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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 84/14

10:00 a.m., January 25, 1984

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

Executive Directors	Alternate Executive Directors
	T. Ramtoolah, Temporary
	H. G. Schneider
B. de Maulde	X. Blandin
A. Donoso	
	M. K. Bush
M. Finaish	
T. Hirao	T. Yamashita
	Jaafar A.
	L. Leonard
	D. I. S. Shaw, Temporary
A. Kafka	C. Robalino
G. Laske	G. Grosche
G. Lovato	C. P. Caranicas
R. N. Malhotra	A. S. Jayawardena
Y. A. Nimatallah	J. E. Suraisry
J. J. Polak	T. de Vries
A. R. G. Prowse	K. G. Morrell
	O. Kabbaj
F. Sangare	
M. A. Senior	J. L. Feito
J. Tvedt	
	T. A. Clark
Zhang Z.	Wang E.

L. Van Houtven, Secretary
S. J. Fennell, Assistant

Also Present

African Department: F. d'A. Collings. European Department: L. A. Whittome, Counsellor and Director; A. Fidjestol, W. E. Hermann, A. Knöbl, W. E. Lewis, P. J. F. Nyberg, D. M. Ripley, M. H. Rodlauer, P. W. Stanyer. Exchange and Trade Relations Department: S. Mookerjee, Deputy Director; C. M. Watson, E. J. Zervoudakis. External Relations Department: A. F. Mohammed, Director; P. J. Bradley. Fiscal Affairs Department: G. Blöndal. IMF Institute: R. Trink, Participant. Legal Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy General Counsel; A. O. Liuksila, S. A. Silard. Middle Eastern Department: F. Drees. Research Department: W. C. Hood, Economic Counsellor and Director; A. D. Crockett, Deputy Director; R. R. Rhomberg, Deputy Director; M. D. Knight, D. J. Mathieson, J. S. Smith. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; W. J. Byrne, W. L. Coats, J. A. Gonz, T. M. Tran. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: S. R. Abiad, A. A. Agah, E. A. Ajayi, H. A. Arias, C. J. Batliwalla, S. E. Conrado, K. A. Hansen, L. Ionescu, H.-S. Lee, W. Moerke, Y. Okubo, P. Péterfalvy. Assistants to Executive Directors: J. R. N. Almeida, J. Bulloch, L. E. J. M. Coene, M. Eran, V. Govindarajan, D. Hammann, N. U. Haque, C. M. Hull, A. K. Juusela, H. Kobayashi, S. Kolb, G. W. K. Pickering, E. Portas, M. Rasyid, J. Reddy, C. A. Salinas, A. A. Scholten, S. Sornyanyontr.

1. AUSTRIA - 1983 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1983 Article IV consultation with Austria (SM/83/268, 12/30/83; and Sup. 1, 1/19/84). They also had before them a report on recent economic developments in Austria (SM/83/249, 12/13/83).

Mr. Schneider made the following statement:

Since Austria belongs to those smaller countries with open economies that heavily depend on developments in other countries, it has become more difficult for the Austrian authorities to pursue their principal objectives of maintaining price stability and promoting high employment at the same time. Under the impact of the prolonged recession--characterized by a very modest increase in real GDP, depressed profit margins, and sluggish investment activity--unemployment has risen by 2 percentage points over the past two years to 4.5 percent on average in 1983, despite the increase in fiscal support. On the other hand, inflation declined markedly to 3.3 percent in 1983, and the current account has been in surplus since 1982.

The modest consumption-led recovery in economic activity has continued since mid-1983. Private consumption remained high, and investment picked up somewhat after falling over the past two years. More important, however, was the rebound of foreign demand. Nominal exports rose by 13 percent on a year-to-year basis in early autumn, with strong growth registered for exports to EC countries. At the same time, imports were stimulated by lively domestic demand.

Domestic retail sales have been boosted, particularly in late 1983, in anticipation of the increase in value-added tax (VAT), which became effective on January 1, 1984. Growth of real GDP in 1983 has been revised upward to 1.5 percent. Wage settlements concluded toward the end of the year provided for lower wage increases than expected with an increase of 3 percent for major trade unions, well below the projected rate of inflation.

Economic developments in 1984 will be affected by the Government's package of measures, designed to consolidate the budget by reducing the deficit by 1 percentage point of GDP to S 62 billion, or 5 percent of GDP in 1984. The effects of this package are on the restrictive side, although selective stimulating measures are designed particularly to support the business sector. Thus, it is estimated that the measures will reduce the growth rate of real GDP in 1984 by 1 percentage point below what it would otherwise have been to maintain growth steady at 1.5 percent. While the fall in consumption, owing to the purchases in anticipation of higher VAT rates in late 1983, may be stronger than initially expected, the investment outlook is more favorable now.

Strong exports and sluggish domestic demand will result in a further increase of the surplus on current account. However, the rate of inflation is expected to rise above 5 percent, largely owing to the effects of the increases in VAT rates and other public tariffs. On the other hand, the labor market has improved over the last six months. The downward trend of employment leveled off, and unemployment, except for seasonal variations, decreased in the autumn. As a result of the improved growth prospects, the rate of unemployment is now projected to be about 5.2 percent in 1984.

My Austrian authorities regard adjustment as an ongoing process in order to keep pace with constantly changing circumstances. The strong improvement in the current account balance since 1982 is partly considered evidence of structural adjustment. However, further efforts are needed, particularly in the heavy industries that are experiencing difficulties worldwide. Therefore, they intend to continue their efforts in adapting the structure of the Austrian economy within the framework of the social partnership, which has proved resilient despite rising unemployment. The growth in government guarantees must be viewed as an instrument to support activity but at the same time secure the hoped-for adjustment in an orderly fashion, though such guarantees need to be monitored carefully.

In the fiscal field, a number of measures are being contemplated for 1984 and beyond. The most important ones will be aiming at:

- a further consolidation of the federal budget;

- a reform of the tax system by modernizing and simplifying the tax structure together with a modest tax reduction in 1985;

- a reform of the pension system with a view to reducing the need for federal transfers;

- the promotion of needed structural adjustments in the nationalized industries as well as in the private sector in a medium-term setting; and

- an improvement of labor market policies.

Turning to monetary and exchange rate policies, it has to be stressed that the "hard-currency" policy has played an important role in maintaining a high level of employment under conditions of price stability. The close relationship between the schilling and other currencies with a relatively stable domestic purchasing power, especially the deutsche mark, has led to a moderation in wage claims and price developments, thereby making this policy an important tool for initiating necessary structural adjustments. The Austrian monetary authorities are determined to continue with this exchange rate policy, to which other policies have to be subordinated.

Mr. Grosche expressed his admiration for the Austrian authorities, who had succeeded in producing excellent economic results. Annual growth of real GNP was estimated at 1.5 percent for both 1983 and 1984, 0.5 percentage point higher than previously projected for 1983 and 1 percentage point higher than projected for 1984. He commended the authorities, in particular, for bringing about the deceleration of inflation and for securing moderate increases in unit labor costs. The recent increase in the value-added tax would certainly have an effect on the general price level, but, unless monetary policy were accommodating, the increase should not result in a permanent increase in the inflation rate. The positive developments in prices and costs had obviously been influenced by the exchange rate policy. The ensuing gains in the terms of trade had helped to bring about favorable results in the current account of the balance of payments.

There were, however, some gloomy spots in the Austrian picture, Mr. Grosche noted. The longer-term growth prospects did not look encouraging; the present level of economic activity was due largely to consumer demand, which had been stimulated by purchases in anticipation of the increase in the value-added tax and by the introduction of a withholding tax on interest income that had made savings less attractive. The unemployment rate was still rising, although the rate of increase seemed to be slowing down. Furthermore, the current strength of the external account could be due to volatile temporary factors.

Policy action was needed in a number of areas, particularly in monetary and fiscal policy, Mr. Grosche considered. On fiscal policy, the reduction in the public sector budget deficit by 1 percentage point of GDP seemed appropriate. He strongly supported the authorities' intention to reduce future government deficits through expenditure control, rather than through revenue increases. Revenues in the public sector already amounted to about 47 percent of GDP. Moreover, the rapid growth of public debt in recent years and the cost of servicing that debt would make it difficult to continue an expansionary policy; fiscal policy should be directed toward longer-term objectives. He welcomed the measures being contemplated by the authorities for implementation in 1984; in particular, the promotion of structural adjustment in the nationalized industries. The budgetary outlays for those industries should be monitored carefully and terminated at the earliest possible date. Moreover, reforms in the social security system should help to reduce the need for government transfers. Measures on the revenue side should be designed to reverse the recent pronounced drop in profits and in the self-financing ratio of industrial enterprises. Such a strategy, which should benefit from the cooperative relationship between trade unions and employers, would help to reverse the decline in industrial investment and would contribute to an improvement in the labor markets in the long run.

As to monetary policy, he encouraged the authorities to discontinue the selective credit controls, Mr. Grosche said. Monetary policy was a global instrument, and its effectiveness should not be impaired by such controls.

With respect to the external sector, he urged the authorities to consider whether they should offer official guarantees for such a high proportion of merchandise exports, Mr. Grosche went on. Like credit controls, official guarantees did not encourage efficiency, and the accumulation of risks might increase the burden on future budgets. Finally, the mutual understanding between labor and industry on the need to preserve export competitiveness by appropriate action was commendable.

