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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 84/12

10:00 a.m., January 23, 1984

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

Executive Directors	Alternate Executive Directors
	J. K. Orleans-Lindsay, Temporary
	H. G. Schneider
B. de Maulde	X. Blandin
A. Donoso	
R. D. Erb	M. K. Bush
M. Finaish	T. Alhaimus
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	A. Lindø
N. Wicks	T. A. Clark
Zhang Z.	Wang E.

L. Van Houtven, Secretary
K. S. Friedman, Assistant

Also Present

Administration Department: T. Cole, J. G. Keyes. African Department: O. B. Makalou, Deputy Director; F. d'A. Collings. European Department: L. A. Whittome, Director; T. R. Boote, E. O. C. Brehmer, P. C. Hole, H. B. Junz, J. Prust, J. T. Reitmaier. Exchange and Trade Relations Department: D. K. Palmer, Associate Director; W. A. Beveridge, Deputy Director; M. Allen, D. J. Donovan, H. W. Gerhard, M. Guitian, S. Kanesa-Thasan, C. Puckahtikom. External Relations Department: C. S. Gardner, Deputy Director; H. O. Hartmann. Legal Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy General Counsel; W. E. Holder, S. A. Silard. Research Department: W. C. Hood, Economic Counsellor and Director; A. D. Crockett, Deputy Director; R. R. Rhomberg, Deputy Director. Secretary's Department: J. W. Lang, Jr., Deputy Secretary; A. P. Bhagwat, G. Djeddaoui. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; D. Williams, Deputy Treasurer; D. S. Cutler, T. M. Tran. Bureau of Statistics: W. Dannemann, Director; J. B. McLenaghan. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: S. R. Abiad, H. A. Arias, C. J. Batliwalla, J. Delgadillo, S. El-Khouri, K. A. Hansen, S. M. Hassan, L. Ionescu, W. Moerke, G. E. L. Nguyen, Y. Okubo, P. Péterfalvy. Assistants to Executive Directors: R. L. Bernardo, J. Bulloch, L. E. J. M. Coene, I. Fridriksson, V. Govindarajan, A. K. Juusela, H. Kobayashi, M. J. Kooymans, J. A. K. Munthali, E. Portas, A. A. Scholten, Shao Z., S. Sornyanyontr, Wang C. Y., A. Yasseri.

1. ROMANIA - REVIEW UNDER STAND-BY ARRANGEMENT AND REQUEST FOR WAIVERS

The Executive Directors considered the staff report for the review under the three-year stand-by arrangement for Romania in the amount of SDR 1,102.5 million or 300 percent of quota and Romania's request for waivers (EBS/83/273, 12/23/83; and Sup. 1, 1/19/84).

Mr. Polak made the following statement:

The Executive Board's discussion today had to a large extent been prepared by that on September 14, 1983. While in a formal sense that meeting addressed itself to the 1983 Article IV consultation with Romania, much of the discussion was taken up by the formulation of guidelines for the impending negotiations between the staff and Romania about the remainder of the program for 1983. This discussion in the Board focused primarily on two aspects on which--in contrast to a number of other important aspects--no agreement had yet been reached: exchange rates and interest rates. The views of the Board on these matters, which guided the outcome of subsequent discussions between the staff and the Romanian authorities, deserve to be recalled from the Chairman's summing up (SUR/83/29, 9/22/83).

On exchange rates:

It was noted that the real effective exchange rate of the leu remained significantly appreciated relative to its level in early 1981. Although a few Directors were in favor of a more gradual approach to this problem, most Directors pointed out that the present lack of competitiveness, reflected in particular in the declining export shares of Romania, significantly hampered the export performance of that country, and that a further significant devaluation was in their view needed and would supplement the authorities' program to improve efficiency.

On interest rates:

Some Directors also believed that further increases in interest rates up to real positive levels were needed to ensure a better allocation of capital; other Directors took the view that in the Romanian circumstances present levels of lending rates are broadly adequate for that purpose, while interest rates are of little relevance to the level of savings.

It should further be recalled from that meeting that Directors regretted that so far full agreement had not yet been reached between the Fund and Romania and hoped for an early resolution of the remaining points of disagreement. As noted in the summing up:

> Most Directors agreed that in view of the prospective rise in debt repayments in the mid-1980s, a sustained adjustment effort was indispensable. In that context, Directors stressed the desirability of the continuation of the financial arrangement between the Fund and Romania and the need to reach new understandings on the occasion of the next review of the arrangement. The continuation of the dialogue between the staff and Romania to eliminate remaining differences on important policy issues was considered urgent in the view of some Directors.

Against this background, frequent contact was made between the staff and the Romanian authorities during the last quarter of 1983. Discussions held during the 1983 Annual Meeting did not succeed in bringing the parties much closer together. As a further step toward resolving the remaining differences, the staff conveyed to Romania on October 21, 1983 what it considered to be the minimum of policy actions needed to bring the stand-by arrangement back on track. These were as follows: on the exchange rate, a depreciation of 15 percent against the basket on January 1, 1984; on interest rates, increases of 2 percentage points in both average lending rates and enterprise deposit rates on January 1, 1984; on energy pricing, general commitment to increase energy prices in 1984 beyond the increase in the crude oil price already agreed for January 1, 1984; on costing of capital, reconfirmation of the agreement on the introduction of a capital charge on budgetary investment financing from January 1, 1984 and a shortening of depreciation schedules during 1984. If Romania had been able to give a positive response to these proposed actions in a very brief time, it would just have been possible to carry out the required staff discussions, prepare a staff paper, and have the discussion in the Board, before the end of 1983.

However, the first two of the proposed actions raised serious questions for the Romanian authorities. As regards the exchange rate, they had taken a number of major steps in the course of 1983, including the unification of the commercial rates, pegging to a basket of currencies instead of the U.S. dollar, and a devaluation of 14.3 percent for the commercial rate and 18.5 percent for the noncommercial rate. Against this background they felt--as mentioned in my statement of September 13, 1983--the need for a reasonable period of time during which to monitor the effects of all these changes before making further adjustments. On interest rates, the Romanian authorities shared the view of those Executive Directors who considered present levels of lending rates as broadly adequate.

Given this situation, it is perhaps not surprising that it took the Romanian authorities almost two months to accept the staff's proposals. Their agreement to these proposals is contained in subparagraphs a, b, c, and d of paragraph 1 of the letter of intent of December 20, 1983, which contain Romania's undertakings on the four issues on which the staff had requested policy actions, in line with the requests as quoted above.

With respect to the exchange rate discussions, two observations in the staff paper deserve some elucidation. First, I welcome the staff's statement on page 9 that the results of the real exchange rate calculation need to be interpreted with great caution; indeed, the Romanian authorities have considerable doubt as to the significance of the staff's calculations in the Romanian context. But while there is a large measure of uncertainty concerning the "correct" exchange rate, it does not follow from this that the present rate is insufficiently depreciated. Second, the staff correctly stresses on page 12 the importance of the effects of devaluation being passed on in consumer and producer prices, which they say "the authorities have agreed to do" (page 9); the fact is, this has been Romanian practice since 1981. The staff states that "this is especially important in the centrally planned Romanian economy, where no market mechanism exists to assure that these effects are passed on automatically." I would observe that in Romania importing firms, which do not have access to government subsidies, have no other option than to pass any price increases on to the producing units using these imports. These units may, of course, try to offset the higher costs by improvements in productivity, reduced use of imported materials, or some decline in profit margins; beyond that, they have to raise prices to cover costs. In short, these producing units would not seem to respond to higher prices of imported components in any other way than is done by firms in a market economy, which also do not pass on cost increases automatically.

With reference to export developments, the Romanian authorities stress that the decline in non-oil exports to the convertible area from 1982 to 1983 was mostly determined by two factors: further depreciation of the Western European currencies against the U.S. dollar, which diminished the total value of exports in dollar terms by about 3 percent; and a deterioration of export prices for some major products--meat and meat by-products, steel products, building materials, paper, etc.--with a negative impact on the total value of exports by 4.4 percent.

Neither of these two factors played a role in exports to the nonconvertible area, which declined only marginally. The resulting slight decline in the share of non-oil exports going to the convertible currency area is thus not the result of any policy change. It remains the firm intention of the Romanian authorities to expand their trade with all countries. They also attach equal importance to increases in exports and to larger imports, as needed, as a basis for a sustainable economic growth.

The delay in the negotiations made it impossible to establish performance criteria for 1984, which, under paragraph 3(c) of the March 30, 1983 decision, are a requirement for any purchases to be made after December 31, 1983. The staff accordingly recommends a waiver of this provision. The staff has balanced this recommendation with a suggestion that Romania forgo its access to SDR 285 million scheduled to become available in the first half of 1984. Time clearly does not permit adequate discussion of a program for 1984 as a basis for Romania's drawing this amount before the middle of the year. In the circumstances, it would have been the preference of the Romanian authorities to renegotiate this part of the present stand-by arrangement so as to stretch it out over the year 1984 as a whole. In the light of existing Fund practices, however, they have accepted a different approach, under which the stand-by arrangement is to be canceled on January 31, 1984. It is their intention, however, to continue their cooperation with the Fund by means of a new one-year stand-by arrangement, which, it is expected, may be in place sometime after June 1, 1984.

I recommend that Executive Directors agree to the decision under which the amount of SDR 183.6 million is released and the stand-by arrangement canceled as of January 31, 1984.

Mr. Zhang recalled that the Executive Board had held an extensive discussion on recent developments in Romania at EBM/83/140 (9/14/83). The staff had explained that it had discussed with the authorities the minimum policy actions that would be needed to bring the stand-by arrangement back on track. The authorities' views had diverged somewhat from the staff's, but they were realistic and reasonable in the context of actual developments and the Government's policy orientation. In the end, however, the authorities had decided to accept the staff's approach in order to enable Romania to draw the remaining two purchases scheduled for 1983. Accordingly, the authorities had introduced policy measures covering the exchange rate, interest rates, energy pricing, and the costing of capital, all of which would have important implications for the economy in coming years.

In the exchange rate area, Mr. Zhang continued, the authorities had devalued the leu by a further 15 percent, bringing the total depreciation in 1983 to more than 30 percent. In arguing in favor of a further devaluation, the staff had stated in EBS/83/273 that during the previous several years the Government's policies had contributed to a major turnaround in the convertible current account, but that more needed to be done because of the continued decline in non-oil exports and the associated shift in the adjustment burden to unduly heavy import restraint, which had adversely affected economic growth. The staff believed that a further devaluation would help to reverse the decline in non-oil exports and increase Romania's export market shares, and that, for the devaluation to be effective, its effects on the prices of imports from the convertible area should be fully and immediately passed on to domestic consumer and producer prices as a financial incentive to exporters to the convertible area. The staff had stressed the importance of such actions in a centrally planned economy, which did not have market mechanisms to ensure that the effects of the devaluation would be automatically passed on.

