read them, the Articles had established a range, within which the Executive Board was given flexibility to set the rate of remuneration. If a particular target were established, the flexibility enshrined in the Articles of Agreement would be undermined. He was not claiming that the rate of remuneration should under no circumstances reach 100 percent. However, it was not in accordance with the Articles to predetermine that the rate of remuneration should reach 100 percent of the SDR interest rate at a given date or according to a timetable. Moreover, it was difficult for him to comprehend the rationale for making such a predetermination several years in advance in such an uncertain world. There was a standing Executive Board, willing to take appropriate decisions based on given, not imagined, facts. He therefore failed to understand the insistence on an agreement on the suggested package in all its parts without more ado. As responsible members of the Executive Board, with the health of the institution and of the world economy at heart, Directors should chart the future with mutual confidence and trust, and should not be under pressure to accept a package of decisions that was not to everyone's liking.

Mr. Erb commented that for the past two years, there had been no movement from the lower end of the range of 80 percent to 100 percent; the rate of remuneration had remained at 85 percent of the SDR interest rate. The issue was to obtain agreement on movement toward the upper end of the range.

Mr. Prowse observed that Mr. Erb's requirement that the rate of remuneration should reach 100 percent of the SDR rate within a recognized period of time, and that there should be an immediate increase in the rate, had run up against the problem of how to moderate the effect on the rate of charge. That could be done by an intricate formula that might be difficult to explain to the public at large. Some Directors had stressed the legal aspects of setting a target of a 100 percent remuneration coefficient; he was prepared to accept the staff's legal view that the proposal was not inconsistent with the Articles. But it remained essential to deal with the more serious problem of the effect on the rate of charge. Since one purpose in bringing all the draft decisions under discussion together in one package was to seek modification in one or the other to achieve agreement on the rest, he wondered whether the net income target, which was one of the most important variables in the calculation of the rate of charge, could be reconsidered. Until recently, the accretion of reserves had not been mechanical, nor had it been at the rate of 3 percent. He would be prepared to consider adjusting that other determinant of the rate of charge in order to ameliorate the effect of moving to the rate of remuneration sought.

For that purpose, Mr. Prowse continued, he suggested that another look be taken at a method under which the rate of remuneration would be raised to equality with the SDR rate, with a first initial increase, and an end date specified, but with further increases in the coefficient to be made following annual or semiannual reviews at the discretion and judgment of the Executive Board. In that way, the initial increases in the rate of remuneration could be adjusted to relieve the difficult external debt burden of many member countries at a time of high real interest rates. Such a method would be feasible if the target for net income was reduced; he would be prepared to accept a target of 1.5 percent of the Fund's reserves, or any other target that seemed negotiable.

The Chairman recalled that the Executive Board had recently discussed the level and growth of Fund reserves and the determination of charges (EBM/83/177, 12/19/83) and had agreed not to change the net income target.

Mr. Malhotra observed that in the paper on the level and growth of reserves and the determination of charges (EBS/83/251, 11/25/83; and Cor. 1, 11/29/83) the staff had mentioned the possibility of using reserves accumulated since 1981 in excess of the target in order to ameliorate the impact

24 an increase in the rate of charge ensuing from an increase in the rate of remuneration. Such an inclination would be compatible with the agreement to maintain the target of a 3 percent annual increase in reserves.

The Chairman proposed that the staff should prepare a paper on the three approaches reflecting the views put forward in the course of the discussion. Under the first, there would be an increase in the rate of remuneration on May 1, 1984, but without enshrining the principle of reaching 100 percent of the SDR interest rate; the remuneration coefficient would be reviewed on a regular basis. He did not believe that that proposal would obtain much support, but it had been favored by Mr. Malhotra, Mr. Zhang, and a number of other Directors. The second method would also provide for an increase in the remuneration coefficient on May 1, 1984, but it would incorporate a mechanism for raising the rate of remuneration thereafter, and would set a predetermined date for reaching 100 percent. A third method would not establish a predetermined date for reaching 100 percent. Instead, it would also provide for an initial increase in the remuneration coefficient, and put in train a mechanism for increasing the rate of remuneration, which would not necessarily reach 100 percent of the SDR interest rate, although it could do so, depending on interest rate developments. The main difference between the second and third method was that the former would include a catching-up period, during which the remuneration coefficient would be raised to equality with the SDR interest rate in installments, if it had not already reached equality by a certain date. Both methods would provide for a review of the remuneration coefficient, should the rate of charge exceed the SDR interest rate.