Mr. Lovato indicated his broad agreement with the staff appraisal. He commended the Austrian authorities and the other members of the social partnership for the relatively good economic performance during 1984. Three points needed particular emphasis: first, the rapid increase in export guarantees to countries experiencing difficulties in obtaining foreign credit; second, the increased financial support provided to the nationalized industries; and third, the rapid growth of federal expenditures through the social security system. All those factors related directly or indirectly to the public sector deficit. Although some Directors had touched on them at the discussion of the 1982 Article IV consultation with Austria (EBM/83/7, 1/7/83), there had been no improvement, and it seemed appropriate to reverse what seemed to be dangerous trends before it was too late.

At the end of 1982, Federal guarantees had amounted to about S 400 billion, or 35 percent of GDP, three fourths of them being related to guarantees against export risks, Mr. Lovato remarked. He praised the authorities for their intention to follow a policy that could help to overcome the period of weak world demand and to boost domestic production and employment. However, if carried too far, that policy could have dangerous consequences for the public debt and for state-owned enterprises.

As for his second point, Mr. Lovato said, since 1981, the nationalized industries--accounting for 22 percent of industrial production--had been incurring serious financial problems owing to structural and cyclical factors. Many countries, including his own, continued to provide financial support for public sector enterprises. While that support might usefully stabilize economic activity and employment in the short run, it could have counterproductive consequences on the efficiency of the public sector enterprises in the long run.

Third, with reference to the growth of federal government expenditure, particularly on social security, Mr. Lovato noted that the ratio of the budget deficit to GDP had increased continuously during the past two years. If not modified, that trend could increase the net borrowing requirement of the Federal Government to 7 percent of GDP. He encouraged the authorities to follow through with their intention to reduce the net borrowing requirement to 5 percent of GDP in 1984. The authorities' plan to focus attention on increasing revenues rather than on reducing expenditure was inappropriate, as expenditure would increase more rapidly than revenues. He agreed with the authorities that a reduction in the deficit would be desirable at the present stage and that a review of expenditure items having a particularly worrisome trend was called for. In that context, the authorities should examine, in particular, the social security system, which could increase Federal expenditure rapidly in the coming years. He welcomed the authorities' intention to discuss precise proposals in mid-1984.

Mr. de Vries said that he too was impressed by the performance of the Austrian economy during the past 18 months, in particular by the rise in production in difficult circumstances, the low rate of inflation, the movement to a surplus in the current account, and the collaboration between the social partners. There were, however, a few structural problems that deserved the authorities' attention.

The authorities tended to subsidize the large nationalized industries when profits were low, Mr. de Vries remarked. There was the danger that subsidization would go too far and that scarce resources would be spent on maintaining ailing industries, a danger that had confronted a number of European governments, including his own. In addition, government-guaranteed credits might also lead to the misallocation of resources.

Federal expenditures would rise rapidly in the coming years, particularly in the absence of reforms in the social security system, Mr. de Vries noted. He therefore welcomed the authorities' intention to control budget expenditures on social security benefits. Finally, the Austrian authorities had approached their problems in a pragmatic way, and he had no doubt that they would continue to find solutions to their difficulties.

Mr. Leonard stated that he shared many of the thoughts of previous speakers. There was no cause for concern about the development of the Austrian economy in recent years; the authorities had combined considerable stability with modest economic growth, while preventing a severe drop in living standards in the face of world recession. Their success was a tribute to the policies pursued and to the social partnership between the trade unions, employers, and Government, which had played a significant part in the acceptance of pay moderation and the consequent improvements in competitiveness. Paradoxically, economic weaknesses might also be seen as stemming from the same relationship. The Government's fiscal and industrial policies were designed to further growth and employment in both the short term and the medium term, as the basis for cooperation between trade unions and employers. However, the current account deficit had increased from 2.6 percent of GDP in 1981 to 6.1 percent of GDP in 1983, in part as a result of efforts to maintain employment and contain the burden of direct taxation. It was, therefore, encouraging to note the Government's flexible approach to the 1984 budget, and its readiness to reduce the deficit even at the cost of some loss of growth and employment. He hoped that the Government's action in that respect would not estrange the trade unions and the employers during the period of temporary difficulty until the volume of world trade improved.

The Government was resorting to export guarantees as part of its industrial policy and was accepting responsibility for road financing credits, Mr. Leonard remarked. The Government was also increasing financial support for nationalized industry, taking on the debt servicing obligations of the holding company of the nationalized industries (OIAG) totaling S 16.6 billion in 1983-86, and providing financial support to nationalized banks. He shared the staff's concern about any expansion of the public sector and was worried that there might be some dry rot in the timbers of public policy that needed close observation. Indeed, the implications of the Federal guarantees--amounting to about S 500 billion, or 4 percent of GDP, in 1984--needed to be assessed carefully. Finally, the fiscal measures being considered by the authorities for 1984 and beyond were appropriate.

Mr. Tvedt commented that despite the openness of the Austrian economy and the size of the foreign sector, economic developments in Austria had generally been favorable in comparison with those in most other countries. Over the past decade, inflation had been at the lower end of the OECD range, and the labor market had been characterized by less slack than was typical in other countries. Moreover, the current external account had recently registered a surplus.

Nevertheless, Austria had not been spared the effects of the low level of activity experienced by most of its trading partners, Mr. Tvedt observed. Growth and total output had declined sharply, and unemployment had more than doubled over the past few years to a level considered high by Austrian standards. That development had come at a time when labor market participation rates had been declining and net migration had been the highest in six years. Unlike Austrian citizens, foreign workers were not eligible for distress aid, which implied that dismissed foreign labor would normally return to their home countries after exhausting their unemployment benefits. Could the staff elaborate on the regulations governing the duration of unemployment benefits?

With unemployment rising and activity weak, Austria's budget deficit, like that of most other countries, had increased, Mr. Tvedt went on. To cope with the deficit, the authorities had placed primary emphasis on raising revenues. He could understand their concern about changing the overall level of public spending, since expenditure cuts could put pressure on the level of activity and jeopardize the social consensus that had been an important basis of the successful economic performance thus far. Moreover, there appeared to be some scope for improving the budget balance through higher taxes, as about 30 percent of personal income was exempt from taxation. Nevertheless, he agreed with the staff that further growth in the public sector share of GDP could compromise the outlook for the business sector and for export performance over the medium term.

The authorities should, therefore, keep a tight rein on public expenditure, Mr. Tvedt continued. In that respect, it was important to note that the Government had taken over a large part of the debt servicing obligations of nationalized industries and had provided substantial off-budget support to private enterprises. In future years, those measures would inflate the public budget and could narrow the degree of freedom in the conduct of economic policies. Moreover, as noted by the staff, such measures might delay the necessary adjustment to a changing competitive environment and could endanger efficient allocation of resources in the longer term.

The recent development of a comfortable current account surplus could be attributed, in particular, to a marked improvement in the trade balance, with exports rising faster than the growth of foreign markets, Mr. Tvedt indicated. The increase in export shares seemed to be a result, in part, of a lagged response to the depreciation of the schilling in 1981. However, a number of nonprice factors might also have played a role: the establishment in Austria of several new industries delivering automobile parts abroad, the increase in marketing efforts, and the improvement in quality and technical sophistication of products. The share of exports supported by export guarantees had risen from 20.5 percent in 1971 to 40 percent in 1982. To some extent, government-subsidized export credits and export credit guarantees might explain Austria's successful export performance in various countries, including the state trading countries, where export shares had increased in 1982, in contrast to developments during the previous decade. That improvement in export performance seemed to have continued in the first half of 1983, with an increase in exports of 6.5 percent. Could the staff indicate whether that trend had continued in the second half of the year? He concurred with the staff warning that the strength of foreign demand should not be overstated, given the rapid increase in exports under guarantees and in exports to countries facing difficulties in obtaining foreign credits.

Despite the budget difficulties, official development assistance (ODA) had recently increased sharply, Mr. Tvedt noted, and he welcomed the intention of the authorities to increase ODA to 0.7 percent of GDP by 1990. However, as about 80 percent of the ODA was bilateral aid, consisting of export credits and thus largely reflecting exporters' interests, the structure and quality of ODA had not been fully adapted to medium-term objectives.

In general, the Austrian authorities should be commended for the favorable performance of the economy, Mr. Tvedt considered. Growth in 1983 had been revised upward, and wage settlements recently concluded provided for smaller wage increases than expected; wage rises in Austria were again among the lowest in the OECD. The investment outlook also appeared to have become more favorable. In sum, Austria seemed well prepared to take advantage of the envisaged international recovery.

Mr. Senior remarked that the recent performance and future prospects of the Austrian economy had continued to be better than those of many other industrial countries. In spite of the difficulties imposed by the economy's dependence on developments abroad, Austria's performance with respect to economic activity, inflation, balance of payments, and employment had been particularly satisfactory. Although the employment situation had deteriorated during the past few years, it was still relatively good compared with that in other OECD countries. The moderation of wage increases as part of the cooperative relationship between the social partners had played a key role in avoiding a further deterioration in employment, and would continue to do so in future years. It was encouraging to note from Mr. Schneider's statement that wage settlements recently concluded provided for increases well below the expected rate of inflation.

The expansionary stance of fiscal policy followed since 1981 in an effort to arrest a further weakening of economic activity and employment had resulted in a fiscal deficit that could restrict the scope for fiscal action in the future, Mr. Senior went on. The decision to reduce the fiscal deficit from about 6 percent of GDP in 1983 to 5 percent in 1984 was therefore particularly welcome. The combination of revenue and expenditure measures to be implemented was appropriate to minimize the negative effects on growth and employment, while achieving the targeted reduction of the deficit. Further efforts on the revenue and, in particular, on the expenditure side would be necessary to achieve stability of the public finances in the medium term. In that respect, Mr. Schneider's reference to the reform of the social security system and the rationalization of nationalized industries was welcome.