The staff's conclusions with respect to the need for a further devaluation, Mr. Zhang commented, reflected its underestimation of the impact of market conditions in the convertible area on Romania's export possibilities to that area. Romania's export problems had clearly been due largely to weak demand, intensified foreign competition, and restrictive measures in the country's export markets. Given those conditions, the authorities had had no choice but to impose import restraints in order to support the convertible balance of payments, and, in the absence of additional evidence, the restraints should not be considered to have been unduly severe. Moreover, the belief that a further devaluation would reverse the decline in non-oil exports and in Romania's export market shares could be justified only on the basis of evidence that Romania's export prices had been excessive and, even more important, that the demand for the country's exports was price elastic.

The staff had concluded, Mr. Zhang continued, that the proposed devaluation of the commercial exchange rate was appropriate because it would offset the appreciation of the real effective exchange rate that had occurred since the major exchange rate realignment at the beginning of 1981. However, on page 9 it was stated that "the results of the real effective rate calculations need to be interpreted with great caution because of limitations on the reliability of the data and some doubt about the relevance of the analytical techniques themselves." A further discussion in the paper on the limitations and doubts would have been useful. The same questions that he had raised during the previous discussion on Romania could be posed again. Was the present depreciated exchange rate thought to be the correct one? If so, what factors had been taken into account in concluding that the rate was correct?

In Table 6 on page 20 of EBS/83/273, Mr. Zhang noted, the staff had shown the extent of the appreciation of the real effective exchange rate before the devaluation. Were the calculations still thought to be accurate? After all, the increase in the cost of living and in the wholesale price index during the period concerned had been strongly influenced by rises in food items that were not exported. What were the elasticities of demand for Romanian exports to the convertible area markets? What changes in the quantities and prices of major commodities and commodity groups in those markets had taken place in recent years? Had the staff made those calculations before recommending the devaluation? It would also be useful to know the extent to which the recession and protection in the convertible currency area had adversely affected Romania's exports in the previous several years. Were those effects more important than the price effect, or less? He wondered whether the rise in domestic prices resulting from the devaluation would be used as a justification for further devaluations in the coming period.

In pressing for the effects of the devaluation on import prices to be fully and immediately passed on to domestic consumer producer prices, Mr. Zhang remarked, the staff was disregarding the difficult and time-consuming process of fundamental changes in the price structure that would have social and political consequences as well as economic ones. In any event, it was incorrect to assume that the ability to pass on to domestic prices the effects of a devaluation on import prices was unique to market-oriented economies. In fact, the existence of monopolistic practices in market economies meant that the full passing on of the effects was more likely to happen in theory than in practice.

He was surprised, Mr. Zhang said, that the staff's recommendations on the costing of capital had included such fine details as the depreciation periods for machinery and equipment in individual industries. Was the establishment of performance criteria for various microeconomic variables in a centrally planned economy consistent with Fund policy? In the light of previous discussions on Romania, it was difficult to avoid the impression that the Fund had been pushing the country too hard and had been taking views on nearly every aspect of the operation of the economy. In interest rates and energy pricing, the authorities had gone a long way to meet the Fund's demand for structural reform.

The staff had noted that for practical reasons the present stand-by arrangement was to be canceled on January 31, 1984, Mr. Zhang remarked. The authorities intended to request a new stand-by arrangement to take effect on June 1, 1984. They had successfully implemented the adjustment program under the current stand-by arrangement, which had included a number of stringent performance criteria. Their most notable achievement was the turnaround in the convertible currency position. However, the authorities had also made important structural reforms to ensure more efficient economic management and steady economic growth. Experience suggested that the reform measures would inevitably take time to be put firmly in place, and that their effects would be mainly long term and could not always be seen and assessed in the near future. There should be a reasonable period in which those effects could be monitored and properly evaluated before any additional structural reforms were introduced. Those views should be taken into account in the negotiations on the new stand-by arrangement for Romania. As he had stated on previous occasions, the Fund should not ask a country to do more, simply because it had succeeded in doing a great deal. An agreement on a new stand-by arrangement had been reached in principle between the Fund and the Hungarian authorities. The same approach and program orientation should be used for Romania.

Mr. Senior said that he fully accepted the proposed decision, which would permit Romania to make the remaining two purchases scheduled for 1983. During the previous two years, the authorities had maintained strict financial policies that had led to a turnaround in the convertible current account and to compliance with all the performance criteria except the one for reserves; since the noncompliance with the reserve target had been caused by Romania's inability to make the scheduled drawings, the relevant waiver was acceptable. Indeed, the delay in the final drawings for 1983 was in effect a formality, as understandings on the outstanding issues had already been reached in December 1983. Paragraph 3(c) of the decision approved in March 1983, stipulating that no purchases could be made after December 31, 1983 without the establishment of performance criteria for 1984, was intended to refer to the establishment of new targets and quantitative criteria for the 1984 program and was not a means to review the performance under the 1983 program before the final scheduled purchases for 1983 could be made. Hence, the proposed waiver of paragraph 3(c) was fully acceptable.

As Mr. Polak had stressed in his opening statement, Mr. Senior remarked, the Board discussion on Romania in September 1983 was in effect substantial preparation for the present discussion. Since then, the Government had adopted an important package of measures that was sufficient for approval of a new program for 1984. It was not completely clear to him why the present arrangement was to be canceled on January 31, 1984. The measures that had been adopted on the exchange rate, interest rates, energy, and the costing of capital would, in normal circumstances, have been sufficient for reaching an agreement on a new set of performance criteria for the remaining period of the current arrangement.

On previous occasions, Mr. Senior recalled, he had noted the difficulties in making policy recommendations for centrally planned economies. He fully understood the authorities' decision to take more time to study the effect of the recommended structural price reform measures. They would go much of the way toward modifying the basic structure of the domestic economy, as they significantly departed from the usual model for centrally planned economies. It would perhaps have been better to keep the present stand-by arrangement in effect until June 14, 1984 on the basis of the significant measures that the authorities had already adopted, instead of canceling the arrangement prematurely, which might send the wrong signal to markets. Retaining the present arrangement would have permitted the authorities to introduce major structural reforms under a program that would have been introduced no sooner than June 1, 1984. The same approach had been used in continuing the program for Hungary and would have given the Romanian authorities additional time to consider basic reforms without introducing elements of discontinuity and uncertainty.

That approach would also have been consistent with the staff conclusion, on page 12 of EBS/83/273, that the package of measures adopted by the authorities represented a significant effort toward achieving a viable balance of payments position.

The staff's comments on the relationship between imports and output in general, and industrial performance in particular, were especially interesting to his authorities, Mr. Senior remarked. He fully agreed with the staff that there appeared to be no room to compress imports further without placing severe strain on the economy, and that it was therefore of crucial importance to increase exports. He had maintained from the outset that an excessive share of the adjustment burden had been placed on imports in order to achieve a marked improvement in the current convertible account. However, countries with severe scarcities of foreign exchange probably could not make important changes in the relationship between imports and output in the short run; that relationship was usually stable in normal circumstances. But the experience of several member countries suggested that, in crises, there were strong reasons to favor a much more rational use of scarce imported inputs and the replacement of those inputs by domestically produced items, even at the cost of a decline in output. The authorities maintained that the relationship between input and output had changed during the previous two years; in his view, a further study of the phenomenon was warranted.

He looked forward to further comments on the relevance of real interest rates in the particular circumstances of Romania, Mr. Senior said. The staff had indicated that the main lending rates were already positive in real terms, even taking into account that the present rate of inflation reflected price adjustments caused by the measures that had been adopted under the adjustment program. The present rate of inflation was well above the normal rate for Romania and would not necessarily continue in coming years. Hence, the present lending rates seemed adequate. Deposit rates, on the other hand, still seemed somewhat negative in real terms, but he doubted whether they would have an important effect on the level of savings in Romania. It had often been said about Romania and other centrally planned economies that, given the relatively few options for investing savings, interest rates had little to do with the level of savings. What did the staff feel was the most appropriate interest rate policy for Romania?

Mr. Leonard remarked that the authorities' policy stance of the previous several years, characterized by significant demand restraint, had resulted in acceptable progress under the stand-by arrangement, despite the continued weaknesses in the economy. The authorities had succeeded in turning around the convertible current account balance and had ensured that, at least in the short run, the foreign debt situation would remain under control. Given those developments and the measures that had been implemented following the completion of the four policy studies carried out in 1982, the proposed decision was acceptable.

Nevertheless, Mr. Leonard continued, there were two main causes for concern: the data base was not sufficient to provide certainty about what was happening in the economy, and, similarly, the extent of the likely progress of the economy in the coming period was uncertain. He agreed with the staff that, in the light of the available data, the estimate of a 3 percent growth rate in real GNP for 1983 seemed on the high side. The fact that only preliminary data for the final quarter of 1983 were available could perhaps pose technical or procedural problems. In the past, the lag between the availability of information on the meeting of performance criteria, and the making of drawings related to those performance criteria, had usually been six weeks. Might it be necessary to amend the proposed decision to permit a delay in the cancellation of the current stand-by arrangement in the event of information lags? As he understood it, drawings could not be made under a canceled program. In any event, the staff should circulate a report summarizing Romania's performance in the fourth quarter of 1983.

Commenting on the prospects for the economy, Mr. Leonard said that, while he accepted the current program, he was worried that maintaining the present policy course might not enable Romania to attain a sustainable external position in the medium term. In the past, inadequate structural reform measures had led to the need for import cuts that had placed serious strains on the domestic economy in general, and had hindered export production in particular. Without additional measures to eliminate the structural rigidities, the authorities might face pressures for further curtailment of imports in coming years.

The goal of a 7 percent increase in real growth in 1984 probably could not be reached without adversely affecting Romania's external position, Mr. Leonard commented. If such adverse effects were to be avoided, the performance of non-oil exports would have to improve. That non-oil exports had declined by 9 percent in 1983, instead of rising 2 percent as expected, was worrying; and the decline might have been even greater than 9 percent, as the staff had suggested on page 3. Non-oil exports were expected to rise by 9 percent in 1984, although much would depend on the extent to which the recent devaluation of the leu enabled Romania to halt the decline in its export market shares. The devaluation might well have a positive impact if the authorities permitted its effects to be passed through to the domestic economy; there was some question whether Romanian industry had yet reached the stage at which it could take full advantage of the opportunities afforded by the devaluation.

