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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 84/77

3:00 p.m., May 14, 1984

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

Executive Directors	Alternate Executive Directors
A. Alfidja	T. Ramtoolah, Temporary
	L. E. J. M. Coene, Temporary
	G. E. L. Nguyen, Temporary
	M. Teijeiro
R. D. Erb	M. K. Bush
	J. C. Williams, Temporary
	T. Alhaimus
T. Hirao	T. Yamashita
J. E. Ismael	Jaafar A.
	L. Leonard
A. Kafka	
	G. Grosche
G. Lovato	N. Coumbis
R. N. Malhotra	
Y. A. Nimatallah	
	T. de Vries
	R. L. Bernardo, Temporary
G. Salehkhou	O. Kabbaj
	E. I. M. Mtei
M. A. Senior	
	K. A. Hansen, Temporary
	I. Fridriksson, Temporary
N. Wicks	T. A. Clark
Zhang Z.	

L. Van Houtven, Secretary
B. J. Owen, Assistant

Also Present

Administration Department: H. J. O Struckmeyer, Deputy Director. African Department: Buu Hoan, F. d'A. Collings, A. G. A. Faria, M. C. Niebling, R. T. Stillson. Asian Department: D. A. Scott. European Department: L. A. Whittome, Counsellor and Director; H. Vittas. Exchange and Trade Relations Department: D. K. Palmer, Associate Director; S. Mookerjee, Deputy Director; M. Guitian, S. Kanesa-Thasan. Fiscal Affairs Department: V. Tanzi, Director; R. A. Feldman. Legal Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy General Counsel; Ph. Lachman, J. K Oh. Middle Eastern Department: J. G. Borpujari. Research Department: W. C. Hood, Economic Counsellor and Director; A. D. Crockett, Deputy Director; R. R. Rhomberg, Deputy Director; M. D. Knight. Secretary's Department: A. P. Bhagwat, G. Djeddaoui. Treasurer's Department: D. Williams, Deputy Treasurer; W. L. Coats, D. S. Cutler, T. B. C. Leddy, G. Wittich. Bureau of Statistics: J. B. McLenaghan, S. P. Quin. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: S. R. Abiad, A. A. Agah, J. Delgadillo, S. El-Khouri, S. M. Hassan, W. Moerke, Y. Okubo, I. R. Panday, D. C. Templeman. Assistants to Executive Directors: J. Bulloch, C. Flamant, V. Govindarajan, N. U. Haque, J. M. Jones, H. Kobayashi, D. S. Louzada, G. W. K. Pickering, M. Rasyid, J. Reddy, D. J. Robinson, A. A. Scholten, S. Sornyanyontr, M. A. Weitz.

1. WORK PROGRAM

The Executive Directors considered the work program until the 1984 Annual Meetings, together with a tentative schedule of Executive Board meetings (Secretary's Circular No. 84/42, 5/4/84).

The Managing Director made the following statement:

It is usual for us, following meetings of the Interim and Development Committees, to have an exchange of views on the work program. In this statement, I shall deal mainly with the period from now until the Annual Meetings.

Fund's financial and income position

I would first like to note with pleasure the conclusion of the four borrowing agreements with the Saudi Arabian Monetary Agency (SAMA), the Bank for International Settlements (BIS), Japan, and the National Bank of Belgium. These agreements considerably strengthen the Fund's ability to continue to provide resources to members in accordance with the policy on enlarged access. Our semiannual review of the Fund's liquidity and financing needs should be carried out prior to the next Interim Committee meeting, and accordingly, it has been scheduled tentatively on September 5. As indicated in the last review of the Fund's liquidity and financing needs, further consideration to the Fund's liquidity might need to be given earlier in the event that the conclusion of relatively large arrangements should warrant it.

You have already received the paper "Review of the Fund's Income Position for the Financial Years 1984 and 1985" (EBS/84/91), which also deals with the determination of the rate of charge for the next financial year as well as the review of the SDR interest rate (see Rule I-6(4)). It is scheduled for consideration by the Board on May 30, together with the paper "Charges on Holdings Outstanding Under the Policy on Enlarged Access." This latter paper deals with the question of the rate of charge in situations where the Fund's ordinary resources are used in the financing of enlarged access purchases.