Mr. Wicks added that another possibility that should be borne in mind was to apply the formula for increasing the rate of remuneration from January 1, 1984, in addition to the one-step increase, and with a provision for an annual adjustment.

The Executive Directors agreed to resume their discussion of the various approaches to the determination of the rate of remuneration on December 30, 1983.

APPROVED: May 15, 1984

LEO VAN HOUTVEN
Secretary

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-Apr.85 (5)
SDR Interest Rate					
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
Rate of Remuneration Coefficient					
At end of preceding quarter		85	90	91.25	93.75
+ Increase due to interest rate decline 1/		5 2/	1.25	2.5	2.5
= At beginning of quarter		90	91.25	93.75	96.25
Rate of Remuneration					
Beginning of quarter		7.88	7.76	7.73	7.74
End of quarter	7.44	7.65	7.53	7.50	7.50
Rate of charge required to achieve net income target		7.39	7.39	7.49	7.54

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.

Table 2. 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-Apr.85 (5)	May 85-July 85 (6)
SDR Interest Rate						
Beginning of quarter	8.75	8.75	8.50	8.25	8.00	7.75
End of quarter	8.75	8.50	8.25	8.00	7.75	7.50
Rate of Remuneration Coefficient						
At end of preceding quarter		85.00	90.00	92.50	95.00	97.50
+ Increase due to interest rate decline 1/		5.00 2/	2.50	2.50	2.50	2.50
= At beginning of quarter	85.00	90.00	92.50	95.00	97.50	100.00
Rate of Remuneration						
Beginning of quarter		7.88	7.86	7.84	7.80	7.75
End of quarter	7.44	7.65	7.63	7.60	7.56	7.50
Average rate of charge required to achieve net income target	6.79	7.17	7.21	7.21	7.21	7.21

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

Table 3A. Effect of a Hypothetical Downward Fluctuation 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- Apr. 85 (5)	May 85- July 85 (6)	Aug. 85- Oct. 85 (7)	Nov. 85- Jan. 86 (8)	Feb. 86- Apr. 86 (9)	May 86- July 86 (10)
SDR Interest Rate										
Beginning of quarter	8.75	8.75	8.50	8.50	8.75	8.50	8.25	8.50	8.25	8.00
End of quarter	8.75	8.50	8.50	8.75	8.50	8.25	8.50	8.25	8.00	8.00
Rate of Remuneration Coefficient										
At end of preceding quarter		85.0	90.0	92.5	92.5	92.5	92.50	95.0	95.0	95.0
+ Increase due to interest rate decline 1/		5 2/	2.50	--	--	--	2.50	--	--	--
= At beginning of quarter		90.0	92.50	92.50	92.50	92.50	95.0	95.0	95.0	95.0
Rate of Remuneration										
Beginning of quarter		7.88	7.82	7.82	8.09	8.08	7.84	8.08	7.84	7.84
End of quarter	7.44	7.65	7.82	8.09	7.82	7.66	8.08	7.89	7.60	7.84
Average rate of charge required to achieve net income target	6.79	7.17	7.28	7.39	7.39	7.19	7.41	7.41	7.21	7.10

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

2/ Agreed increase.