It was also worrying to note, Mr. Leonard went on, that the 1983 convertible current account surplus of $870 million had been achieved largely by a second consecutive year of severely curtailed imports, rather than by the expected expansion of exports. As the staff had remarked on page 11 of EBS/83/273, the compression of imports had undoubtedly had a negative effect on growth, including export growth. It was unlikely that Romania would reach its original export target for 1985, or that increasing convertible current account surpluses would be achieved in the period 1986-88. Vigorous policy action was needed to achieve the desired outcome, and he fully supported the staff's effort to convince the authorities to introduce a realistic and unified exchange rate, to continue introducing reforms and adjusting prices--including the cost of capital--and, in particular, to raise energy prices to bring them more into line with world prices.

Romania continued to use countertrade as a marketing device for its exports, Mr. Leonard noted. That technique might yield some short-term benefits, but it would undoubtedly hurt Romania's export potential in the longer run by preventing the possibility of follow-up business. The staff might wish to address the countertrade issue during future consultations.

He attached particular importance to price reform, Mr. Leonard continued, and he regretted that the present program would be canceled without the achievement of that major goal. The stand-by arrangement provided that "a major element of the program is exchange and price reform, which should be pervasive in its effects and lead to an improvement in efficiency of both planning and foreign practices of enterprises." Progress had been made in the exchange rate area, and significant changes had been made in important relative prices, but progress on structural price reform, which had been promised for two and a half years, had been limited. The staff could usefully comment further on the areas where progress had been made and where it had been impossible to reach agreement on the introduction of measures. The information would enable Executive Directors to determine whether evidence of substantial price reform should be a precondition for the use of Fund resources under future arrangements with Romania. It would also be useful to know about the progress of the study that the authorities had undertaken on the effect of structural price reforms. Did the authorities expect to be able to implement measures in that area under the new stand-by arrangement that was to be introduced in mid-1984?

The present staff paper did not include a table summarizing Romania's external financing and debt outlook through 1988 or 1989, Mr. Leonard noted. Such figures had been provided in Table 8 of SM/83/173, which clearly showed that a debt service bulge would reappear in 1987 and 1988, as the debt payments rescheduled in 1982 and 1983 began to fall due. An updated version of the table would be useful in the examination of a request by Romania for a new stand-by arrangement. Most of the medium-term lending to Romania from sources other than the World Bank was related to the reactor project. Canada was becoming Romania's largest creditor other than the World Bank.

Mr. Wicks endorsed the staff appraisal, and particularly the judgment that the policy measures taken thus far, although welcome, were only a first step toward reaching a viable balance of payments position; there was still no assurance that a viable position would be reached. Still, the authorities were to be commended on having met the performance criteria.

That the non-oil convertible current account surplus in 1983 was significantly smaller than the authorities had expected was a cause for some concern, Mr. Wicks remarked. Equally worrying was that the improvement in the convertible currency trade balance had been achieved only by a sharp cut in non-oil imports. Those developments suggested that the achievement of meeting the performance criteria had not been matched by progress in making structural reforms. He agreed with the staff that Romania ran the risk of slipping into a vicious circle in which declining exports led to corresponding falls in imports, thereby worsening the supply constraints in the domestic economy.

He had some difficulty with the proposed waivers, Mr. Wicks went on. Apparently there had been some delay in reaching an agreement on the various reviews; he doubted whether it had been caused by the staff. However, as the performance criteria had been observed, he could go along with the proposed waivers, with some reservations. The waivers would permit Romania to catch up on the drawings that had been scheduled for the final months of 1983, but the Board's acceptance of the waivers should not set a precedent for future cases.

It would be important, Mr. Wicks considered, for any future Fund-supported program for Romania to be designed and implemented in a medium-term context. In particular, the envisaged adjustment must be adequate to enable Romania to meet its debt obligations in 1985 and beyond without recourse to further reschedulings and other forms of official and private assistance. In practice, meeting that objective would mean that Romania's adjustment efforts should be concentrated on structural reform in the four policy areas that had been the subject of joint studies under the 1983 program. It would be essential to build on the recently adopted measures and to avoid losing the momentum of adjustment that had been built up.

It would be particularly important for the authorities and the staff to keep the level of the exchange rates and real interest rates under constant scrutiny, Mr. Wicks went on. The recent devaluation of the commercial rate had been welcome but overdue. The delay in its implementation had had damaging consequences for non-oil exports to the convertible currency area. He hoped that the fact that the devaluation had excluded the noncommercial rate did not imply a weakening of the authorities' commitment to unifying the exchange rate in July 1984. It would be essential for the full effects of the devaluation to be passed on to domestic prices, in order to ensure both a reversal of the recent downward trend in non-oil exports and an increase in the imported inputs essential for Romania's export industries.

He was not convinced, Mr. Wicks said, that a new Fund-supported program for Romania beginning later in 1984 would prove feasible. A deeper and more sustained commitment was needed to the kind and degree of adjustment necessary to produce a viable economy able to foster confidence among creditors and to generate the surpluses needed to finance Romania's foreign capital needs. The staff should not put forward a new program unless Romania had by that time taken further substantive action along the lines indicated in the staff appraisal. Particular importance should be attached to the unification of the commercial and noncommercial exchange rates, which had been intended to occur in January 1984. Moreover, the amount of Fund support for any new program should reflect any likelihood that Romania might need further Fund assistance in the late 1980s.

It was important to stress to the authorities the desirability of providing credible data to the Fund in order to facilitate accurate analysis, Mr. Wicks commented. The staff report suggested that there had been several areas in which the provision of data had raised, to say the least, a number of questions. The World Bank had set a good example in requiring the improvement of debt reporting and the provision of information on the investment program as prerequisites for the resumption of its lending.

Mr. Erb said that he agreed with the staff that the actions taken by the authorities were sufficient to enable Romania to make the remaining drawings scheduled for 1983, but he would have preferred more timely and significant adjustments in the areas encompassed by the review. His willingness to go along with purchases scheduled for the second half of 1983 was also based on his assumption that Romania had achieved, with an acceptable degree of certainty, a sustainable balance of payments position for the period beyond 1983. He would have difficulty in accepting the remaining purchases for 1983 if the staff were not reasonably confident that Romania had achieved a sustainable balance of payments position, or was likely to do so in 1984, on the basis of current policies.

He could go along with the proposed waivers, Mr. Erb went on, but only with difficulty and only on the grounds that the reserve target would have been met if the drawings had been made as originally scheduled and because there had not been sufficient time after the conclusion of the negotiations with Romania for the Executive Board to complete its review before the end of 1983. That the authorities had taken so long to reach an agreement with the Fund on the policy steps that were in Romania's best interests was disappointing.

Between 1980 and 1983, Mr. Erb noted, there had been a strong turnaround in the convertible current account balance, from a deficit of $2.4 billion to a surplus estimated at nearly $1 billion. Similarly, the overall external balance had improved from a deficit of $200 million and $1.4 billion in 1980 and 1981, respectively, to a small estimated surplus in 1983. Although Romania apparently had achieved a sustainable balance of payments position, the sustainability was less clearly established than he would have hoped. As the staff had noted, the reduction of the deficits had depended rather heavily on the compression of imports rather than on export growth. Such a pattern of adjustment did not seem conducive to a durable improvement of the balance of payments when economic recovery was better established. In addition, more comprehensive reforms in the four priority areas would have helped to create stronger incentives for export growth, energy conservation, the mobilization of savings, and the more efficient use of capital. Such steps would probably have permitted a higher domestic growth rate and would have helped to restore foreign financial support and net capital inflows.

Still, substantial progress had been made in each of the priority areas since the previous discussion on Romania, Mr. Erb observed; the change in the arrangements for pegging the leu, the 15 percent devaluation of the commercial rate, the commitment to adjust the rate to maintain at least the January 1984 level, the anticipated full passthrough of the effects of the devaluation, and the increase in export targets in the economic plan were positive steps. However, unification of the exchange rates had not been achieved, the authorities had not reaffirmed their commitment to unifying the rates by July 1984, and the 15 percent devaluation of the commercial rate might not be sufficient to ensure competitiveness. Indeed, Romania's loss of market shares in 1982 and 1983 was disturbing evidence that export problems would continue unless further modifications in the exchange rate were made.

Regarding interest rates, the 2 percentage point increase in both the "normal" bank lending rate and the deposit rates for enterprises, and the decision to keep interest rates under review were welcome, Mr. Erb said, but he doubted whether the degree of adjustment was sufficient. If the 1984 inflation forecast of 5-7 percent were correct, bank lending rates would be either near zero or slightly positive in real terms, but deposit rates would not be. The staff had expressed doubts whether the inflation indices used to calculate real rates fully reflected the extent of the inflationary pressures, thereby adding to the uncertainty about the adequacy of both the interest rate increases and the exchange rate devaluation.

On the other hand, Mr. Erb remarked, the changes in the costing of capital--particularly the introduction of a charge on budgetary financing for new investment, and the shortened depreciation period--were encouraging signs that the authorities recognized the need to value the cost of capital correctly in order to ensure efficient resource allocation.

Energy price adjustments were also in the right direction, Mr. Erb continued, but only very gradually so. The increase in crude oil prices was welcome, but the prices were still below world levels; the failure to raise gas prices was a cause for concern. Was the staff worried that the continued large subsidies on oil and gas might lead to retaliatory measures against Romania's energy-intensive exports?

Since Romania had achieved a substantial turnaround in its balance of payments, the decision to terminate the current program was acceptable, Mr. Erb commented. Nevertheless, the authorities should be expected to continue improving the efficiency of the economy through reforms affecting imports, prices, and other areas, not only because it would be in their best interests to do so, but also because it would improve the economic position without undue strain and would reduce the likelihood of future financing problems and the need to use Fund resources.

His authorities intended to scrutinize closely Romania's economic performance, in order to determine whether the authorities were continuing the reform effort and to confirm that there had not been a reversal, Mr. Erb noted. Given Romania's past use of Fund resources and the uncertainty about the sustainability of its present balance of payments position, the Fund should remain in close consultation with the authorities, and the Managing Director should report to the Executive Board if the staff noted major problems developing.