He agreed with both the authorities and the staff that Austria's external position had improved, in part, because of the adaptation of the structure of production to domestic and international circumstances, Mr. Senior remarked; in particular, the authorities had adapted by increasing integration with the European Communities, by attempting to diversify the geographical distribution of exports, and by promoting import substitution. He agreed with Mr. Schneider that further efforts were needed to reduce the vulnerability of the external sector to recurrent fluctuations, especially in the heavy industrial sector. The prudent use of export guarantees could facilitate adjustment in the appropriate sectors, but such an instrument should be used only as long as circumstances called for it, so as not to delay the necessary adjustment. Finally, he commended the Austrian authorities for their commitment to increase ODA and wished them continued success in the management of their economic policies.

Mr. Ramtoolah stated that the performance of the Austrian economy during the past few years had been impressive in many respects; most notable had been the significant improvement in the external current account position recorded in 1982, and reinforced in 1983. Likewise, the deceleration in the rise of unit labor costs that had begun in 1982 had become clearer in 1983. The rate of inflation had slowed in 1983, reflecting in part the moderation in wages, as well as the lower prices of domestic agricultural and imported products. Real GDP had grown by about 1 percent during 1982/83, following a small decline in 1981. The savings ratio had improved, although marginally, in 1983, and credit expansion had remained moderate by OECD standards.

On the external side, the value of the Austrian schilling had remained stable relative to the deutsche mark during the past two years and had fluctuated only moderately against the SDR or the U.S. dollar, Mr. Ramtoolah noted. The exchange rate appeared sustainable, and there had been no intensification of protectionist practices; he could only commend the Austrian authorities for those achievements.

However, some unsettling conditions existed in the economy, Mr. Ramtoolah observed. For instance, fiscal imbalances had widened substantially in 1982 and further in 1983, when the budget deficit of the Federal Government had been estimated to have reached a 14-year record high of 6.1 percent of GDP. A small improvement of about 1 percentage point was forecast for 1984.

While the marked deterioration in the fiscal position during the past few years reflected the effects of cyclical factors such as the recession, with the resulting slowdown in revenue growth and high current transfers, it could also conceal the presence of some structural imbalances in the economy, Mr. Ramtoolah added. The divergent evolution of the external current account and the fiscal position during 1982/83 provided evidence of those imbalances. Although it was appropriate to direct fiscal policy toward the achievement of high rates of employment, the long-term implications of such a policy in terms of price distortions and resource misallocations should not be overlooked. He therefore welcomed the authorities' recognition of the possibility that the crowding out arising from the need to finance large budget deficits could become significant unless the fiscal imbalances were brought under control. The Government's plan to seek ways to slow expenditure growth, especially on civil servant pensions, was welcome. The evolution of transfers to nationalized industries also needed to be reviewed closely with a view to reducing their cost to the Federal Government. The sharp increase in capital transfers to the nationalized industries--from S 4.5 billion for the period 1970-80 to S 5.5 billion in 1982 alone--as well as the assumption by the Government of part of the debt service of those industries, placed a significant burden on government resources. The authorities should explore ways to alleviate that burden.

The evolution of gross investment was another worrisome aspect of the Austrian economy, Mr. Ramtoolah considered. Investment had declined by 5.4 percent in 1982, a continuation of the downward trend that had started in 1981. A further fall of 2 percent had been estimated for 1983, but a small improvement in gross capital formation was expected in 1984, led by a projected upturn in investment in machinery and equipment. The pessimistic profit expectations of investors and the relatively high level of real interest rates had contributed to the decline in investment. An improved cash flow position in both private and public enterprises could provide the impetus for new investments. He hoped that corporate finances would improve and that the pessimism in the investment climate during the past few years would give way to a more positive outlook so that the projected turnaround in investment could materialize.

Finally, he welcomed the Government's intention to increase substantially its share of official development assistance to developing countries, Mr. Ramtoolah commented. He supported a reorientation of that aid toward the attainment of medium-term objectives. An expansion of the concessional features of that assistance would be welcomed by the recipient countries.

Ms. Bush noted that the Austrian authorities had realized several years of admirable economic performance. In the face of a general world recession, the economy had continued to perform well in comparison with that of other countries. Overall sound economic management, in the context of the type of economic system prevailing in Austria, had been most important in bringing about such positive results.

She did have some concerns, however, Ms. Bush indicated; in particular, the authorities' fiscal policy might tend to undermine the growth and stability objectives. As growth had slowed and unemployment rates risen, the authorities had introduced additional spending measures intended to provide an economic stimulus and support employment. As such measures had contributed to a larger budget deficit, the authorities intended to increase revenues in order to close the 1984 budget gap and to avoid what they considered to be the deflationary effects of spending cuts.

Although the revenue-raising measures might make some immediate contribution to narrowing the fiscal deficit, she questioned the effects that they would have on economic activity over the medium term, Ms. Bush remarked. Real fixed investment, one measure of economic activity, had declined, and the authorities had indicated willingness to take some action in that area. Specifically, the eventual elimination of the capital tax on business and the reductions in trade and business property taxes might have some positive effects on fixed investment. However, the staff pointed out that the revenue-raising measures, particularly the increase in the value-added tax, taken together with larger social security contributions, seemed to outweigh any potential benefits that the tax reductions might have on investment. Hence, it was questionable whether the phasedown in some business taxes would have a net positive effect on investment when weighed against revenue-raising taxes. Furthermore, the introduction of the withholding tax might have an inhibiting effect on the creation of assets ultimately used to finance additional investment.

Increasing taxes was not conducive to improving the investment climate, without which structural adjustment investment would not be achieved, Ms. Bush continued. She was therefore pleased that the authorities intended to place emphasis on restraining the growth in federal expenditures, despite the long-standing and understandable desire to mitigate short-term cyclical dislocations.

Some of the fiscal drain seemed to be due to government support for financially troubled nationalized industries, Ms. Bush observed. The authorities' decision to reduce capacity in the iron and steel industry was an appropriate alternative to continuing financial support as long as efficiency was lacking. The authorities had also identified problems regarding the provision of credit at preferential rates that might be inhibiting the rational allocation of resources. She urged the authorities to modify the rate structure in such a way as to improve the investment climate.

She commended the authorities for strengthening the current account, Ms. Bush went on. The staff had noted that about half of the swing in the current account since 1981 might be attributed to improvements in the terms of trade. While relative price movements might be responsible for some of the improvement, product competitiveness also appeared to be playing a part, particularly as Austria's merchandise exports were growing faster than the market in general. Could Mr. Schneider provide further information on the unclassified goods and services item, which had a sizable influence on the current account?

Mr. Suraisry indicated his broad agreement with the staff appraisal. The Austrian economy had recently made good progress: inflation was low, real GDP was positive, and the current account balance had swung into surplus in 1982 for the first time since 1969. He commended the authorities on those impressive achievements.

However, the economy was still weak in certain areas that needed to be given more attention, Mr. Suraisry remarked. Investment, especially industrial investment, was low; industrial profit was declining; the budget deficit of the Federal Government had exceeded the target. While those weaknesses did not constitute a cause for concern--nor were they limited to Austria--some improvement was fundamental for strengthening the economy and sustaining the recovery. He had no doubt that the authorities would act with the prudence that they had shown in the past.

More specifically, on monetary policy, Mr. Suraisry went on, the move to domestic market borrowing through open-market operations was appropriate. That move should give the monetary authorities more flexibility and should lessen the influence of external factors on the conduct of monetary policy. At the same time, in view of the excess in domestic liquidity, the current account surplus, and the size of the public sector, borrowing through open-market operations should not crowd out the private sector. On a related point, while the rapid growth of monetary aggregates in Austria--at a rate in excess of that experienced in Germany--might not create inflationary pressure at the present stage, he agreed with the authorities and the staff that it was inconsistent with price and exchange rate objectives. Such a policy could be followed only for a short period, or it would create economic problems. The authorities should therefore re-examine the policy in the near future, particularly as the Austrian economy depended heavily on exports.

On external policies, the authorities' efforts to diversify the geographical distribution of exports would be an important protection against cyclical and other factors that could adversely affect the export industry, Mr. Suraisry noted. However, those efforts could be jeopardized by the rapid growth of exports under guarantee. In the light of the improved economic environment, the authorities might find it appropriate to reduce the role of guarantees.

As to fiscal policy, he welcomed the measures introduced in 1984 to reduce the budget deficit, which, although not excessive by general OECD standards, was quite high, Mr. Suraisry continued. He therefore shared the staff concern that if the deficit remained high, it would limit the scope for any fiscal support that might be needed in the future. A combination of revenue-raising and expenditure-reducing measures was appropriate, since it would reduce the deficit without impairing the private sector incentive for investment. In the period ahead, a further reduction in the deficit should come primarily from the expenditure side, particularly if the revenues projected for 1984 did not materialize. The proposals for reform that the authorities intended to introduce in the 1985 budget were encouraging in that regard.

Commenting on structural policies, Mr. Suraisry welcomed the steps taken by the OIAG to improve the financial position of the nationalized industries. More structural reforms would be required if those industries were to become financially strong and were no longer to be a burden on the budget. The Government's decision to take on the debt servicing obligations of the OIAG should provide an opportunity to implement such reforms. Finally, he commended the authorities for their contribution and efforts to increase official development assistance, and he hoped that they would be able to meet their target of 0.7 percent of GNP.