Adjustment programs and the use of Fund resources

A paper concerning the continuous use of Fund resources for long periods of time and their implications for the revolving character of the Fund has recently been circulated and scheduled for Board consideration on May 25 (viz., "Prolonged Use of Fund Resources" (SM/84/91)). This will also provide an opportunity for Executive Directors to express views on Fund-Bank collaboration on medium-term structural change in countries that are implementing Fund-supported adjustment programs.

Under the decisions taken at the end of 1983, it will be necessary for the Executive Board to review by the end of 1984 the policy on enlarged access, the guidelines on access limits under the policy on enlarged access, and access limits under special facilities. To facilitate these important reviews, which must be completed by December 31, 1984, the staff will issue papers in time for Board consideration during November.

On the subject "Formulation of Exchange Rate Policies in Programs Supported by the Fund," a paper is being prepared and has been tentatively scheduled for Executive Board consideration on July 27. Based on the review of recent cases, its purpose is to clarify the processes by which the need for exchange rate action is identified; the appropriate extent of exchange rate action is determined; the technique and timing of the action are worked out; and the action and its basis are presented to the Executive Board. In delineating the general approach taken by the Fund, the paper will note the ways in which account is taken of members' institutional arrangements and special circumstances, such as central planning, traditional close links to the currencies of other members, and the inflation record.

The staff has also initiated work on two papers which it is planned to bring to the Executive Board agenda fairly soon after the Annual Meetings. One of them is for the review by the Board, to be completed before the end of 1984, of programs supported by stand-by and extended arrangements and of the guidelines on conditionality. In contrast with past reviews which were focused on the most recently completed arrangements, the forthcoming review will present a longer-term assessment as suggested by the Board. To this end, it will focus on a representative sample of countries with arrangements for which enough time has elapsed to permit such a longer-term assessment. For these cases, the role of various policy instruments in medium-term adjustment will be followed up to the most recent past. More generally, the adequacy of the design of recent arrangements will be assessed in the light of this longer-run experience. To enable the review to be completed well before the end of the year, this paper will be issued by mid-October.

The other paper will be concerned with the design of adjustment programs in planned economies and will be circulated to the Board in September-October. This paper is in response to requests from Directors for further work on the design of performance criteria in programs with these members. It will build on the earlier paper, "Application of Fund Policies in Planned Economies," and will cover the nature of the adjustment sought in such programs, the policy instruments available, and the means of monitoring the program that can be and have been used. It will focus on the ways in which uniformity of treatment can be preserved while ensuring effective adjustment.

Two staff studies, "Theory and Design of Financial Programs" and "Global Effects of Fund-Supported Adjustment Programs," are also expected to be completed toward the end of the current work program.

World economic outlook and surveillance

It has now become customary to have a Board discussion on the World Economic Outlook timed to precede meetings of the Interim Committee. Accordingly, the staff plans to prepare a general survey paper, based on a comprehensive update of the spring exercise and including particularly a follow-up of the analysis of the debt problem in the last World Economic Outlook. We should look to having an updated assessment of the sustainability of the global recovery in the light of the evolution in the level of interest rates, exchange rate relationships among the major currencies, and the international debt situation. This paper will be circulated by August 17 and it is proposed that discussion in the Board take place on September 7.

It is also proposed in response to the growing number of requests from outside the Fund for updated information that this forthcoming general survey paper be published following the Annual Meetings and after suitable editing. The publication program for the World Economic Outlook has generally been well received and has made a useful contribution to the surveillance role of the Fund; an increase in the frequency of the publication from one to two a year will be welcomed. The Board's guidance on this publication proposal would be appreciated. If it is found acceptable, Executive Directors will have the opportunity to give comments for incorporation in the published version in the weeks prior to the Board discussion on the World Economic Outlook.

In the recent Board discussion on the statistical discrepancy in global current account balances, the staff was asked to provide a further paper including, inter alia, some elaboration on the scope of the proposed investigative effort, the procedures to be followed, the role and composition of a representative committee to guide the exercise, its terms of reference, and the cost in staff resources. It is intended to circulate this paper in time for Board consideration on August 1.