If the economy faced problems in the near future and the authorities sought additional access to Fund resources, his response would be based in part on the performance of the authorities and the economic policies that had been adopted in the interim period, Mr. Erb concluded. He would have great difficulty in supporting further Fund financing for Romania to support additional adjustment unless the adjustment clearly reflected an immediate but temporary financing need and was required to assure a sustainable balance of payments position over the longer run. Many of the recommended reforms were clearly in Romania's best interests, as they were likely to have a favorable effect on the economy's growth and balance of payments prospects. Finally, he agreed with Executive Directors who had underscored the importance of providing adequate information on a timely basis to both the Fund and international financial markets.

Mr. Schneider said that he could go along with the staff appraisal, in which it was proposed that Romania should be permitted to make the remaining purchases scheduled for 1983. Although he agreed with the proposed decision, he wished to comment on the program that was to be canceled on January 31, 1984 and on the approach for a possible new stand-by arrangement.

Romania had met all the quantitative performance criteria for the second and third quarters of 1983, Mr. Schneider noted. It had met all the criteria for the final quarter of the year except the increase in gross international reserves, which the authorities had been unable to meet because of the delay in the final purchases scheduled for 1983. The delay was traceable to the lengthy negotiations between the staff and the authorities on further measures, particularly dealing with the exchange rate and interest rates. Apparently it had taken some time for the authorities to be convinced by the staff of the need for further policy action.

Commenting on the present stabilization program, Mr. Schneider said that Romania had obviously made progress, as evidenced by the turnaround in the convertible current account. However, the decline in non-oil exports had continued, and the improvement in the convertible current account balance, especially in 1983, had been due entirely to the artificially low level of imports, which, as the staff had concluded, must have severely strained the economy.

While the additional economic policy measures that the authorities had introduced at the beginning of 1984 were welcome, Mr. Schneider continued, the current situation suggested that the whole approach to the problems facing the economy should be reconsidered by the authorities and the staff in order to develop a fundamental stabilization program that could eventually lead to a viable balance of payments position and sustainable growth. To that end, a basic reorientation of the authorities' economic policies seemed to be called for. Meanwhile, he could go along with the proposed decision, even though it introduced a degree of retroactivity with respect to the fulfillment of the performance criteria.

Mr. Lovato stated that he could accept the proposed decision, as an understanding had been reached on the need for significant adjustment in the exchange rate, interest rates, the costing of capital, and energy pricing. Most of the performance criteria had been met, and Romania was maintaining a policy stance designed to increase the efficiency of resource allocation in line with the recommendations of a World Bank mission. The overall investment pattern, including the deceleration of the growth of some sectors with relatively limited energy-intensive production, seemed appropriate, but the imbalances in the overall external position had still not been sufficiently addressed and were a cause for concern.

Non-oil exports had declined in 1983 by at least 9 percent, instead of increasing by 2 percent as expected, and imports had continued to plummet, Mr. Lovato continued. The authorities had understandably tried to increase import substitution and to reorient the structure of demand and output toward less import-intensive industries, but he wondered how far such policies could be taken without undermining output and, therefore, the potential for increasing exports. It was clear that Romania's exports suffered to some extent from weak world demand, as the authorities believed, but they had also suffered to some extent from insufficient progress in increasing competitiveness. The improvement in the trade balance had been due mainly to import restraint. Improving the competitive position and increasing exports were key factors in the effort to achieve the balance of payments objectives and to ensure that reserves would be sufficient to cover the external debt. He agreed with the staff that the measures recently adopted the authorities should help to achieve the established targets.

However, Mr. Lovato went on, he was worried that the level of the exchange rate might be incorrect. As the staff had noted, the relevant data were not fully reliable, and there was some doubt about the analytical techniques used to measure the exchange rate. In any event, more emphasis should be given to the need to increase productivity in the medium run.

In principle, Mr. Lovato remarked, real interest rates in Romania should be positive, and the authorities' decision to increase the rates, review them closely, and maintain a flexible attitude toward them was welcome. Did the staff feel that it was reasonable to expect that an increase in the bank lending rate would in fact have any effect on credit demand in a centrally planned economy, where changes in the volume of credit were not a factor of the price of credit? Finally, the authorities should continue their effort to achieve a viable convertible current account position, and he assumed that they would unify the exchange rates on July 1, 1984.

Mr. Grosche considered that Romania was a particularly difficult case. It had taken the authorities some time to act in the areas on which agreement had been reached. His authorities were concerned about the delay in implementing measures in Romania and about the failure of the Government to come to grips with the adjustment program for 1984.

Still, Mr. Grosche said, he could go along with the staff proposal for two reasons. First, the package of measures that had been introduced on January 1, 1984 represented a significant effort toward achieving a viable balance of payments position and reflected the views expressed by the Executive Directors during the previous discussion on Romania. The 15 percent devaluation of the exchange rate should help to reverse the decline in non-oil exports to the convertible currency area, although the reserve and external debt position and the export performance clearly suggested that more could and should have been done in those areas. Moreover, it was regrettable that the devaluation of the commercial exchange rate had not been accompanied by a devaluation of the noncommercial rate, and he fully agreed with the staff that it was important for the authorities to fulfill their commitment to unify the rates by no later than July 1984.

The second reason for accepting the proposed decision had to do with the particular circumstances in Romania, Mr. Grosche went on. It was difficult to design a Fund-supported program for a centrally planned economy. The staff and the authorities had to go through a learning process, and any new arrangement should reflect the experience of both groups. Under any follow-up program for Romania--and, indeed, for any arrangement with a member country--it would be of the greatest importance to avoid any delay in the implementation of needed adjustment measures. Moreover, a new program for Romania should be negotiated only after the obligations of the authorities under the current stand-by arrangement, particularly the unification of the exchange rate, had been fulfilled. Finally, any new program for Romania should center on further structural reform, especially on fundamental reform of the price system.

Mr. Malhotra stated that the proposed decision was acceptable. The authorities had already adopted several measures regarding the exchange rate and interest rates, and had succeeded in turning around the convertible current account.

During the previous discussion on Romania, Mr. Malhotra recalled, he had expressed some reservations about the staff's views on exchange rate and interest rate policies. In the light of the uncertainties mentioned by the staff and Mr. Polak about the appropriateness of the exchange rate, it was essential to approach that matter with caution. As for interest rates, the real lending rates apparently were positive. Interest rates on deposits seemed to be negative in real terms at present, but, like some previous speakers, he doubted whether these rates were of great importance in Romania.

He had hoped that the present stand-by arrangement would be continued, Mr. Malhotra said. However, as it had been decided that the present arrangement was to be terminated and a new one negotiated, he hoped that the latter would be in place as soon as possible.

The staff representative from the European Department remarked that the authorities thought that the calculations of the real effective exchange rate for Romania were useful. In the staff's view, the main limitation on the usefulness of such calculations for Romania, as explained in the staff report, was that prices were set below market-clearing levels, and the degree of overvaluation was not always clear. If prices were liberalized in Romania, the amount of the overvaluation would increase. The existing measure of the real effective exchange rate therefore probably erred on the side of too little overvaluation, rather than too much. While it was true that the fall in exports in the past two years had been caused partly by weak foreign demand and protection abroad, it had been much sharper than the decline in markets. In view of the large loss of market shares and the overvaluation of the leu, the staff had had no choice but to recommend a further devaluation. In fact, the staff had favored a larger devaluation than the 15 percent that had finally been agreed, and, if possible, at an earlier time. According to the February 1983 letter of intent, the devaluation was to have taken place in October 1983.

The lack of the necessary data made it impossible to make elasticity calculations, the staff representative explained. The authorities had not provided data on volume and unit values for total exports and major export categories. In posing a question on elasticity calculations, Mr. Zhang might have hoped to learn more about Romania's capacity to expand exports in its markets, which were frequently governed by bilateral trade agreements. The authorities had told the staff that they intended to expand the volume of exports under such agreements.

The staff had not maintained, the staff representative continued, that the full effects of a devaluation were passed through automatically in a market-oriented economy but not in a centrally planned economy like Romania. However, there was some specific evidence that the effects of the devaluation in Romania were passed on to only a small degree. For instance, the official forecast for the rate of inflation in 1984 of 1 percent had not changed despite the agreement on the introduction of new structural price reform measures on January 1, 1984. The authorities had argued that they had introduced cost-efficiency measures that would have a dampening effect on prices, but the staff felt that the agreed structural price reform measures would result in a higher rate of inflation than the authorities had originally forecast.

There were no monthly price data, making it difficult to draw conclusions on the extent to which the effects of the devaluation were being passed through the economy, the staff representative explained. Table 6 in EBS/83/273, Supplement 1, contained the only detailed price data that were available. It showed that, even though there had been devaluations on January 1 and July 1, 1983, the delivery and retail prices for refined energy products had remained unchanged in the period through January 1, 1984. Moreover, Table 7 in the Supplement included a projected sharp increase in government expenditure in 1984. It was expected to occur in the category "financing of the domestic economy," which comprised expenditure on investment and subsidies. The staff intended to ask the authorities whether the subsidies--including consumer subsidies--were to be increased in 1984. It also intended to monitor the passing on of the effects of the devaluation, which should be in the best interest of the Romanian economy.

The judgment whether or not the devaluation had been sufficiently large could in part be based on export developments in the coming year, the staff representative remarked. The staff did not believe that, as Mr. Zhang had suggested, the price increases generated by the structural price reform would in themselves create the need for further devaluation. The staff's judgment on the need for a further devaluation would be based on a number of factors, including the evolution of Romania's export performance.

Responding to the question about the cancellation of the current stand-by arrangement, the staff representative said that several options had been available in response to the Government's request in early December 1983 to make the remaining purchases under the 1983 program. First, the staff could in principle have rushed to circulate a paper with a severely compressed schedule for Executive Board consideration, something that in fact would have been most difficult, if not impossible. Second, Romania could have been required to wait until a financial program for the remaining period of the current stand-by arrangement in 1984 had been agreed before making the final purchases scheduled for 1983. The country would then have had to do without those purchases for some time; hence, that option was not acceptable to the Romanian authorities. The third option was the one proposed by the staff in the present paper and which seemed to be the only feasible one: cancellation of the existing stand-by on January 31, 1984 would give the staff and the Romanian authorities a while to study the effects of the recently introduced measures before a new stand-by arrangement could be concluded, on or after June 1, 1984. Some of the effects of the measures would be evident only in the longer run, but some of them would be evident in the short term, and it would be particularly useful to keep a close watch on the performance of exports. The Romanian authorities had requested the cancellation because they believed that they would not be able to introduce sufficient additional measures in the remaining short period of the existing stand-by arrangement.