Mr. Clark stated that he endorsed the staff appraisal. He congratulated the Austrian authorities on securing a relatively successful economic performance, but he shared the concerns expressed by Ms. Bush about trends in the fiscal area, and in particular about the implications of those trends for the future.

Mr. Zhang remarked that in both 1982 and 1983 real GDP in Austria had registered only moderate increases, but economic performance as a whole had continued to compare favorably with that of most other developed countries. In 1983, the recovery of economic activity had been led by buoyant private consumption and rising government expenditure. The increase in GDP was projected to be moderate again in 1984, but an expansion in investment and a rise in imports were expected.

The rate of unemployment, at 5.5 percent of the labor force in 1983, was low by international standards and was a striking feature of the Austrian economy, Mr. Zhang went on. However, unemployment had been rising rapidly since 1980, because many of the special factors that had once kept it low had weakened or disappeared. Concerned about that trend, the Government had introduced various labor market support measures, including investment grants and additional public investment expenditures. How effective were those measures? Were they adequate? Would they not be affected by the more restrictive stance of fiscal policy contemplated for the coming years? Without a marked acceleration in economic growth and a continued expansion in world trade, further increases in unemployment might be likely over the medium term. What was the staff's view in that regard? Further, in a situation of steadily rising unemployment, albeit still at a low rate, would the incomes policy, which was part of the social partnership, continue to play the same role as before, or would its importance increase? Finally, if all other policies had been "subordinated to the exchange rate policy," how had the conflict between internal and external policy objectives been resolved in the past?

Mr. Blandin commended the Austrian authorities for their impressive economic performance. Executive Directors seldom had the opportunity to discuss a situation in which a country's current account could be improved while the authorities maintained moderate economic growth, keeping inflation and unemployment under control. The increase in official development assistance from 0.18 percent of GNP in 1979 to 0.53 percent of GNP in 1982 was commendable. He welcomed the authorities' intention to increase official development assistance further.

The staff representative from the European Department, in reply to a comment on the status of aliens, stated that the benefits available to foreign workers were not as good as those available to Austrian workers; foreign workers were eligible for up to 7.5 months of regular unemployment benefits. Further unemployment benefits were available only if the foreigners had worked in Austria for at least eight years.

Some Directors had noted that profits had been low and had wondered whether the measures in the 1984 budget would help to raise it, the staff representative recalled. In fact, there should be some further compression of profits in 1984, because the value-added tax would not be completely passed through to final prices; there would also be an increase in the cost of production because of various tariff increases. Although businesses would be helped by the reduction in business taxes, there would be some compression of profits on a net basis. Nevertheless, business taxes would continue to be reduced in 1985/86 and, with relatively strong growth in 1984 and 1985, profits should be restored to more normal levels. Naturally, profitability varied widely across sectors.

The rate of growth of employment was expected to decline for several years, the staff representative indicated. In the past, employment had been maintained through a rapid growth of the service sector and through an increase in, or maintenance of, employment in nationalized industries. However, the rate of growth of the service sector had declined in recent years. Additionally, nationalized industries were currently experiencing difficulties, and there was a great deal of labor shedding, particularly in the steel industry. Employment prospects were not particularly bright, and labor shedding was expected to continue for two or three years. There had been discussion about sharing employment by introducing a 35-hour workweek. However, it was felt that the shorter workweek would not prove particularly productive and might well compress profits further. In sum, the staff had projected that unemployment would rise in 1984 and would perhaps stabilize in the following year.

As for the balance of payments, the item "unclassified goods and services" related primarily to the export of turnkey projects and technical services associated with those projects, the staff representative explained. Given the weakness of the domestic construction sector since the mid-1970s, Austrian firms had focused on the foreign market. It was difficult to obtain figures on unclassified goods and services, which were extremely important. The authorities generally attempted to estimate the size of that item by comparing payments with customs records. At the end of each year, the authorities carried out a survey among construction companies to determine more precisely the figures for unclassified goods and services. Nevertheless, there was a large margin of uncertainty associated with the figure for that item.

Many Directors had spoken about the importance of export guarantees in promoting Austrian exports, the staff representative noted. About 35 percent of exports of goods and services had been covered by official guarantees in 1982, which the staff considered relatively high. Export guarantees in a number of other countries ranged between 25 percent and 35 percent.

Austria's exports to state trading countries had increased by 13 percent in volume terms and 9.5 percent in value terms during the first three quarters of 1983 compared with the previous year, the staff representative indicated. Nonetheless, looking at the direction of trade for the industrial countries as a whole, the staff had noted some fall in exports to the state trading countries.

On monetary policy, the staff representative stated that the rate of growth of the monetary aggregates had not decelerated greatly since the third quarter of 1983. It would remain above the rate in Germany, although it would perhaps be less positive than at the time of the consultation discussions.

As for fiscal policy, the staff agreed with those Directors who supported the authorities' intention to bring expenditures under control and who noted that difficulties might well arise in the social security system, particularly the pension system, the staff representative went on. Rough calculations indicated that pension benefits had been designed on the assumption of an average annual GNP growth rate of 4.5 percent in real terms. The staff had not yet received any additional information regarding the measures to be implemented in 1984/85 to cut the pension outlays.

There had not been an acceleration of growth of government guarantees in 1983, the staff representative remarked. In fact, the period of rapid growth had been in 1981 owing primarily to the boost in export guarantees.

Responding to a question by the Chairman, the staff representative from the European Department stated that the staff had not included in its paper any information on the debt service ratio. She would provide the Chairman in the near future with a table on the debt service ratio and its development.

Mr. Schneider commented that in looking at the development of the Austrian economy in a historic perspective, one had to bear in mind that the country had suffered twice from major disruptions in its economic structure. First, after World War I, the Austro-Hungarian monarchy with a population of over 50 million had become the Republic of Austria with a population of less than 7 million. Second, after World War II, the country's industrial structure had been destroyed; it had had to be rebuilt and adapted to Austrian needs, because output capacity in certain sectors had not been in line with the size of the Austrian market and potential demand. Basic industries and three major banks had been nationalized, a move supported by both major political parties. A knowledge of the background was essential for assessing the current problems confronting the authorities, particularly in the fiscal field.

The objective of the authorities' industrial policy was to maintain employment as far as possible, while restructuring the industrial sector through a number of measures such as advance tax deductions, promotion of venture and equity capital, the granting of preferential interest rates, joint export marketing for small and medium-sized enterprises, and the extension of export guarantees, Mr. Schneider said. The promotion of structural adjustment in the industrial sector was not an easy task, given the concentration in heavy industry and basic production. The scaling back of capacity and reduction in employment was difficult, because the mobility of the Austrian labor force was limited. In any event, the iron and steel crisis was worldwide, and subsidies granted by the authorities in that sector had been below the international average.

As for the export promotion system, Mr. Schneider observed, it should be borne in mind that Austria was a small industrial country whose firms did not find it easy to compete in international markets with large companies from other countries. For that reason, Austria had developed a sophisticated export promotion system in order to cover exports against political and commercial risk. However, the growing amount of outstanding guarantees was closely monitored by the Export Council, in which the Government, the National Bank, industry, and labor were represented.

In the fiscal area, the net budget deficit for 1983 was S 68.2 billion or 5.7 percent of GDP, rather than the 6.1 percent of GDP projected earlier, Mr. Schneider indicated. His authorities did not expect the revision of economic data to have much impact on the revenue side, but there might be some reduction on the expenditure side because of improvements in the labor market and, therefore, reduced unemployment payments. His authorities were concentrating on new reform measures to be introduced in the 1985 budget, and in particular on a means of cutting transfer payments and on a tax reform package.

The monetary authorities of the Austrian National Bank did not consider the strong monetary expansion to be an acute problem, since inflationary pressures were weak and the surplus position in the current account tended to exert upward pressure on the external value of the schilling, Mr. Schneider remarked. Moreover, in Austria there was no official target rate of growth of monetary aggregates, so that inflationary expectations were not immediately bolstered by prospects of overshooting. However, his authorities were aware that the increase in monetary aggregates of 12 percent in Austria compared with the 8 percent in Germany could not continue over an extended period without causing problems. The Austrian National Bank would be cautious with respect to additional selective money creation.

The Chairman made the following summing up:

Directors warmly commended the Austrian authorities for the performance of their economy, which compared favorably with that of other industrial countries. The social partnership had withstood the strains of rising unemployment; it had promoted wage moderation, contributing to a significant decline in the rate of inflation. Directors also noted the marked strengthening in the current account over the past two years, which had taken place in a period of weak foreign demand. Austria appeared to be well positioned to take advantage of the world economic recovery.

However, the much stronger than projected rise in the Federal budget deficit in 1983 was a cause for concern, Directors said. That deficit was due in part to additional measures of fiscal stimulus, although the slow pace of growth was a major determinant. Directors welcomed the deficitreducing measures introduced by the Government in connection with the budget for 1984. Many Directors encouraged the authorities to rely less on increases in revenue and to give more emphasis to restraint on expenditure.

A number of Directors urged the Austrian authorities to proceed with a reform of the social security system, especially the pension system, with a view to constraining the built-in growth in expenditures and to make the system financially viable in the medium term. Some Directors also commented on the need for reviewing and modernizing the tax system.