SDR matters

On the subject of an allocation of SDRs in the current basic period, the Interim Committee press communiqué issued on April 12, 1984 stated that "...the Executive Board should continue, before the next meeting of the Interim Committee, its urgent examination of the issues involved and that the Managing Director should present a further report at the next meeting of the Committee on the outcome of the Executive Board's discussions."

The staff is preparing as a background document for the Deputies of the Group of Ten a paper "Reserves and International Liquidity." This paper will survey the role of the various types of reserve assets, including the SDR, in the light of developments in recent years affecting the supply of international liquidity, and would thus provide useful further material for the consideration of the question of an SDR allocation. The paper is expected to become available in the first part of June, and if Directors so desired, it could be discussed in the Board around mid-July before its transmittal to the G-10 Deputies.

It is also planned that a short staff paper summarizing the main issues affecting the question of SDR allocations during the current basic period will be issued at the beginning of August for discussion in the Board shortly after the informal recess, viz., on August 31. A paper "Legislative History of the Requirement of a Long-Term Global Need for SDR Allocations," which was requested during our last discussion on this subject, would be available as a background document for the Board meeting on August 31. The summing up of the discussion on that day will provide the basis for my report to the next meeting of the Interim Committee.

I understand that some Executive Directors would like to have a seminar session on the topic of conditional use of SDR allocations. The text of the Belgian proposal on this subject has already been circulated by Mr. de Groote and, if the Board agrees, we could discuss it together with the French proposal relating to the same subject, which is expected to become available in the coming weeks.

Papers concerning proposals for the simplification of operations in SDRs (SM/83/187, Supplement 1) and for the establishment of special procedures for operations to set aside SDRs to secure the performance of obligations (SM/83/188) were issued some time ago and, as agreed, will be placed on the agenda upon request. Similarly, a paper is under preparation on the role of a possible clearing facility to promote the use of "private SDRs" which is expected to be ready by mid-June. Proposals as to practical ways to enhance the role of the SDR in the financial transactions and operations of the Fund may also be put forward for consideration.

For currencies used in determining the daily rate of the SDR in terms of the U.S. dollar, the staff is exploring further the issue of the determination of the representative rate for those currencies. If a satisfactory solution emerges, this matter may be brought to the agenda. Also, papers relating to requests from institutions to become prescribed holders of SDRs are planned to be issued as needed.

Area departments' work program

The proportion of Executive Board time spent on individual country items increased from 33 percent in 1980 to 55 percent in 1983. In the last analysis, much of the implementation of Fund policies, particularly relating to surveillance and the use of Fund resources, must be carried out in our dealings with member countries. Under the present world economic situation, it is to be expected that country items would continue to receive this greater degree of attention from the Board. In the next four and a half months, over 65 Article IV consultation reports are likely to be brought to the Board's agenda and some 17 reviews under existing arrangements are also scheduled to be completed. In addition, it is anticipated that the staff will hold active discussions on adjustment programs with more than 30 member countries, and their requests for stand-by arrangements with the Fund may need to be brought to the Executive Board agenda during the current work program period; the actual number reaching the Board would depend upon the progress of negotiations. We should also expect some requests for the use of resources under the special facilities. Finally, I would like to mention that Mozambique has expressed the desire to become a member by the time of the Annual Meetings and although this timing is going to be extremely tight, it is hoped that it can be achieved.

Annual Report

Drafts of the various chapters of the Annual Report will be circulated to the Committee of the Whole during June for consideration by the Committee in the last week of June and in July, by the end of which month Executive Board approval would have to be completed. The tentative timetable for consideration of the drafts by the Committee of the Whole is as follows:

	Start of Consideration by the Committee of the Whole
Chapter 2	June 25
(Second reading)	(July 9)
Chapter 3	July 6
Chapter 1	July 16
(Second reading)	(July 25)

The printed version of the report should be available at the end of August; the report is scheduled to be released on Thursday, September 13, 1984.

Other policy matters

The following papers dealing with other policy matters are also expected to be brought to the agenda:

(i) "Reporting and Other Problems Relating to Performance Criteria in Fund Arrangements - Legal and Policy Issues" and "The Role of the Fund in the Settlement of Disputes Between Members Relating to External Financial Obligations" (SM/84/89) have been prepared in response to requests from Executive Directors and are scheduled for discussion on May 23.