Commenting on interest rates, the staff representative said that the lending rate was positive in real terms. Some Executive Directors apparently felt that the establishment of real positive interest rates would have no significant effect on the Romanian economy and had noted that credit was allocated through the central plan. However, it was important to bear in mind that investment financing through the budget had been severely curtailed, and that enterprises therefore became increasingly dependent on credit provided through the banking system and were thus exposed to increased interest rates. Interest rates had a significant signal effect; an increase in interest rates was reflected in the central plan and had a helpful effect on resource allocation in the longer run. Deposit rates were not all positive in real terms. The increase in those rates probably had no significant effect on personal savings but did increase the opportunity costs of enterprises, thereby discouraging them from holding stocks and unburdening the balance of payments.

Some speakers had questioned the adequacy of the measures that the authorities had adopted thus far, the staff representative from the European Department recalled. They had correctly noted that, until recently, the authorities had relied heavily on import cuts that had constrained both economic growth in general and the expansion of exports, thereby indicating that the progress that had been made was not fully adequate. The staff had hoped that the authorities would introduce a larger and earlier devaluation than they actually had, and that action would have been taken to adjust the noncommercial exchange rate in January 1984, as originally intended. In addition, the staff would have preferred to see the effects of the devaluation passed through to energy product prices; crude oil prices in Romania were still below world market prices, and further adjustments were clearly needed. Finally, the staff had encouraged the authorities to maintain a more flexible interest rate policy.

Mr. Zhang said that, over time, it would be useful to know more about the conditions affecting Romanian exports. What was the elasticity of demand with respect to income for Romanian exports? Were the exports affected by protectionism? Was it possible to make rough estimates of the price elasticity of exports? What factors affected exports of equipment? If the trade data were not readily available from Romanian sources, could the Fund use the data from the customs reports of the countries importing goods from Romania for its analysis?

The staff representative from the European Department responded that the data from Romania's trading partners would have to be more up to date to be useful. They usually became available only after a considerable delay. In addition, such data were not available in terms of volume. Furthermore, the staff needed past data on, and forecasts of, the major categories of exports to determine whether the development of exports had been overshadowed by a special movement of lumpy exports. As for the relative importance of foreign demand and protectionism, it was useful to note that in 1983 the value of non-oil exports had fallen by 9 percent while market growth had been negative, at only 1 percent, developments strongly suggesting that the decline in Romania's competitiveness was more important than weak foreign demand and restrictive trade measures abroad. The staff had already asked the authorities to make every effort in the future to provide more information on exports, including a better breakdown of items on a more current basis.

The subsidization of energy prices in Romania was still relatively large, the staff representative explained, but it was difficult to say whether or not it would result in retaliatory trade measures. Crude oil and natural gas prices were below world levels, and the prices of refined energy products in Romania were in the lower range of comparable prices abroad. The staff had encouraged the authorities to increase the final product prices to reflect the effects of the devaluation, but the authorities had been reluctant to do so. During the next round of discussions, the staff would ask the authorities about any evidence of retaliatory measures.

It was also difficult to analyze precisely the sustainability of Romania's balance of payments position, the staff representative commented. There had been a sharp increase in exports in the final quarter of 1983; although partly attributable to seasonal factors, it had apparently also reflected a basic improvement. Demand in Romania's major export markets appeared to be picking up and should help the recovery of Romania's exports in 1984. Much would depend on the extent to which the effects of the devaluation were passed on to the economy, thereby providing incentives for export producers. In sum, the staff view on the outlook for 1984 was fairly optimistic. The staff had final data for the first seven months of 1983 and preliminary figures for the remaining months. Experience showed that the authorities rarely made adjustments in preliminary data.

The Chairman noted that, according to Table 6 in EBS/83/273, Supplement 1, the delivery price for crude oil in January 1984 had remained constant at lei 2,000 a ton despite the sharp increases in domestic producer prices and the prices of imported crude oil. Was the Government's subsidy of the energy price area reflected in the constant delivery price for crude oil?

The staff representative from the European Department responded that the delivery price for crude oil was defined as the weighted average of the import price and the domestic producer price. The domestic producer price was being raised and import prices of crude oil were also higher because of the devaluations, but there had been a sharp reduction in the volume of crude oil imports. Hence, the authorities had noted that, according to the weighting formula, there should have been a decline in the crude oil delivery price to lei 1,850 a ton. In fact, however, the authorities had decided to keep the delivery price at lei 2,000, implying some increase in the price vis-à-vis the price derived from the formula.

The Director of the European Department commented that the staff was unable to answer all the questions that Mr. Zhang had raised. The staff was still in the process of learning about the Romanian economy, and it felt that the process would need to be taken a step further before it would be in a position to propose any new stand-by arrangement for Romania.

Responding to Mr. Erb's question about the staff's view on the extent of the adjustment in Romania, the Director said that it was conceivable that Romania's adjustment had been somewhat excessive. The convertible current account surplus was equivalent to 2 percent of GNP, and the rapid increase in the surplus was a notable achievement that had borne heavily on the domestic economy. Even if the surplus diminished--something that the authorities did not intend--the staff would not be unduly concerned; the staff would not worry as long as a surplus remained.

Continuing, the Director of the European Department remarked that in assessing the trend in energy prices summarized in Table 6 of EBS/83/273, Supplement 1, it was important to bear in mind that adjustment in the domestic producer price of crude oil simply resulted in a shift in the tax burden between producers and refiners, which need not require any increase in the crude oil delivery price and, hence, in the price paid by consumers.

Mr. Polak remarked that, while the import restraint had been necessary, it had been nearly unbearable. As a result, the authorities had decided not to maintain the very low level of imports of 1982 and 1983; they intended to increase imports by 7 percent in 1984.

A market mechanism was not needed to pass on to the domestic economy the effects of a currency devaluation, Mr. Polak commented. The pass-through could be achieved by instructions to government employees and by a decision to avoid additional subsidies. Producers and sellers had to live with the prices that they had to pay for imported items and inputs; they could of course adjust quantities and take steps to improve productivity. Enterprises could shave profits to some extent, but in the end they had to pass on increased costs to their customers. As he understood it, there was no provision under which enterprises could apply for increases in subsidies in response to increased costs.

Natural gas prices in Romania were not subsidized in the sense that extra payments were made from the budget, Mr. Polak explained. It was true that Romania's natural gas prices were below world market prices, but that feature was characteristic of a number of countries that produced natural gas. An increase in the natural gas price would strengthen the government budget, but that did not mean that the natural gas prices were being subsidized. The same point held for crude oil prices. As the staff representative had explained, the delivery price for crude oil was higher than the weighting formula suggested that it should be.

He agreed with Mr. Zhang, Mr. Polak said, that in approaching a new stand-by arrangement for Romania, the Fund should not merely expect the authorities to take steps in addition to the ones already taken. Instead, the staff should make a fresh appraisal of the measures that were available. The staff did not know as much about the Romanian economy as it would like to, and the statistics were not as plentiful as they ought to be. It was perhaps unreasonable to ask the staff to obtain statistics from Romania's partner countries when the Romanian authorities themselves should be able to make the relevant data available to the staff. On the other hand, the staff should recognize that calculations of the real effective exchange rate for Romania were particularly unreliable, and it should therefore be less inclined to place a great deal of confidence in such calculations.

An important point had been made by Mr. Senior that the termination of the present stand-by arrangement might give the wrong signal to the market, Mr. Polak commented. In the recent case of India, cancellation of the arrangement with the Fund had clearly given quite positive signs to the market. In the present case, however, in which Romania's decision to terminate its arrangement had not been made from a position of obvious strength, care had to be taken with respect to the signals that were provided to the market. He agreed with Mr. Senior that it would have been better to apply to Romania an approach similar to the one that recently applied to Hungary: Hungary had not been ready to adopt a new program of structural adjustments, but the Fund had been prepared to agree in the interim to a domestic demand control program, thereby avoiding any interruption in the link between Hungary and the Fund.

Interest rates for lending were approximately positive in real terms, Mr. Polak noted. The increase of 2 percentage points that the authorities had recently made in response to the staff's recommendation had probably made no significant difference in the economy. Similarly, deposit rates probably were not important in an economy that was closed to the outside world in the area of capital movements, thereby giving domestic savers virtually no opportunity to seek competing assets outside the country. Some socialist economies--centrally controlled ones and others--were open to capital movements directly, or indirectly in the form of remittances. Openness was not an important issue in Romania.

He would inform the authorities of the Executive Directors' wish to see the commercial and noncommercial exchange rates unified on schedule, Mr. Polak remarked. The matter was certain to be an important topic of discussion during the negotiations on a new stand-by arrangement that the authorities hoped to conclude at about the time that the exchange rates were to be unified.

Romania appeared to be on the way to achieving a sustainable external balance, Mr. Polak considered. During a recent visit to the Netherlands, the Finance Minister of Romania had stated that the authorities did not intend to continue the severe import restrictions of the previous two years; instead, they intended to permit the increase in imports to be a function of the rise in exports. He had also noted some favorable recent developments in the performance of exports, including the resumption of export credit insurance in the United States, Canada, and the United Kingdom, and he had explained that negotiations on the resumption of such credit in Germany had been started. There was no reason to expect constantly rising current account surpluses. The surplus for 1984 was likely to be about the same as that for 1983 and, as the Director of the European Department had remarked, it could well be smaller. Romania did not need a larger current account surplus each year. To some extent, the current account surplus in Romania was "artificial"; the same word had been used to describe the situation in Hungary. Romania could reduce its external debt to a more reasonable level--something that the authorities were keen to do--without having a current account surplus as large as the present one.

Commenting on Romania's creditworthiness outside the Fund, Mr. Polak noted that the relationship between Romania and the World Bank was important. As a result of recent missions, the World Bank was expected to make $400-500 million in project financing available to Romania during the coming two years.

Considerable progress had been made in exchange rate and pricing reform, Mr. Polak remarked. Full unification of the commercial exchange rate had been achieved. The noncommercial rate was a sensitive matter but was not important in an economic sense, as even the great bulk of tourist transactions took place at the commercial rate. As to pricing, the decision had been made to base prices on the costs that enterprises actually incurred.

The Executive Board then took the following decision:

1. Romania has consulted with the Fund in accordance with paragraph 3 of Executive Board Decision No. 7375-(83/56), adopted March 30, 1983 (EBS/83/54 and paragraph 13 of the letter from the Minister of Finance of February 11, 1983) in order to review developments under its economic program and to reach understandings subject to which further purchases may be made under the stand-by arrangement approved by the Fund on June 15, 1981. (EBS/81/111, Sup. 1, 6/17/81)

2. The attached letter from the Minister of Finance dated December 20, 1983 shall be annexed to the stand-by arrangement for Romania, and the letter of February 11, 1983 shall be read as supplemented and modified by the letter of December 20, 1983.