Directors urged the authorities to pursue vigorously their policies of structural adjustment, since Austrian exports and output were still concentrated in many structurally weak sectors. Directors noted with some concern that the level of outstanding government guarantees, especially for export financing but also for the troubled nationalized industries, was high and had increased rapidly in recent years. They encouraged the authorities to monitor carefully the further growth of such guarantees and to avoid any delay in the needed adjustments in the structure of production. In that context, the low levels of profitability and of industrial investment were viewed with concern and were seen as adding urgency to the strengthening of the public finances.

Directors endorsed the stance of monetary policy, which was guided by the close relationship between the schilling and the deutsche mark. Directors noted, however, that the recent rapid expansion of the monetary aggregates should be monitored carefully. Several Directors also urged the authorities to phase out the system of selective credits.

The level of ODA granted by Austria was commended, and Austria's commitment to achieving the 0.7 percent of GNP target by the end of the decade was welcomed. However, it was noted that there was room for improvement in the quality and form of the official development assistance.

It was agreed that the next Article IV consultation should take place on an 18-month cycle.

2. SDRs - ALLOCATION

The Executive Directors considered the staff report on considerations pertaining to the allocation of SDRs (SM/83/266, 12/28/83; and Sup. 1, 1/20/84).

Mr. Ramtoolah stated that in July 1983 his chair had supported the staff recommendation to establish a closer link between the SDR rate and the rates prevailing in major financial markets. The aim had been essentially to make SDR-denominated assets more attractive to hold, hence upgrading the international reserve asset feature of the SDR. But, however much its attractiveness was enhanced, if the supply of SDRs were restricted, it could not play any role as a reserve asset. For that reason, his chair and the African group of Governors had called for a fresh and substantial allocation of SDRs during the present basic period; the most recent appeal had been made during September 1983 at the Bank/Fund Annual Meetings.

There were three other reasons why a fresh allocation of SDRs was long overdue, Mr. Ramtoolah considered. First, the tight reserve position of many Fund members, particularly the non-oil developing countries, was beyond dispute. The evolution of a few financial indicators in recent years illustrated the untenable situation of many countries. For the first time in more than a decade, the absolute level of nongold reserves of all Fund members, as well as of groups of members, had decreased in 1982.

An even more disturbing picture emerged from an examination of the ratio of reserves to imports of goods and services for non-oil developing countries, Mr. Ramtoolah went on. Their weighted ratio had declined steadily from about 26 percent in 1978 to 17 percent in 1982, with only a marginal improvement expected in 1983. Likewise, the large decrease in the ratio of nongold reserves to service payments on the short-term and long-term external debt of non-oil developing countries from 192 percent in 1973 to 67 percent in 1982 was a clear indication of the strained ability of those countries to meet their external payments obligations. Such a significant erosion of the reserve position of many Fund members should be arrested, inter alia, through a substantial allocation of SDRs.

Second, there had been a substantial deceleration in the allocation of international bank credit in the major financial markets, Mr. Ramtoolah noted. Indeed, according to staff estimates, net bank lending to non-oil developing countries had contracted rather sharply from $54 billion in 1981 to $15-20 billion in 1983. Although the number of countries having access to that credit was relatively small, it was likely that the reduction in such resources had contributed to the intensification of competition for other sources of reserves.

Third, several countries were currently implementing adjustment programs, some with Fund financial assistance, Mr. Ramtoolah remarked. Often, the successful implementation of those programs was predicated upon the gathering of sufficient external financial assistance, in the absence of which further deflationary policies were to be implemented, leading to reduced output and income. A substantial allocation of SDRs could play a significant role in alleviating the cost of economic and financial adjustment in many countries, particularly the accompanying social costs. He shared the staff view that a fresh allocation could jeopardize the fight against inflation, but noted that the inflationary impact of the generally small use of SDRs by Fund members was likely to be insignificant.

On the assumption that the Executive Board would support a fresh allocation of SDRs, a more equitable distribution of the new allocation among members was important, Mr. Ramtoolah concluded. The distribution must take into account, inter alia, the special needs of small-quota countries.

Mr. Polak made the following statement:

The staff paper is better reasoned and more realistic than its predecessors. There is, however, one respect in which I find it less than satisfactory: it makes insufficient use of the Fund's experience in recent years and, more generally, does not relate allocation policy to access policy.

Let me begin by stating the observations that the Netherlands authorities have on this paper and the conclusions that they draw from it.

On the more technical aspects of the paper, they have reservations with respect to some of the indicators used. The relationship of reserves to trade does reflect the need for reserves to hold. But the relationship of reserves to trade balances suffers from the fact that these balances themselves are a function of available finance, including credit and reserves. Another measure, the ratio of reserves to external debt, is less suitable because it tends to point to a financing need, not a reserve need.

While the staff presents reasonable calculations on the need for reserves, the outcome could be quite different depending on the supply of reserves in forms other than SDRs. This underlines the importance of Fund surveillance over exchange rate policy and over the development of international liquidity in general.

The Netherlands have been, and are, in favor of a modest allocation of SDRs. Their thoughts go to an annual allocation of SDR 4 billion, a figure that seems to fit well with the calculations presented in the staff paper. They would be inclined to reach a decision on this subject for a five-year basic period.

The alternative of completing the present basic period has the disadvantage that it would again present the Fund with the same difficult problem in a short period.

As I said on Monday, this Board meeting should be used not merely to set out national positions but should try to establish--as far as possible--common approaches to the problem of allocation. The following observations are intended as a contribution to this end.

At the present time, the case for allocation can be based on two grounds that are complementary in character:

(a) to meet an appropriate part of the trend growth in the demand for reserves--this has been the standard staff approach in recent years;

(b) to meet an existing shortage of reserves--this played a role at the time of the first allocation and has again become relevant since mid-1982. In between there was a decade in which commercial banks readily supplied whatever demand there was for increased reserves.

The staff concentrates almost exclusively on (a). Because of the change in structure, it is necessary to deal with (b), too. But these two aspects of the demand for reserves cannot be the end of the story. The amount of allocation that could be justified under (a) and (b) combined could be quite large. However, the Fund must act under the constraint that the adjustment process should not be jeopardized. This, rather than the full measure of possible need, sets limits for allocation. This aspect will be dealt with in the third part of my observations.

1. Trend growth in demand for reserves

The staff, on the basis of the WEO, assumes a trend growth of imports, of 8 percent in 1982-86, which works out to an expected increase of reserves over four years of SDR 130 billion.

What is the appropriate part to be financed by an SDR allocation? In Table 5, the staff cites fractions of one fifth to one twelth, which is too arbitrary; it leaves the Fund open to criticism that it accommodates world inflation.

A more objective and more acceptable criterion would be that SDR creation should be limited to real growth in reserve need. The principle is not new. The staff estimates real growth at about 3 percent. Applied to the present stock of SDR 360 billion, this would point to a legitimate need of SDR 11 billion a year for the next few years.

2. Present shortage of reserves

The debt crisis of 1982 is almost by definition a liquidity crisis; it demonstrated the risk of excessive reliance on borrowed--especially, short-term--reserves, namely, that they evaporate at the time when they are most needed. Evidence of a reserve shortage in many countries--especially developing countries--is before our eyes every day. Indeed, in many stand-by arrangements the rebuilding of reserves is given high priority, even though this rebuildup means an additional compression of imports.

Reserve stringency is, of course, not universal; one can point to strong reserve increases in China and Indonesia. It is sufficiently severe and widespread to extend its significance well beyond the countries directly affected. Considering its impact on both trade and financial events around the world, it is a problem of global importance and one that might be solved by our SDR allocation under the Articles.

There is a serious difficulty in measuring the size of the reserve gap that currently exists. I made some suggestions on how to do this last time, but the staff has convinced me that the approach I had in mind is not a useful one.

One indicator of the size of the reserve shortage is given in Table 2 of the staff supplement, which shows a dramatic fall in the reserves of the 25 countries with operative Fund programs, from an average ratio to imports of about 20 percent in 1975-79 to 8.5 percent at the end of 1982. In absolute numbers--which the staff does not give--this means that the reserves of these countries at the end of 1982 were some SDR 15-20 billion below normal. This explains the efforts to rebuild reserves in many of the programs.

I also have a suspicion that recent reserve statistics for problem LDCs overestimate their usable reserves. To cite one example, the Brazilian Central Bank was unable to cover the obligations of Brazilian banks in the daily clearing in New York on several days in the last quarter of 1982. Yet IFS shows Brazil as holding $3.7 billion at the start of that quarter and $3.6 billion at the end; no later data are available. Mexico in August 1982, with statistical reserves of SDR 1 billion, is another case. Furthermore, for all countries with substantial arrears, the clear implication must be that their reserves are minimal. Yet the sum of the reserves of the 30 countries listed as having arrears--not including Brazil--amounts to about SDR 8 billion.

None of these indicators of reserve shortage rates a high degree of precision. In combination, however, they would suggest a reserve shortage among problem LDCs on the order of SDR 25-30 billion. For other countries--developed, most oil exporters, and nonproblem LDCs--I would assume that the previous reserve mechanism still holds: that they are either on trend with their holdings; or that, if they hold more or less, they can and will adjust to their desired level over time. On this assumption, the reserve shortfall to which I referred would also be a measure of the global reserve shortage. As I said earlier, the existence of a reserve shortage in an important area of the system can hardly be in doubt; the problem is how to get some idea of its magnitude.