(ii) "International Capital Markets: Recent Developments, 1984" is of particular interest at this time because of its relevance to the evolving international debt situation. In surveying recent developments in international capital markets, the paper will pay particular attention to issues relating to bank debt restructuring and new bank lending packages. Also, the staff plans to intensify its work with respect to external debt issues. Board discussion is proposed on July 2.

(iii) "Direct Investment Flows to the Developing Countries," which was requested during our last work program discussion, is planned to be issued in time for Board discussion on July 18.

(iv) During the recent Board discussion of the Fund's experience with multiple exchange rate regimes, the sense of the meeting was that the Board should re-examine the issue of the Fund's jurisdiction under Article VIII, Section 3 over multiple currency practices applicable solely to capital transactions. The staff is preparing a paper, reviewing the past considerations of this issue and presenting its further views, for issuance to the Board before the informal recess.

(v) We will also need to give consideration at the appropriate time to the provisional agendas for the Interim and Development Committee meetings.

Operational matters

A number of operational questions will need our attention during the coming months, including the following:

(i) Designation plans and operational budgets for the June-August and September-November quarters are tentatively scheduled for consideration on June 13 and September 14, respectively.

(ii) As agreed in the Board, consideration of complaints in accordance with Rule K-1 regarding Guyana and Nicaragua would be on the agenda of June 6.

(iii) The paper "Review of the Supplementary Financing Facility Subsidy Account" is planned for issuance in June.

(iv) As agreed at the time of the Board discussion of "Overdue Payments to the Fund - Experience and Procedures," it is planned to circulate early in September the first six-monthly report on the Fund's experience with overdue payments.

1984 election of Executive Directors

As you know, the regular election of Executive Directors will be held during the next Annual Meeting. Consequently, an ad hoc Committee on Rules for the Election will be constituted soon and a staff paper for consideration by the Committee dealing with regulations for the election will be prepared. It is anticipated that the determination of the two members with the largest creditor position vis-à-vis the Fund on the average for the preceding two years can be made at the beginning of August. The Committee is expected to complete its work in time for the Executive Board to consider its recommendations and agree on draft rules to submit to the Board of Governors before the informal recess.

Administrative and related matters

The staff paper for the 1984 review of staff compensation is tentatively planned to be circulated in late May and would be placed on the Executive Board agenda thereafter. The paper "Recruitment and Retention Experience for Staff in Ranges F and Above" is also being prepared as background documentation for that Board meeting.

In accordance with the suggestion made during the seminar on electronic data processing, the staff will prepare a paper on the medium-term outlook for expenditures on electronic data processing, including the establishment of a Fund Computer Center. This subject is tentatively scheduled for discussion on July 30.

A paper concerning the leasing of additional commercial office space in the International Square Building is tentatively scheduled to be brought to the Board agenda on June 29 and a paper for the information of the Board will be circulated by the end of June on the specific plans for the IMF Visitors' Center.

As suggested during the recent Board meeting on the Administrative Budget, the staff will prepare a paper on the concept of budgeting and accounting for capital expenditures. It is hoped to be completed in time for the preparation of the next administrative budget.

Mr. Erb remarked that in general he could accept the proposed work program. Referring first to the review of the policy on enlarged access, his authorities believed that liquidity considerations, and the possibility that the topic might be discussed at the Interim Committee, argued for a discussion in the Executive Board on the various issues relating to enlarged access prior to the Interim Committee meeting, with the financial implications of various options being examined at the same time.

With respect to the formulation of exchange rate policies in programs supported by the Fund, Mr. Erb continued, it might be useful to take another look at the experience of countries that had used the Fund's resources but that were members of a currency union, in order to determine whether an overall exchange rate change for the union would have been appropriate. Several countries within the same currency union had Fund-supported programs in which the exchange rate had been an issue. The proposed study of the theory and design of financial programs should perhaps also take up the question of exchange rate changes for regional economic groups or currency unions. As his chair had stated during the previous discussion on Fund-supported programs, a better basis would be established for judging the Fund's policy analysis and advice as well as a government's ability to implement policies if the reviews of each program were placed in a longer-term context.

He could go along with the publication of an updated survey of the World Economic Outlook at the time of the Annual Meetings, Mr. Erb continued, although he would prefer it to be released after those Meetings rather than before.