3. The Fund decides, pursuant to paragraphs 3(b)(i) and 3(b)(ii) of Decision No. 7375-(83/56), that the respective reviews are completed.

4. The Fund decides, in view of the circumstances described in EBS/83/273, that Romania may proceed to make purchases under the stand-by arrangement, provided that cumulative purchases under the arrangement shall not exceed the equivalent of SDR 817.5 million through January 31, 1984.

5. In accordance with the request of the Romanian Government, the stand-by arrangement approved by the Fund on June 15, 1981 is to be canceled as of January 31, 1984.

Decision No. 7611-(84/12), adopted
January 23, 1984

2. WORK PROGRAM

The Executive Directors considered the work program until the end of June 1984, together with a tentative schedule of Executive Board meetings (Secretary's Circular No. 84/11, 1/17/84).

The Chairman made the following statement:

> Since the Annual Meetings, important steps have been taken to strengthen the liquidity of the Fund and to put in place the policy framework within which members may have access to its resources. For instance, the participation requirement for the Eighth General Review of Quotas was met on target, and new quotas have now become effective for most members; the revised and enlarged GAB has gone into effect on schedule, together with the associated borrowing agreement between Saudi Arabia and the Fund; substantial progress has been made in arranging borrowings by the Fund totaling SDR 6 billion to cover the commitment gap for 1983 and some further commitments in 1984, and it is hoped that these arrangements can be finalized at an early date. The Executive Board has also had a series of discussions on a range of issues involving access limits for the special facilities, criteria for the amount of enlarged access in individual cases, the level of Fund reserves and charges, and the rate of remuneration. After arduous negotiations, we have been successful in agreeing upon a compromise package. It is now a convenient time for us to have an exchange of views on our work during the next few months.
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> During our forthcoming discussion of the work program, it would be desirable if Directors could give their views on the agenda of a possible Interim Committee meeting in the spring of 1984. The Secretary's canvass of Executive Directors on this matter in late December was not conclusive, with some Executive Directors not yet in a position to give an indication on behalf of their authorities. If the sentiment were in favor of a meeting, it would take place here in Washington, D.C. and would probably have to be scheduled in the first half of April 1984. A related question is the timing and agenda of a possible meeting of the Development Committee.
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> 1. Surveillance, world economic outlook, and systemic issues
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> In our work program for the coming period, the topics of surveillance, the World Economic Outlook, and the functioning of the international monetary system will be prominent. The Board has already received a paper addressing certain aspects of the Fund's surveillance responsibilities and entitled "Issues in the Assessment of Exchange Rate of Industrial Countries in the Context of Their Economic Policies"; it is scheduled for a seminar discussion next Monday, January 23. As provided under

the procedures for surveillance, the Board's annual review of surveillance this year would encompass the general implementation of the Fund's surveillance over members' exchange rate policies and also the biennial review of the document entitled "Surveillance over Exchange Rate Policies." The staff paper for this purpose will be circulated in mid-February and has been scheduled for consideration on March 14.

The next World Economic Outlook discussion in the Executive Board is tentatively scheduled for March 23, and the staff paper would become available at the beginning of March. In addition to an assessment of the world economic recovery in progress and the functioning of the adjustment process, the difficulties of the heavily indebted developing countries will receive special attention with a view to facilitating a discussion of the problems of external debt service within a medium-term perspective. Executive Directors will recall that it is planned to circulate the draft version of the WEO publication at the same time as the Board paper and that comments on the draft would be invited in the weeks preceding the Board discussion.

As agreed during our discussion on October 24 of the work program, the staff paper entitled "The Exchange Rate System: Lessons from the Past and Options for the Future," reviewing the current international exchange arrangements and assessing various reform proposals, has now been circulated and is scheduled for a seminar discussion on January 30.

At the statistical level, the staff in collaboration with the staff of the OECD has been examining the problem of asymmetry in the world balance of payments accounts. It is hoped that this work would lead to proposals for improvements in the compilation of balance of payments statistics, to be implemented with the cooperation and the assistance of the national authorities in member countries. It is expected that a staff paper on this ongoing work will be submitted to the Board in April for discussion toward the end of that month.

The staff has also in hand the preparation of background documentation for the work of the G-10 Deputies. A paper on surveillance, "The Organization and Substance of IMF Surveillance" (SM/84/8, 1/12/84), has already been prepared. It is proposed that the two papers that the Board would be considering on January 30, viz., on the exchange rate system and on exchange rate volatility, be forwarded to the G-10 Deputies following the Executive Board seminar. Two further papers are planned in the same context, on the role of the SDR in the system and on certain aspects of the future role of the Fund.

2. Issues concerning adjustment programs

A paper reviewing the experience with multiple exchange rate regimes will be brought to the agenda on April 11. During our discussion of the work program last October, it had been agreed to give priority to the issue of prolonged use of Fund resources and the implications for the revolving character of the Fund; a paper on this subject will be circulated to the Board in the first part of April for discussion on May 4. Moreover, questions have recently arisen in the Board during discussions of adjustment programs, concerning the treatment of creditor members with respect to the settlement of past due obligations. It is planned to circulate a staff paper entitled "Fund Role in Relation to the Settlement of Debt Disputes," which will address this issue and has been scheduled for Executive Board discussion on May 11.

In the recent past, there have been a few instances of problems in the reporting of data on performance criteria. As a result, members were able to make purchases under stand-by or extended arrangements, even though, after the purchases were made, it turned out that the data had been incorrect and that the performance criteria had not been observed. These developments pose issues of serious concern, because they can impair the credibility of Fund programs, cast doubts on the quality of members' cooperation, and raise questions regarding the consistency of members' use of Fund resources with the purposes of the institution. It is proposed that Executive Directors discuss, on the basis of a staff paper in preparation, the issues to which they give rise, including, in particular, the questions of prevention and of appropriate responses to purchases of Fund resources that, in accordance with the terms of the arrangements, should not have been made. It is expected that the staff paper can be circulated in the first part of May and can be taken up in the Board on June 6.

Some Directors have requested further analysis of the role of exchange rate policy in adjustment programs, and a paper is being prepared on the subject, for circulation in May.

3. Financing needs of the Fund

The papers on borrowing by the Fund totaling SDR 3 billion from the Bank of International Settlements, Japan, and the National Bank of Belgium, have been circulated last week. A paper on the SDR 3 billion borrowing arrangement from the Saudi Arabian Monetary Agency will be forthcoming after discussions have been completed. All these papers would then be brought to the Board for action.

The next half-yearly review of the Fund's liquidity and financing needs will provide, inter alia, the first opportunity to assess the likely demands on the Fund's resources under the new decisions on access for 1984. The staff paper for the review is expected to be issued toward the latter part of February.

4. Country items

From now until the end of June 1984, the Board can expect up to 65-70 reports for consultations under Article IV and over 20 reports for reviews under existing stand-by and extended arrangements. It is expected that, depending upon the successful conclusion of negotiations, perhaps 10-15 requests for upper credit tranche arrangements would be reaching the Board during the coming period. We should also expect some requests for the use of Fund resources under the compensatory financing and the buffer stock financing facilities.

5. SDR matters

The staff paper on "Considerations Pertaining to the Allocation of SDRs" has been circulated to the Board and is scheduled for discussion next week, on January 25. At the conclusion of the Board discussion last October 31 of the proposals for simplifying operations in SDRs, the staff was asked to provide more information and some further analyses. Accordingly, a supplementary paper has now been circulated and is scheduled for consideration on February 10. Papers on the role of a possible clearing facility in promoting the use of private SDRs and on the enhancement of the role of the SDR as a medium of exchange through its wider use in the financial operations of the Fund are under preparation. They are expected to be circulated in the coming months and, as agreed on October 24, could then be placed on the agenda upon request.

6. Operational items

The Board would need to attend to the following operational matters during the period under consideration:

(a) It is expected to issue shortly two separate papers dealing with the level of the Fund's holdings of SDRs and certain issues in relation to the use of currencies under the operational budget. These items are tentatively scheduled for Board discussion on February 13.

(b) It is hoped to issue the papers on transferability of claims under the General Arrangements to Borrow and under the associated agreement with Saudi Arabia in time for Board disposition by the end of February.

(c) The decisions on the attribution of reductions in the Fund's holdings of currencies, taken in April 1981 and dealing with the "floating" of the reserve tranche, are to be reviewed before April 30, 1984. It is planned to issue in March a short paper dealing with these two questions.

(d) A paper on the "Review of the Fund's Income Position for the Financial Years 1984 and 1985" is planned for issuance in mid-April, as background information for the discussion of the Administrative Budget on April 18. The review of income position is required under Rule I-6(4); the paper will encompass reviews of the level of the SDR interest rate, the rate of remuneration, and charges. Board consideration is proposed for May 14.

(e) It may become necessary during coming months for the Executive Directors to consider action on failures by certain members to meet their obligations to make payments to the Fund.

7. Administrative matters

The Administrative Budget for FY 1985 is now scheduled for discussion on April 18. The Executive Committee for Computing Services has recommended the formation of a Fund computer center, and a study is in progress to determine the most suitable location and to arrive at cost estimates. It is hoped to issue a paper for the Board at the beginning of March and to bring it to the agenda as soon as possible thereafter.

As indicated earlier, an exploratory paper on "Budgeting and Accounting for Capital Expenditures" is being prepared and will be circulated for Executive Board consideration.

Work on the 1984 review of staff compensation is continuing. It is expected that a paper for Board consideration can be circulated to the Board in May.

8. Other matters

In addition to the above, work on the Annual Report will be started during the coming period and we will also have to deal with a number of other subjects.

(a) The paper entitled "Compensatory Financing Facility - Treatment of Import Content of Exports," earlier scheduled on January 20, has now been placed on the agenda for February 3.

(b) A paper on "Coverage and Currentness of Data Published in *IFS*" will be circulated to the Board shortly, for discussion on February 22.

(c) A paper on "Linkages Between Trade, Indebtedness, and Development," being prepared for the next meeting of the Development Committee, continues to be scheduled for consideration on March 9.

(d) The date for the seminar on Mr. Legarda's study on "Small Tropical Island Countries" has been changed from February 24 to April 16 in order to enable the authorities of all the member countries that are included in the study to have adequate time to consider it.

(e) The annual survey by the staff of developments in international capital markets is expected to be ready for circulation in the latter part of May and is scheduled for Board consideration on June 29.