Table 3B. Effect of a Hypothetical Downward Fluctuation 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-Apr.85 (5)	May 85-July 85 (6)	Aug.85-Oct.85 (7)	Nov.85-Jan.86 (8)	Feb.86-Apr.86 (9)	May 86-Jul.86 (10)
SDR Interest Rate										
Beginning of quarter	8.75	8.75	8.50	8.50	8.75	8.50	8.25	8.50	8.25	8.00
End of quarter	8.75	8.50	8.50	8.75	8.50	8.25	8.50	8.25	8.00	8.00
Rate of Remuneration Coefficient										
At end of preceding quarter		85.00	90.00	92.50	92.50	92.50	92.50	95.00	95.00	97.50
+ Increase due to interest rate decline 1/		5.00 2/	--	--	--	2.50	2.50	--	2.50	2.50
= At beginning of quarter		90.00	92.50	92.50	92.50	95.00	95.00	95.00	97.50	100.00
Rate of Remuneration										
Beginning of quarter		7.88	7.82	7.82	8.09	8.08	7.84	8.08	7.84	7.80
End of quarter	7.44	7.65	7.82	8.09	7.82	7.84	8.08	7.84	7.80	8.00
Average rate of charge required to achieve net income target	6.79	7.17	7.28	7.39	7.39	7.41	7.41	7.41	7.42	7.52

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 average in the quarter ended April 30, 1984 (assumed at 8.75 percent).

2/ Agreed increase.

Table 4. Effect of a Hypothetical Sharp Increase in the SDR Interest Rate
Followed by a Subsequent 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-Apr.85 (5)	May 85-July 85 (6)	Aug.85-Oct.85 (7)	Nov.85-Jan.86 (8)	Feb.86-Apr.86 (9)
SDR Interest Rate									
Beginning of quarter	8.75	8.75	9.75	11.75	11.00	10.50	10.00	8.75	8.00
End of quarter	8.75	9.75	11.75	11.00	10.50	10.00	8.75	8.00	7.50
Rate of Remuneration Coefficient									
At end of preceding quarter		85.00	90.00	90.00	90.00	97.50	100.00	100.00	100.00
+ Increase due to interest rate decline 1/		5.00 2/	--	--	7.50	5.00	--	--	--
= At beginning of quarter		90.00	90.00	90.00	97.50	100.00	100.00	100.00	100.00
Rate of Remuneration									
Beginning of quarter		7.88	8.78	10.58	10.72	10.24	10.00	8.75	8.00
End of quarter	7.44	8.78	10.57	9.90	10.24	10.00	8.75	8.00	7.50
Average rate of charge required to achieve net income target	6.79	7.64	8.79	9.26	9.63	9.48	8.72	7.86	7.30

1/ The coefficient is increased by 1 percentage point for each 1/0 percentage point decline in the SDR rate of the preceding quarter.

2/ Agreed increase.

Table 5. Effect of a Hypothetical Sharp Increase in the SDR Interest Rate Followed by a Subsequent 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-Apr.85 (5)	May 85-July 85 (6)	Aug.85-Oct.85 (7)	Nov.85-Jan.86 (8)	Feb.86-Apr.86 (9)	May 86-July 86 (10)
SDR Interest Rate										
Beginning of quarter	8.75	8.75	9.75	11.75	11.0	10.52	10.00	8.75	8.00	7.50
End of quarter	8.75	9.75	11.75	11.0	10.50	10.00	8.75	8.00	7.50	7.50
Rate of Remuneration Coefficient										
At end of preceding quarter		85	90	92.50	90	90	90	90	96	97.5
+ Increase due to interest rate decline 1/		5 2/	--	--	--	--	--	--	7.5	2.5
= At beginning of quarter		90	90	90	90	90	90	90	97.5	100
Rate of Remuneration										
Beginning of quarter		7.88	8.78	10.58	9.90	9.45	9.00	7.88	7.80	7.50
End of quarter	7.44	8.78	10.58	9.90	9.45	9.00	7.88	7.20	7.31	7.50
Average rate of charge required to achieve net income target	6.79	7.64	8.79	9.26	8.79	8.41	7.73	6.97	7.10	7.10

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

2/ Agreed increase.