On the timing of the distribution to the G-10 Deputies of the paper being prepared by the staff for them on reserves and international liquidity, Mr. Erb considered that the likelihood that the Deputies would meet in July did not preclude Executive Board discussion of the study before that time, although the transmittal of the paper to the Deputies might have to take place beforehand.

If some Executive Directors still wished to discuss the conditional use of SDR allocations in a seminar, he would not object, Mr. Erb said, although he repeated that his chair would not support such use. Also, his authorities still had problems with some of the proposals relating to the simplification of operations in SDRs, as well as with the possibility of a clearing facility to promote the use of private SDRs. The latter would be a premature development; moreover, should there be a movement within the private sector toward making greater use of SDRs, commercial banks would no doubt develop the necessary clearing facilities.

In exploring the issue of how to determine a representative rate for currencies used in setting the daily rate of the SDR, Mr. Erb concluded, consideration should be given to the possibility of several SDR rates based on exchange rates for those currencies in the markets.

Mr. Wicks said that he could agree with the work program in general, subject to certain points. Like Mr. Erb, he would prefer the Executive Board to be given an opportunity to review the policy on enlarged access in time to be able to make at least a preliminary report to the Interim Committee. It would not be an easy discussion, and account would need to be taken of the financial costs to the Fund of the various access limits, a matter that would also have to be considered by the Interim Committee. Thus, he was in favor of bringing forward the discussion from November.

It would be helpful to publish an updated World Economic Outlook survey, Mr. Wicks considered. In supporting the proposal, he assumed that the publication would consist of little more than a general survey, along the lines of Chapter I of the 1984 survey, suitably modified to highlight topical issues.

He strongly believed that the role of the SDR should be kept under review, Mr. Wicks stated, although he had no particular view at present on the proposed line of work. His authorities had little enthusiasm for the concept of a conditional SDR but if others wished to discuss the subject, they would not object.

Referring to the work program of area departments, Mr. Wicks said that the expectation that the staff would hold active discussions on adjustment programs with more than 30 member countries suggested a fair burden on the staff. In addition, he would be interested to know whether the prospective use of Fund resources would increase compared to the projections set out in the review of the Fund's liquidity in EBS/84/44 (3/7/84).

In the last paragraph relating to administrative matters, Mr. Wicks noted, reference was made to a paper to be prepared on the concept of budgeting and accounting for capital expenditures, which it was hoped would be completed in time for the preparation of the next administrative budget. He would be very surprised if the sort of paper he had had in mind at the time of the Executive Board's discussion of the administrative budget for the current financial year could not be produced fairly promptly. At the present stage, only the general principles underlying that concept needed to be outlined; it would be necessary to have a broad understanding of the results of a different accounting of expenditures, but the detailed background material should be provided at a second later stage.

There were several additional subjects that he would like to see included in the work program, Mr. Wicks continued. During the Executive Board's discussion of the administrative budget, he had mentioned the difficult question of the image of the Fund, and he had asked whether the External Relations Department could review the way in which the Fund projected itself in member countries. Did the Fund have a public relations policy, and if so, how did it attempt to carry out the difficult task of persuading people--from top policymakers to the ordinary man in the street--that the Fund was trying to be helpful to its members?

Recently, a number of arrangements for members undertaking Fund-supported programs had had to be approved by the Executive Board provisionally, subject to the fulfillment of certain conditions, mainly relating to the filling of a financing gap, Mr. Wicks recalled. His chair had never favored the approval of such arrangements in principle, but had been willing to accept it. It might be helpful if the staff could draw up firm guidelines, setting out the limited circumstances under which the Executive Board would be asked to give its conditional approval to arrangements.

It might also be useful to look more closely at another point relating to the design of programs and arrangements that had come up for discussion recently in the Executive Board, Mr. Wicks added, namely, the relationship between the observance of performance criteria and the timing of drawings. There was no need for rigid rules; the Fund should not take a mechanistic approach, and should always retain a measure of flexibility in its procedures. But it would surely be helpful for the staff itself to be able to apply guidelines with respect to the timing of drawings in relation to the observance of performance criteria.

Finally, Mr. Wicks recalled that during the discussion of the administrative budget, he had commented on the pressures on the staff. He would encourage the Chairman, if he felt it necessary, to pursue his earlier suggestion to take up the matter in a restricted session.