(f) A short paper presenting an outline of the Fund's 1984 Annual Report will as usual be submitted to the Board in the course of March and could be discussed on March 21. Drafts of the various chapters will begin to be circulated to the Committee of the Whole by the end of May/early June. It is expected that the first reading of Chapters 2 and 3 in the Committee of the Whole can begin in the middle of June and that of Chapter 1 by the end of June. A more detailed timetable for the work of the Committee of the Whole will be provided later.

(g) A draft of "Annual Report on Exchange Arrangements and Exchange Restrictions, 1984 - Part I" will be circulated in April and, as has been the practice in recent years, would be for comments by Executive Directors and then approval by the Board on a lapse-of-time basis.

(h) The usual Annual Report on the Fund's technical assistance activities will be circulated in the course of April for the information of Executive Directors.

9. Staff studies under preparation

Listed below are some staff studies in progress. The first two are intended as background material for the work of the G-10 Deputies, and the remaining three have been requested in the Executive Board at various times. On present indications, it is expected that these papers will become available either toward the end of the current work program period or later in the summer.

(i) The Role of the SDR in the system in the light of developments of other sources of international liquidity.

(ii) The future role of the IMF.

(iii) Direct investment flows to developing countries.

(iv) The theory and design of financial programs.

(v) The global effect of Fund-supported adjustment programs.

Some Directors have expressed an interest in an early determination of the period for the customary informal Board recess in the summer. It is suggested that the recess be taken during Monday, August 13 through Friday, August 24, 1984.

I suggest that we exchange views on this statement during the Executive Board meeting on January 23.

Mr. Kafka considered that the Interim Committee should be encouraged to meet essentially only when there were issues requiring resolution. He had an open mind on the matter, but he tended to feel that, as there were no urgent issues to be resolved, a spring 1984 meeting of the Interim Committee was probably unnecessary.

Executive Directors and Advisors from Latin America planned to attend a meeting of the Continental and Latin American Central Banks in Trinidad and Tobago from March 17 to March 22, 1984, Mr. Kafka explained. Subsequently, they would have to go to Montevideo for the Annual Meeting of the Inter-American Development Bank on March 23-28, 1984. Hence, he hoped that the date of the discussion of the World Economic Outlook could be advanced or postponed so that those Executive Directors would be able to attend. In any event, if the World Economic Outlook papers were not to be circulated until the beginning of March, Executive Directors would have only three weeks to consider them before the scheduled discussion. Ideally, Executive Directors should have more than three weeks to examine the papers before they were discussed in the Executive Board.

He hoped that the paper reviewing the experience with multiple exchange rate regimes, to be discussed on April 11, 1984, would be wide ranging, Mr. Kafka said. Experience suggested that there was a need to re-examine the way in which the rules on multiple exchange rate regimes were applied. In Brazil, for instance, the authorities had recently been required by the Fund to replace an exchange tax on the exportation of cocoa with an export tax on cocoa; the tax incidence of each was precisely the same, but there were considerable administrative problems involved in the change, and the international community would not benefit from it. Finally, he looked forward to examining the papers on the role of exchange rate policy in adjustment programs, the theory and design of financial programs, and SDRs.

Mr. Prowse remarked that the resolution of the issue of a spring 1984 meeting of the Interim Committee would have an important effect on the Executive Board's work load. Speaking personally, he agreed with Mr. Kafka that meetings should take place only when there were genuinely substantive issues to deal with and when an agreement by the Interim Committee was necessary or desirable for the progress of the activities of the Executive Board or the Fund as a whole. If it were decided to hold a meeting, the precise date might cause difficulties. The staff had suggested that the Interim Committee might meet in the first half of April, although there seemed to be a fairly strong feeling in the World Bank that a meeting of the Development Committee was needed, and that a date in May would be appropriate. He doubted whether his authorities were particularly interested in a spring 1984 meeting of the Interim Committee, but he was certain that they would join a consensus in favor of it.

Commenting on the World Economic Outlook papers, Mr. Prowse said that he welcomed the staff's intention to pay attention to the difficulties of the heavily indebted countries. Executive Directors should have the usual four weeks to examine the papers, although he fully understood that there would be substantial pressure to consider the papers as quickly as possible if a spring meeting of the Interim Committee were to be held; of course, the World Economic Outlook was always a major item on the Committee's agenda. If the Interim Committee were not to meet in the spring, or were to meet as late as May, the time pressure would be lessened, and Executive Directors should be given four weeks to study the papers.

The discussion on the Administrative Budget was tentatively scheduled for April 18, Mr. Prowse noted, and the staff hoped to issue the relevant paper in March. However, in order to give Executive Directors and their authorities sufficient time to study the proposed budget, they should have the usual four weeks between the date of circulation and the Executive Board discussion. Moreover, the proposed work program should take into account the likely need to discuss the budget in the Committee on Administrative Policies. What was management's intention with respect to the consideration of the staff compensation review? Was the review to be discussed in the context of the Administrative Budget, or separately? How much time would Executive Directors and their authorities have to consider the relevant paper? He posed the questions in part to draw attention to the careful examination that should be made of the staff compensation review.

He wondered whether Executive Directors would have an opportunity to examine the proposed paper on the role of the Fund before it was transmitted to the G-10 Secretariat, Mr. Prowse said. The subject was of course of considerable interest to the Executive Directors, and unless the paper was particularly straightforward, it should perhaps be discussed in the Executive Board, and amended if necessary, before being given to the Group of Ten. Was it too early for management and staff to describe their line of thinking in the paper?

He generally agreed with the proposed work program, Mr. Prowse concluded, although it clearly suggested that the coming period would be a particularly busy one. There were likely to be roughly 85 country items in the period under review; it seemed fair to ask how the Executive Board could adequately handle Article IV consultations when they were held at the rapid rate of four or five a week.

Mr. Polak commented that the Interim Committee was still an important body whose meetings gave finance ministers of the industrial and developing countries an opportunity to maintain close contact. Each of those groups had a number of opportunities to meet among themselves, but meetings of the Interim Committee were the only chance for the finance ministers of all the major countries in the world to come together. Two meetings a year was not an excessive number, and the proposed spring 1984 meeting of the Interim Committee should be held. The Committee members should discuss the World Economic Outlook, which had become a standard item on the agenda, and special attention should be paid to the international debt problem either as a part of the World Economic Outlook discussion, or as a separate item; the Committee members should consider measures to deal with the problem constructively in the coming period.

During its meeting in February 1983, Mr. Polak recalled, the Interim Committee had asked that the question of a further allocation of SDRs be re-examined as soon as possible. The Interim Committee had not taken the matter up during its September 1983 meeting, because its time had been taken up by other important matters. However, a matter that was considered urgent by the Interim Committee should not be left off its agenda for more than a year; a further allocation of SDRs should be discussed at the spring 1984 meeting.

The topic of purchases made under stand-by or extended arrangements based on data that were subsequently found to be incorrect was an important one, and he was pleased that a staff paper was to be devoted to it, Mr. Polak said. The matter was probably not very complex; the best response seemed to be to require the country concerned to make an immediate repurchase. He wondered whether the paper could not be discussed earlier than June 6.

He hoped that the discussion on an allocation of SDRs would be a genuine give and take of ideas, and not merely a reading of statements for or against an allocation, Mr. Polak remarked. On previous occasions, some Executive Directors had merely said that they were unconvinced by the material provided by the staff. Those who were still unconvinced that an allocation was called for should say in detail why they maintained their position and what it would take to change their minds, so that a serious effort to meet their concerns could be made at the discussion.

He also hoped that the discussion of a possible clearing facility for promoting the use of private SDRs would not be delayed, Mr. Polak commented. The need for a clearinghouse had been one of the most important conclusions of the seminar on SDRs in March 1983, and a discussion should not be put off as long as a year.

Mr. Wicks said that his position was similar to that of Mr. Kafka and Mr. Prowse. The Interim Committee should not meet merely for the sake of meeting, but only when important issues needed to be resolved. On the basis of that criterion, there was no need to hold an Interim Committee meeting in the spring of 1984. He doubted whether the time was ripe to bring the question of an SDR allocation to the agenda of the Interim Committee. Indeed, a premature discussion of the issue might serve only to delay its resolution. The participants in a meeting could of course add the political dimension to a discussion of the World Economic Outlook, but he doubted whether it was worthwhile to hold a meeting solely to discuss that subject, especially as the world economic recovery was proceeding as expected. In addition, there was insufficient time to prepare for a discussion on the international debt problem; an unstructured discussion by Committee participants would not be helpful. If a spring meeting were to be held, his authorities would have difficulty attending in the period April 1-9. They might be able to rearrange their schedules to attend a meeting on April 12 or 13.

The proposed work program was basically acceptable, Mr. Wicks said. He agreed with Mr. Prowse's comments on the Administrative Budget, and particularly the timing of the discussion.

The importance of the paper on the financing needs of the Fund should be underscored, Mr. Wicks considered. Substantial progress had been made in recent months in securing the resources that the Fund would need for the time being, but the Fund's resources probably would not be adequate for long. In the coming period, therefore, the Fund should be particularly prudent in considering requests by member countries--especially those with arrangements with the Fund--for additional financial assistance; in such cases, the Fund should act carefully to avoid giving any wrong signals. He hoped that the circulation and discussion of the paper on the financing needs of the Fund would not be delayed.

Mr. Feito said that his authorities had not yet completed their consideration of the proposal for a spring meeting of the Interim Committee. As for the proposed work program, he attached special importance to the papers reviewing the overall functioning of the international economy and the exchange rate system. He hoped that the Executive Directors would be informed of the reaction of the G-10 Deputies to the paper on the role of the Fund. He was pleased that the staff was preparing a paper on the theory and design of financial programs and on the global effects of Fund-supported adjustment programs. The papers should help Executive Directors to improve their understanding and assessment of the conditionality practices, and he greatly looked forward to the discussion on them. He also looked forward to examining the staff paper on a facility for promoting the use of the private SDR while enhancing the exchange function of the asset. The staff should be encouraged to provide examples of ways in which the role of the SDR could be improved.

The proposal for establishing a computer center in the Fund was important, Mr. Feito commented. It would have far-reaching operational consequences, and he looked forward to the discussion on it. Finally, he agreed with Mr. Kafka's view on the date for the discussion of the World Economic Outlook.

Mr. Laske stated that the proposed work program was acceptable. A paper on the continuous use of Fund resources for long periods was to be discussed in early May, and a paper on the problem of purchases made on the basis of incorrect data was to be discussed in early June. Both subjects were important, and he would have preferred to discuss them earlier than had been proposed. On the other hand, he understood that time was needed to prepare the papers, and the proposed dates were acceptable.