3. Constraints to allocation

The preceding exercise makes it clear that it is not difficult to make a case for the existence of a large reserve need--partly instantaneous, a shortage, and partly arising over time, a trend need--that could conceivably be met by SDR allocations. The question is, however, how much of this could prudently be met by allocations. Here, a close relation with the Fund's policy on conditional credit should be established.

It is an accepted principle in the Fund that the present situation requires widespread adjustment of payments imbalances. One of the Fund's contributions to this adjustment is its conditional credit. How, one may ask, does the allocation of SDRs fit into this picture?

The answer was given at the Fund's conference in March 1983 by Professor Corden the most conservative participant in that conference. The important point is not that all money going to countries with serious adjustment problems should be conditional, only that enough of such money be conditional to make conditionality a reality. There are now 50 countries with stand-by arrangements with the Fund, whose adjustment effort the Fund monitors and to an important extent controls through the slow release of conditional money. On the other hand, there are many countries with broadly satisfactory policies that will not be led astray by the allocation of a modest amount of SDRs. This is a new phenomenon: the countries in between--with unsatisfactory policies and without a Fund program--do not account for a large share of total quotas. These countries might waste their share in any SDR allocation; but as a percentage of the total, this would not be large, not large enough--to deprive the two main groups of the benefits of an allocation.

On the question of the magnitude of allocation, the staff mentions many numbers, in billions of SDRs, derived by various rules of thumb. On the basis of the staff paper, it would be hard to select any one of them. These numbers have no intuitive meaning.

Fortunately, a decision on SDR allocation is not for an amount--but for equal percentage of quota each year. That brings us to familiar terrain--one that has been fought over at length under access policy. Clearly, there must be a strong link between allocation and access to conditional credit, especially when so many countries are receiving such credit. Specifically, allocation policy must not undercut the policy of conditional credit. Even when a case can be made for a large allocation from the point of view of need, it must be constrained to what is compatible with access policy. This does not provide a precise criterion, but it does suggest a principle--that the allocation percentage should not be so high as to shift a member to a higher category of access than the category in which it fits in the light of the Fund's access policy.

Broadly speaking we have three access categories, which I may perhaps describe as: top, 102-125 percent a year; middle, about 75 percent a year; bottom, 25-50 percent a year.

In each of these categories there is a pretty wide margin of discretion as to the percentage of access that the Fund considers compatible with the adjustment effort and the payments outlook of the member concerned. The relevant question is what additional percentage of quota could safely be allocated to the countries under these programs without prejudicing the principle of the Fund's conditionality. This is very much a matter of judgment, on which views can differ. Speaking for myself, I would expect that a figure of 10 percent of quota a year might be indicated as the upper limit for an allocation that would confidently be considered fully compatible with the adjustment process.

Mr. de Maulde indicated his full agreement with the staff's views as expressed in SM/83/266. The case for resuming allocations of SDRs had been convincingly made. Since the second oil shock, ratios of nongold reserves to both imports and trade imbalances had deteriorated considerably. Between 1973 and 1982, the value of world trade had expanded by 227 percent, while total reserves had increased by only 182 percent and SDRs by 30 percent. The share of SDRs in total reserves had therefore decreased from 7.9 percent in 1973 to 5.9 percent in 1983. Moreover, from 1980 to 1983, the ratio of nongold reserves to external debt had fallen by 73 percent for the Middle East, 62 percent for the Western Hemisphere, 57 percent for Asia, and 47 percent for Africa. On a global, long-term basis there was a need for additional reserves in order to ensure the orderly pursuit of the recovery process.

The staff had clearly demonstrated that SDR allocations would not have any obvious inflationary impact, Mr. de Maulde observed. He therefore considered that all the relevant criteria included in the Articles of Agreement were currently being met. An early resumption of SDR allocations was indispensable to make the adjustment process work. Despite the courage of the present adjustment efforts, non-oil developing countries would still have sizable external imbalances in the coming years. Furthermore, in view of the pursuit of inappropriate policy mixes by certain important countries that maintained interest rates at unnecessarily high levels, and in view of the stagnation of official development assistance, a significant reduction of the debt servicing burden of the developing countries could not be expected. Additionally, access to the Fund's resources had been seriously restricted through recent decisions by the Executive Board. Moreover, commercial credits were drying up, according to the latest BIS figures. Those considerations led him to believe that an allocation of SDRs would play a major role in safeguarding the credibility of the Fund vis-à-vis developing countries and would make it possible for the adjustment process to continue. Finally, regarding the size of the future allocation, the staff report provided a good basis for discussion, but he had also been impressed by Mr. Polak's statement.

Mr. Tvedt stated that he was impressed by Mr. Polak's interesting and thorough intervention, and that he had no difficulty in supporting most of his views. His constituency continued to support the view that there was a need for a moderate SDR allocation in the present basic period. The staff paper was convincing and supportive of that view, and he approved of the staff's listing of the circumstantial changes that had taken place since the previous discussion of SDR allocations. However, he continued to feel that considerable importance should be attached to the long-term needs and the considerations pertaining to the SDR's role as a reserve asset.

He agreed with the staff that SDR allocations at the present time would, in part, compensate for the reduction in the supply of borrowed reserves caused by the disturbances in the international financial markets, Mr. Tvedt went on. Developments in recent years had illustrated the vulnerability of the international reserve system. An allocation of SDRs would make a welcome, albeit limited, contribution to reducing that vulnerability.

The arguments that SDR allocations would rekindle international inflation and that increased unconditional liquidity would delay the adjustment process in member countries were less valid than previously, Mr. Tvedt considered. International inflationary pressure was low, perhaps even lower than had been expected. Furthermore, a large number of Fund members were participating in Fund-supported programs, which reduced the risk that SDR allocations would lead to postponement of necessary adjustment.

In order to enhance the relative importance of the SDR as a reserve asset, it would be necessary for SDR holdings to increase faster than other reserves, Mr. Tvedt remarked. An annual allocation of SDR 4 billion in the next two years--which would maintain the SDR share of total reserves--would represent a minimum figure for allocations. His authorities would, however, as part of a possible compromise, and in order to promote stability in the allocations, be willing to accept lower annual allocations if they were combined with an extension of the allocation period by either lengthening the fourth basic period or beginning the fifth basic period immediately.

Mr. Laske recalled that the Executive Board had discussed extensively considerations regarding SDR allocations at meetings held in August and September 1983. At that time, his chair had explained in detail the views of the German authorities; namely, that they would approach the question of a possible SDR allocation in the current basic period, and in future, with an open mind, but strictly on the basis of the provisions in the Articles of Agreement. They felt strongly that an allocation of SDRs could not be justified with arguments that had no solid basis in the Articles. Unfortunately, in SM/83/266, the staff once more used some arguments that were not fully reconcilable with the Articles of Agreement. The long-term global need was the sole criterion on which an allocation of SDRs could be based. Other criteria--for instance, changes in the composition of reserves, the unsatisfied demand for reserves on the part of groups of countries, the desire to make the SDR the principal reserve asset--could only be auxiliary arguments. Under the present Articles, such considerations were not relevant; they could only support a finding of a global need, not substitute for it.

The staff had approached the central issue of whether a long-term global need for an allocation existed by indicating ratios of nongold reserves to imports, trade imbalances, and external debt, Mr. Laske noted. Two of those indicators--ratios of nongold reserves to imports and to trade imbalances--attempted to gauge the need for reserves very narrowly defined. International reserves were used to finance deficits in the overall balance of payments and not partial deficits for trade or current transactions.

Table 2 of SM/83/266 indicated that the ratio of nongold reserves to imports had fluctuated within a relatively narrow range between 1974 and 1982 for all countries, as well as for the group of non-oil developing countries, Mr. Laske observed. The table further showed that the ratio had been larger in 1982 than in 1974. His authorities considered that it was not appropriate to draw the conclusion from the small variations observed in the ratio that a general shortage of international reserves had existed at the end of 1982. With regard to the ratio of reserves to trade imbalances, Table 2 illustrated high variability between 1970 and 1982 for all countries and for the group of non-oil developing countries. The ratio registered in 1982 was well within the range of variation observed over the past 13 years. Thus, it did not indicate a global inadequacy of international liquidity.

The information on the relationship between reserve holdings and external debt confirmed that highly indebted countries had suffered reserve losses when external developments had become less favorable, a fact that the Executive Directors had known for some time, Mr. Laske remarked. Countries that were more cautious in contracting foreign debt had fared better, their ratio of reserves to external debt not having deteriorated dramatically. His authorities did not believe, therefore, that the ratio of reserves to external debt could serve as an indicator of the adequacy of international liquidity. The decline in that ratio over the past three years indicated primarily that adjustment had been insufficient and overprotracted. In other words, the ratio between reserves and external debt did not constitute an appropriate indicator for determining that the monetary system was faced with a long-term global need to supplement existing reserves with SDRs.

More specifically, his authorities did not fully agree with the staff's interpretation of Article XVIII, Section 1(a), Mr. Laske continued. They did agree with the staff's third clarification that allocations should not be used for countercyclical purposes. They could also support the last clarification, with the qualification that the broad objectives defined by the staff could not in themselves provide a justification for allocating SDRs. Rather, those objectives were conditions that would also have to be met once the need to supplement existing reserves has been established.

His authorities had problems with the staff's differentiation between the need for reserves and the demand for reserves, Mr. Laske said. That differentiation, when used to prove a need in the absence of an unsatisfied demand, became difficult to comprehend. It was hardly possible to reconcile the staff's line of reasoning in favor of an allocation of SDRs with the relevant provisions in the Articles of Agreement. SDRs could be allocated to supplement existing reserve assets only when there was a general shortage of unconditional liquidity. He had always been skeptical about the notion that the possibility of supplying reserves from other sources or by other means did not stand in the way of an SDR allocation.

It was also difficult to support the staff's view that a change in the composition of reserves might justify an allocation of SDRs, Mr. Laske stated. There was no established standard for an optimum composition of reserves. The share of SDRs in total reserves was not a relevant consideration for the allocation of SDRs, based on the Articles of Agreement. The staff's reasoning for an allocation based on the need to avert a further decline in the ratio of SDRs relative to nongold reserves was also inappropriate. SDRs should be allocated to avoid a general shortage of reserves, but not to maintain some kind of minimum relationship between SDRs and nongold reserves; if that were the case, SDR allocations would have to increase proportionally to the growth of nongold reserves, which was almost a perverse proposition.

His authorities recognized the important contribution that SDRs could make toward the stability of the monetary system, Mr. Laske concluded. They believed that a prudent handling of the system and a well-considered decision on the allocation of additional SDRs--fully conforming with the Articles of Agreement--were essential to exploiting the full potential of the SDR as a monetary instrument. At the present time, a case could not be made for an allocation, but his authorities were fully prepared to keep the matter under constant review in close cooperation with Fund members and management.

Mr. Schneider commented that the staff paper stressed the main reasons justifying an allocation of SDRs in the fourth basic period. Nongold reserves had dropped to an extremely low level compared with most of the indicators, such as trade, payments imbalances, and debt. Had 1983 data been included in the tables of SM/83/266, the picture would have been even clearer, as the level of reserves had dropped significantly in the oil-exporting and non-oil developing countries during the past year.

The need for earned reserves, as opposed to borrowed resources, was obvious, given that countries were overindebted and could not improve their reserve positions, Mr. Schneider remarked. To accumulate reserves, those countries would have to maintain current account surpluses while avoiding capital flows. The staff had rightly argued that "the current account adjustment needed to achieve an accumulation of reserves would have to be larger than those ultimately required for attaining a viable balance of payments position, including the servicing of debt." Therefore, to deny that conditions were met for an allocation would be to imply that highly indebted countries would have to transfer resources to their creditor countries while maintaining a current account surplus. Indeed, reserve rebuilding and debt repayment could only be achieved by generating payments surpluses, which would require that austerity measures be maintained for a prolonged period. In view of the role played by the commercial banks in the present situation of high indebtedness, a certain burden-sharing among the international community, according to agreed criteria, did not seem out of line. Such burden-sharing would be achieved through an allocation, which would allow countries to earn reserves without transferring resources. An allocation of diminishing amounts over five years would indicate to countries that they could not continue to rely on SDRs for reserves accumulation and that they would have to continue their adjustment efforts.

The argument that an SDR allocation would increase inflationary pressures had been overstressed in the past, given the size of an eventual SDR allocation in relation to total international liquidity, Mr. Schneider commented. He was not sure why Directors should be concerned about the inflationary impact of an SDR allocation, when they were quite relaxed about the impact of other sources of international liquidity, which had outpaced SDR creation by far. Indeed, the share of SDRs in nongold reserves had steadily dropped from 10.2 percent in 1972 to 5.3 percent at end-October 1983.

The Executive Board had repeatedly discussed the issue of an SDR allocation, Mr. Schneider recalled. In February and September 1983, the Interim Committee had stressed that Executive Directors should consider the allocation of SDRs as a matter of priority. The Executive Board could not continue to tell the Interim Committee that it had not yet succeeded in gathering sufficient support for an allocation, without providing the reasons for such disagreement. If the present conditions did not warrant an allocation of SDRs, he failed to see what circumstances would warrant an allocation. The problem seemed to stem not so much from the conditions of an SDR allocation, as from the expected role of the SDR in the present international system. In that case, the Executive Board should look again at the basic issues and the role that the SDR should play in the international monetary system. Finally, on the possible magnitude of an allocation, he shared the approach outlined by Mr. Polak.

Mr. Lovato indicated that his authorities had not changed their position since the most recent discussion on an SDR allocation. They were convinced that world conditions justified a modest allocation of SDRs during the remainder of the fourth basic period. He shared the views expressed by the staff, particularly those referring to difficulties faced by many countries in making recourse to the international monetary markets and to the reasons why the SDR should still be considered a useful instrument in the international monetary system.

It was difficult to determine which variables were relevant in justifying the need for an SDR allocation, Mr. Lovato went on. However, he was disturbed by the change of climate in the international capital markets, which made it impossible for countries with balance of payments difficulties to have recourse to those markets. As international capital markets were closed, a higher level of reserves was necessary for countries needing to service their external debt. The ratios of nongold reserves to international trade and to international debt were particularly relevant to the argument. The ratio of nongold reserves to international trade had decreased since 1980, and the ratio of nongold reserves to international debt had declined markedly since the crisis of the financial market in 1981 and 1982.

He could understand some Directors' reluctance to support an allocation because of their fear of its potential inflationary effect, Mr. Lovato continued. His authorities did not attach less importance to that point. It was not easy to accept the inflationary potential of an SDR allocation; but there was no mechanical explanation of the inflationary process. Furthermore, the growth of economic activity was still well below the potential for a large majority of countries, so that a modest allocation could help to increase reserves without igniting inflation.

The Executive Board had to consider the role of the SDR as a principal reserve asset in the international monetary system, Mr. Lovato remarked. The share of SDRs in nongold reserves was continuing to decline; by accepting that trend, the Executive Board would be condemning the SDR to death. If the Board considered the SDR a useful reserve instrument, it ought to act accordingly. His impression was that the role of the SDR could be more important and the allocations more acceptable in the long run, if Directors were prepared to consider, and implement when necessary, the cancellation of the SDR as a reserve asset.

Mr. Shaw observed that the staff paper covered much of the same ground as the two previous papers considered by the Executive Board in August and September 1983, although some of the arguments had changed. The staff argued that an allocation would help to offset the reduced availability of foreign reserves associated with the disruptions in international capital markets during 1981 and 1982. That argument seemed to have little merit, as the ratio of reserves to merchandise imports had not been significantly lower at end-1982 than at end-1980, either for all countries or for two of the country groupings, the industrial countries and the non-oil developing countries. Morever, Table 1 of SM/83/266 showed that the reserves for all country groupings had risen in 1983 and had been 7.7 percent higher than a year earlier.

The staff's evaluation of the long-term global need for supplementing reserves centered on the prospects for increasing world trade and capital flows in 1982-86 and the heavy reliance on borrowed reserves, Mr. Shaw remarked. With the prospect of increased trade and capital flows, reserve accumulation appeared likely to continue in the remaining years of the fourth basic period. It was difficult to gauge how the level of reserves that countries found it appropriate to hold would be affected by uncertainties regarding developments in financial markets, such as availability of capital flows and the problems associated with servicing external debts. The international financial system had gone through a difficult period; in many respects the worst was over, and the outlook had become more positive, given the measures that had been taken to deal with the most serious problems.

Commenting on the staff's methodology in support of the long-term global need for reserve supplementation, Mr. Shaw said, first, that as countries might be able to use gold holdings or borrow against them, he was not sure that gold should be excluded from the calculations. Second, it was not clear whether any stable relationship between reserves and imports should be expected a priori. He noted in that regard that projections of reserve ratios--based on the ratio of imports to reserves in 1977-82--should take into account that interest rates over the early part of that period had been negative in real terms and that there had been large and unusual reserve accumulations in some OPEC countries. Furthermore, the fact that the U.S. current account deficit would be a potential source of international liquidity over the projected period was not well addressed in the paper. Third, he had some problems with the use of the ratio of reserves to trade balance as an indicator. As the staff recognized, the trade balance did not represent a balance on all external flows; it might indicate a need for adjustment rather than for increased reserves.

Regarding the impact of the reduced availability of bank credit in 1982/83 on adjustment in developing countries, Mr. Shaw commented that the special measures and programs developed multilaterally to deal with serious debt problems had limited the deflationary impact of disturbances in the financial system, although output in developing countries had declined substantially in 1983. An SDR allocation could help to moderate the adjustments in current account balances and to finance the needed replenishment of reserves imposed by the burden of debt servicing, but Fund-supported adjustment programs and other financial arrangements currently in place were the appropriate response to those situations. While he recognized the difficult adjustment burden, an SDR allocation of anything but modest proportions might risk jeopardizing the commitments undertaken. Further, there was the prospect of some increase in bank lending to non-oil developing countries in 1984.

Another liquidity criterion put forward by the staff was the evolution for world trade in light of the outlook for economic growth and inflation, Mr. Shaw recalled. The SDR value of world imports was projected to increase by 8 percent annually between 1982 and 1986. The current growth of reserves was therefore not out of line with expected reserve developments. Another systemic factor that could affect reserve needs would be a shift from a fixed to a floating exchange rate regime. There was no evidence to indicate that that shift might occur in the next few years. Indeed, a number of the large debtor countries had floating rather than pegged currencies at present, which might in fact reduce their reserve needs. The staff had not assumed a significant shift in the ratio of reserves to merchandise imports for 1986. Furthermore, access to capital markets for borrowed reserves could also be expected to influence reserve developments. If there were a reduced availability of resources from private capital markets, the current account adjustments required to achieve an accumulation of reserves might be larger than ultimately would be required for attaining a viable balance of payments position, including the servicing of external debt. Given the cost associated with such an approach in the light of the long-term need for reserves, caution must be exercised in recommending an appropriate strategy. A modest allocation of SDRs might prove beneficial in helping countries to adjust to the current difficult situation if the system as a whole were perceived to be threatened by overly rapid and extensive adjustment.