He agreed with Mr. Kafka, Mr. Laske continued, that the Executive Directors should have sufficient time to examine the World Economic Outlook papers. The discussion should perhaps take place a week later than had been proposed.

His position on a spring meeting of the Interim Committee was the same as Mr. Wicks's, Mr. Laske said. The Interim Committee should only meet when an agreement on important matters was required. There were no such matters for consideration in the coming period, and it might not be advisable to meet to discuss the World Economic Outlook as the only substantive item on the agenda. Under the circumstances, a discussion of the World Economic Outlook by the Executive Board would be sufficient. If a spring meeting were to be held, the Finance Minister for Germany could not attend in the period April 1-7, and in the second week of April he most probably could attend only on April 11 or 12.

Mr. Lovato stated that he broadly agreed with the work program. There should be a spring meeting of the Interim Committee only if there were important issues to settle. Thus far, it seemed likely that only the World Economic Outlook would be brought to the agenda, and a meeting on that item alone could not be justified, even if the Development Committee decided to hold a spring meeting.

As for the World Economic Outlook, Mr. Lovato continued, his authorities attached particular importance to the inclusion of the world debt problem. Finally, he wondered whether the proposed dates for the annual recess were not too close to the 1984 Annual Meeting.

Mr. Malhotra said that his position on a spring meeting of the Interim Committee was similar to Mr. Polak's. The Interim Committee had been established to provide participants from different groups of countries an opportunity to exchange views on important issues more than once a year. It had never been the intention that the Interim Committee should meet only when some issues were ripe for resolution as a result of work done in the Executive Board. The Development Committee and Interim Committee were meant to add a political dimension, which could not be provided by the Executive Boards of the international institutions. The Interim Committee had never failed to meet at least twice each year, and it had met even when important issues were not ripe for decision.

It was true that economic recovery had gained momentum in some important countries, Mr. Malhotra went on, but the conditions in the world economy were far from satisfactory. The Interim Committee would give the wrong signal if it did not meet in the coming months despite the major problems facing many countries. There were a number of international forums that provided for meetings of ministers from one or the other group of countries on a regular basis, sometimes even more frequently than every six months. The Interim Committee was a forum where ministers from different groups of countries could meet, and the failure to hold regular meetings of the Interim Committee would be a step backward. A decision against a spring meeting of the Interim Committee might strengthen the case for skipping the next meeting of the Development Committee as well. The question of whether or not to hold a meeting had to do with more serious matters than the convenience of the participants.

There were several issues of major importance that should be on the agenda of the spring meeting of the Interim Committee, Mr. Malholtra continued. In addition to the World Economic Outlook, the Committee participants should discuss the evolution of the debt problem, especially the way to tackle the next phase of the problem. Considerable work on the matter had already been done by the staff, and there was probably sufficient time to make the necessary preparations for its discussion at the spring meeting. The Interim Committee had given a clear direction on the SDR allocation issue, and it too should be on the agenda.

Mr. Shaw said that his authorities had some reservations about holding a meeting of the Interim Committee in the spring of 1984. A meeting should be held only when substantive issues were to be discussed, and they doubted whether there was a need for a meeting in the spring. However, they could go along with the majority view.

He basically agreed with the proposed work program, Mr. Shaw went on. As previous speakers had suggested, the problem of countries with heavy foreign debts should be dealt with in the World Economic Outlook papers. He attached special importance to papers that were to be discussed on three topics, namely, the chronic users of Fund resources, the Fund's role in the settlement of debt disputes, and the appropriate response when purchases of Fund resources were found to have been based on incorrect data. The paper on the liquidity position of the Fund was to be issued in late February and brought to the agenda in March. The practice of reviewing the liquidity position every six months was appropriate, but he wondered whether, in the light of recent events, including India's decision to forgo the final year of its extended arrangement, it would not be useful to have a short interim liquidity paper--similar to the one prepared in August 1983--indicating the Fund's current liquidity position. Finally, the proposed work program was a heavy one; there could be as many as 105 agenda items in just six months.

Mr. Sangare remarked that his authorities felt that there were a number of substantive matters that could be brought to the agenda of a spring meeting of the Interim Committee, including the World Economic Outlook, the international debt crisis--particularly the debt problems facing the low-income countries--and an SDR allocation. As Mr. Malhotra had stressed, there was a genuine need for the Interim Committee to meet from time to time to exchange ideas on different subjects.

Commenting on the proposed work program, Mr. Sangare said that he was pleased that the subject of the Fund's surveillance over exchange rates would be receiving due attention. The Fund had a considerable role to play, through its surveillance, in bringing about the required convergence among national policies and in reducing the undesirable effects of the divergence of such policies on the international financial system. The Fund's surveillance role should not be limited to exchange rate policies; within the limits of the Articles, it should be extended to cover trade policies with a view to reversing the present protectionist trend and to restoring a liberal trading system. The staff should explore the possibility of working in conjunction with UNCTAD to solve the problem of fluctuations in commodity prices.

He was also pleased, Mr. Sangare continued, that the difficulties facing the heavily indebted developing countries would receive special attention during the coming discussion on the World Economic Outlook. He hoped that the burden of indebtedness would be measured in relation to GDP and the export earnings of debtor countries, rather than in absolute terms. Similar attention should be given to the prospects for economic recovery in the low-income developing countries.

The paper on the prolonged use of Fund resources presumably would deal with the implications of the revolving character of the Fund's resources, Mr. Sangare remarked, but it should also examine the factors behind the prolonged use of Fund resources, the reasons why Fund-supported programs in the countries concerned had not succeeded in achieving the desired adjustment, and the steps that could be taken to improve the Fund's role in supporting adjustment programs. As for the important paper on incorrect data on performance criteria, he hoped that it would include substantial evidence of that practice, as much was at stake, including the credibility of national authorities. The staff paper on the role of exchange rate policy in adjustment programs was welcome, and he hoped that it would pay due attention to the structural problems facing countries undertaking adjustment programs.

Some 100 country items would probably be brought to the agenda during the coming six months, Mr. Sangare noted. The work load in the coming period seemed particularly heavy, and he hoped that the staff would be able to circulate reports in time to avoid any bunching of discussions. Finally, the proposed inclusion of SDR matters in the work program was welcome; he hoped that the discussion would result in a decision in favor of allocations in the fourth basic period.

Mr. de Maulde said that his personal position on a spring meeting of the Interim Committee was similar to Mr. Polak's, but his authorities had not yet taken a firm position on the matter. At present, he felt that a number of items--including those mentioned by Mr. Polak--could usefully be discussed at a spring meeting.

Mr. Zhang stated that his position on the spring meeting of the Interim Committee was the same as Mr. Polak's. The failure to hold the meeting would set an unfortunate precedent that might well be cited in the future. It would be useful to have a further comment on the status of the staff paper on the role of the Fund that was to be prepared for the Group of Ten. Did the paper not have to be reviewed by the Executive Board? Would it contain a disclaimer that the views mentioned in the paper were not necessarily those of the Executive Board?

Mr. Hirao said that he had not received a definite indication from his authorities of their position on a spring meeting of the Interim Committee, but he tended to agree with Mr. Kafka and Mr. Wicks. As for the work program, it was basically acceptable. He was surprised to learn from the Chairman's opening statement that there had been several instances of purchases based on inaccurate data on performance criteria. He fully shared the Chairman's concern about the danger to the credibility of Fund-supported programs, and he looked forward to receiving the staff paper somewhat sooner than had been proposed, if possible.

Mr. Suraisry stated that the proposed program was acceptable. His authorities had an open mind on the question of a spring meeting of the Interim Committee. He personally agreed with Mr. Kafka and Mr. Prowse that, unless there were issues to be resolved, it would probably be in the best interests of the Interim Committee itself not to hold a meeting in the spring. He sympathized with Mr. Malhotra and Mr. Polak, but he was worried about the possibility that senior officials other than those at the ministerial level might attend a spring meeting.

Mr. Donoso considered that the proposed work program was acceptable. He wished to associate himself with Mr. Kafka's comments on the proposed scheduling of the World Economic Outlook discussion. His authorities favored a spring meeting of the Interim Committee and had no difficulty with a date in April. The agenda for the meeting could include the important topics of foreign debt and SDR allocations.

Mr. Kabbaj remarked that he broadly agreed with the proposed work program. His authorities believed that a meeting of the Interim Committee should be held in the spring of 1984. The world economic and financial situation, and particularly conditions in the developing countries, warranted the holding of a meeting. The question of a further allocation of SDRs could also be discussed. The Interim Committee was a useful forum for exchanging ideas, and the agenda of the next meeting could usefully include the international debt problem as well as protectionism. The suggested dates for the meeting were acceptable.

The proposed staff studies on adjustment programs were welcome, Mr. Kabbaj commented. An examination of the experience accumulated over the years would strengthen the process of adjustment. The paper on the prolonged use of Fund resources and the implications for the revolving character of the Fund's resources should take into account that members entering into rescheduling agreements needed a program supported by the Fund. As for the paper on the Fund's role in the settlement of debt disputes, he wondered whether it would deal with disputes between banks and member countries. A further comment on the orientation of the staff paper on exchange rate policy in adjustment programs would be welcome; the paper should address the root causes of the problems involved. The discussion on matters scheduled for January 25, 1984 should be seen as preliminary. He hoped that a further discussion would be held in March, before the spring meeting of the Interim Committee. Mr. Shaw's suggestions concerning the paper on the Fund's liquidity position were helpful.

Mr. Orleans-Lindsay said that he agreed with previous speakers who felt that there was a need for the Interim Committee to meet in the spring of 1984. There were enough substantive matters to bring to the agenda to ensure a fruitful discussion.

Mr. Jaafar stated that he too favored holding a meeting of the Interim Committee in April 1984. It would give the participants an important opportunity to exchange views on the issues that previous speakers had mentioned, and particularly to deal at a political level with the possibility of further SDR allocations.

He attached importance to the papers on adjustment programs, Mr. Jaafar remarked, and he particularly welcomed the proposed discussion on the prolonged use of Fund resources and the implications for the revolving character of the Fund's resources. Requests to use the Fund's resources should continue to be considered on the basis of the need and particular circumstances of the member country concerned. Finally, he agreed with Mr. Polak that the important paper on purchases based on statistics that were found to be incorrect should ideally be brought to the agenda earlier than had been proposed.

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

APPROVED: June 6, 1984

LEO VAN HOUTVEN
Secretary