On the other side of the coin, the staff had included inappropriate liquidity criteria for an SDR allocation, Mr. Shaw considered. The distribution of reserves did not represent a legitimate concern in assessing the global need for reserves; the distribution would reflect the need for some members to pursue strong adjustment measures regardless of the average position. Similarly, relating reserve holdings to foreign liabilities did not provide an appropriate indicator of the need for reserves.

His authorities were willing to consider an SDR allocation on the basis of improving, or at least maintaining, the relative position of the SDR in nongold reserves, Mr. Shaw indicated. As the staff had noted, one possibility would be to resume allocation in the remaining two years of the fourth basic period at the same rate of allocation as in the last three years of the third basic period, so as to maintain the proportion of SDRs to nongold reserves at the end-1982 figure. His authorities also agreed with the need to enhance the role of the SDR, although it was unclear whether, by increasing the amount of SDRs, the Fund would enhance its role if the asset were not a desirable one. The staff could have usefully compared the attractiveness of the SDR with other reserve assets.

An SDR allocation at present would be less likely to engender inflationary pressures than it would have been a year previously, because of the success of many countries in bringing down their inflation rates and the large number of countries undertaking adjustment measures in conjunction with Fund programs, Mr. Shaw continued. However, even in countries where inflation had fallen, confidence that inflation was under control was still fragile; care must be taken to avoid any signals that might lead to strengthening of inflationary expectations. There was also some question as to the amount of international liquidity likely to be generated by the U.S. current account deficit. Furthermore, there was a simple correlation of 0.72 between the ratio of reserves to imports, lagged one year, and the pace of world inflation, as measured by a world GDP deflator.

In sum, while he had some problems with the arguments presented in the staff paper, he was prepared to go along with a modest allocation of no more than SDR 4 billion for two years, in order to enhance the role of the SDR, Mr. Shaw said. In light of future uncertainties--in particular, whether inflationary expectations would continue to abate, as well as the size and durability of the U.S. current account deficit, which would add to international liquidity--he would not be prepared to go along with a larger allocation or a longer allocation period. The justification for making a substantial allocation on liquidity grounds was not convincing, but the case for a modest allocation could be considered on the basis of strengthening the role of the SDR.

Mr. Kafka remarked that he broadly agreed with the staff papers. Furthermore, he could share the views expressed by Mr. Polak, except for those at the beginning of the statement reflecting the position of the Netherlands authorities. He agreed particularly with Mr. Polak's new arguments for an allocation of SDRs based on the present liquidity crisis. Unless liquidity were enhanced, countertrade would flourish, rather than multilateral trade. Additionally, inflationary pressures were lower than they had been for many years. There was no reason to delay further a reasonable allocation of SDRs in accordance with the precepts of the Articles of Agreement. While he would prefer a two-year allocation for the rest of the fourth basic period, the annual amount could be about SDR 9 billion, as suggested by Mr. Polak.

He could not agree with the claim that the composition of reserves had no relevance for the allocation of SDRs, based on the Articles of Agreement, Mr. Kafka commented. That claim was contradicted by the reference in the Articles to the aim of making the SDR the principal reserve asset. Furthermore, it could not be denied that the increased reliance on borrowed reserves demonstrated a general liquidity shortage according to the Articles of Agreement. Additionally, conclusions could not be drawn from the stability of certain ratios. He could see no dangers in deciding on an allocation in the next few years, but there were considerable dangers in delaying a decision further.

Mr. Malhotra stated that the staff had argued well the question of whether there was a long-term need for supplementing global reserves, based on the Articles of Agreement. In particular, the staff had noted, with regard to the long-term global need, that it was not necessary to consider the need for each and every member of the Fund. Obviously, there were members that could create their own liquidity. Global need should be looked at in the context of past and projected developments in world trade, payments, reserves, and other capital flows, as the staff had done.

He was surprised that some speakers had ignored the Fund's important role of supplementing international liquidity at a time when the world economic situation was difficult, Mr. Malhotra remarked. In the past three years, the Executive Board had addressed itself successfully to the issues of quota increases and the General Agreements to Borrow. It was appropriate at present to address the issue of a resumption of SDR allocations.

Whatever the size of the next allocation, it was unlikely to prove inflationary, Mr. Malhotra went on. It was difficult to judge or to quantify signals that would ignite inflationary expectations, but industrial countries were claiming that they had beaten inflation, that their economies were in a healthy state, and that they proposed to continue with existing policies in order to ensure that growth was sustainable. Given that the inflation situation had changed in several important economies having a major impact on the world economy, it was irrelevant to say that an allocation of SDRs would prove inflationary. As Mr. Schneider had stated, some Executive Directors were concerned only about the creation of liquidity through an SDR allocation, but were not concerned about liquidity created through other means. According to the Articles of Agreement, the long-term global need to supplement existing reserves was an important factor in deciding on an allocation of SDRs. Nevertheless, the Article enjoining that the SDR should become a principal reserve asset should not be forgotten. All the Articles were equally important, and due weight should be attached to all the relevant Articles having a bearing on SDR allocations.

In most cases, economic adjustment of countries was taking place through a severe contraction of imports, Mr. Malhotra observed. The Articles of Agreement, particularly Article I, were clear about the purposes and objectives of the Fund, one of which was to promote balanced and growing trade, and thereby to promote employment and development in member countries. Adjustment that centered too narrowly on import contraction did not represent a healthy development. An SDR allocation would be fully justified under the Articles of Agreement in order to encourage world trade.

Some Directors had stated that international debt problems were related to liquidity problems and had no bearing on a further allocation of SDRs, Mr. Malhotra recalled. That argument was difficult to comprehend; flows of trade and capital were relevant to the issue of an allocation. The Executive Board would be creating artificial barriers to a rational consideration of the issue as an entirety if it compartmentalized the need for liquidity, the need for servicing debt, and the need for additional reserves. A number of Directors had also suggested that the world recovery was fragile and might not be maintained. An SDR allocation would help to maintain recovery if that were the case.

Some Directors considered that it was incompatible with the Articles of Agreement to base an allocation of SDRs on the need for liquidity by a group of countries rather than by Fund members as a whole, Mr. Malhotra observed. That approach was not correct, in his view. At the most recent Executive Board discussion on new quotas and members' contribution to those quotas, it had been noted that about 85 countries would be unable to pay even their required 25 percent of quota in convertible assets. To say that the liquidity problems of that group of countries were irrelevant to an allocation of SDRs was not a practical or pragmatic way of helping the world economy.

In sum, a convincing case in the context of the Articles of Agreement had been made for resuming allocations of SDRs, Mr. Malhotra noted. It was time to reverse the progressive decline of the SDR as a proportion of global nongold reserves. After reaching a consensus on the need for an allocation of SDRs, the Executive Board could decide the precise amount of allocations. Mr. Polak had suggested an allocation of SDR 9 billion, and the Group of Twenty-Four has proposed an allocation of SDR 15 billion, as no allocation had been made during the past three years and only a limited time remained in the fourth basic period. Some Directors had suggested that a modest allocation should be made, but he was not sure what those Directors meant by "modest." To be meaningful, an allocation of SDRs would have to be substantial, given the period without an allocation and the difficult world economic situation. Furthermore, the SDR should be made a more important reserve asset than it had been so far.

Mr. Senior remarked that the staff paper provided overwhelming evidence of the need to resume an allocation of SDRs. Most of the previous speakers had pointed out the arguments in favor of an allocation of SDRs. The current world economic crisis was the result of successive shocks in the international monetary system. The existing system of reserve creation and liquidity distribution had been unable to prevent overexpansion of liquidity during most of the 1970s and excessive contraction during the 1980s, which tended to cause the kind of erratic oscillation that had characterized world financial developments in the past 15 years. Had the SDR been allowed to develop along the lines envisaged at its inception, most, if not all, of the external debt problems could have been prevented. A system in which the demand for international reserves had to be satisfied largely through borrowing led to periods of excessive growth of liquidity and price increases, followed by periods of severe contraction of credit, reserve holdings, and economic activity. Recent developments in the international economy had empirically validated the theoretical basis of the SDR system.

Given recent developments in the international economy, it was difficult to understand why the Executive Board was still discussing whether an allocation of SDRs was justified or not, rather than considering the appropriate amount of an allocation, Mr. Senior stated. His chair fully supported the role of the SDR as a principal reserve asset and the need to resume allocation of an amount that would command the necessary majority of Executive Directors.

Furthermore, there was an urgent need to resume allocations in order to save the existence of that reserve asset, Mr. Senior commented. The share of SDRs in nongold reserves had reached a dangerously low point, which might set in motion a vicious circle leading to the practical disappearance of the SDR. The lower the share of SDRs in nongold international reserves, the greater would be the amount of allocations necessary to restore its minimum role in the international financial system, and the greater the reluctance by those countries considering the inflationary potential of an allocation to accept an allocation. It was critical at present to resume an allocation, unless the Executive Board were willing to consider abolishing the SDR as a reserve asset.

The Executive Directors agreed to resume their discussion in the afternoon.

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/84/13 (1/23/84) and EBM/84/14 (1/25/84).

3. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors and an Advisor as set forth in EBAP/84/13 (1/20/84); and Supplement 1 (1/23/84) is approved.

APPROVED: July 2, 1984

LEO VAN HOUTVEN
Secretary