Mr. Nimatallah remarked that he also agreed in general with the contents of the work program. He joined the Chairman in welcoming the recent conclusion of four borrowing agreements, which he hoped would be implemented in good faith by all parties concerned. He expected further work to be done on improving the relevant ratios concerning the Fund's liquidity, particularly the asset ratio.

As for adjustment programs and the use of Fund resources, Mr. Nimatallah continued, he hoped that Fund-supported programs would in future concentrate more on helping member countries resume growth alongside adjustment. The Fund and the World Bank should collaborate closely in designing structural adjustment programs aimed at promoting growth over the medium term.

The paper under preparation on the formulation of exchange rate policies in programs supported by the Fund should attempt to examine the net impact of exchange rate devaluations on foreign exchange receipts in the short run and resource allocations in the medium term, Mr. Nimatallah said. The question was whether the devaluation led to a net benefit for the member concerned in the short as well as in the medium term, or in the medium term only. As for the staff paper on the global effects of Fund-supported adjustment programs, it should take into account all the factors affecting the economic growth and exports of the countries undertaking adjustment, including unemployment, trade, structural adjustment, and the migration of industries in accordance with the principle of comparative advantage.

The publication of the World Economic Outlook surveys had been helpful to the world community, Mr. Nimatallah considered, and he supported the proposal to publish those surveys more frequently. On the related matter of the statistical discrepancy in global current account balances, he suggested that the staff should carry out its preparatory work in stages, if that was feasible, to make it easier for the Executive Board to do its part. Otherwise, the thoroughness with which the work would have to be done might delay the issuance of the staff paper.

He would prefer the background document being prepared by the staff on reserves and international liquidity to be sent to the G-10 Deputies as a staff paper, before its consideration by the Executive Board, Mr. Nimatallah added. As he understood it, the paper was a background survey of the role of the various reserve assets and would not contain any recommendations or conclusions. It might nevertheless be helpful if Executive Directors had time to read and to comment individually on the paper before the staff submitted it to the G-10 Deputies.

He continued to support the resumption of SDR allocations at the earliest possible date, Mr. Nimatallah stated. He would not object to a seminar discussion on the conditional use of SDR allocations, which might enlighten the Executive Board on all the relevant aspects of the matter.

He welcomed the intention of Mozambique to join the Fund, Mr. Nimatallah went on, and he hoped that the Fund could accommodate the authorities' wish to become a member before the Annual Meetings. He asked whether Mozambique's quota would be satisfied from quota increases that had not been taken up by some members under the Eighth General Review of Quotas. More generally, he asked what disposition, if any, was made of increases in quota that were not consented to by members.

If convenient, Mr. Nimatallah said, he would prefer the Committee of the Whole to begin its consideration of the Annual Report one week earlier, taking up Chapter 2 on June 18 instead of on June 25.

The particular attention that the staff would pay to issues relating to external debt in preparing its paper on international capital markets was welcome, Mr. Nimatallah commented. He recommended that the staff coordinate its work with that of the Institute of International Finance, especially as the Managing Director of the Institute had recently noted that, under its aegis, several committees were making an intensive examination of external debt matters, including debt servicing, the role of smaller banks, and regulatory and other legal issues. Finally, it was a very opportune time to be taking up the staff paper on direct investment flows to developing countries in relation both to debt and to ways and means of continuing the flow of resources to those countries.

Mr. Kafka said that he was in general agreement with the suggested work program. The Chairman had rightly advised that early consideration of the Fund's liquidity position might be needed, and he would urge him not to wait until the Fund's limited supply of uncommitted borrowed resources, which was already too low for comfort, was exhausted. He joined Mr. Erb and others in suggesting a strictly preliminary discussion on the policy on enlarged access, including the guidelines on access limits and related financial questions, before the next meeting of the Interim Committee and the Annual Meetings. He would be opposed to formal decisions on those crucial matters before the Executive Board had had an opportunity to seek the advice of the Interim Committee and the Board of Governors.

The staff paper on the formulation of exchange rate policies in Fund-supported programs was of major importance, Mr. Kafka considered. He was glad that it would be given early consideration, which should, he believed, lead to a formal decision. He also appreciated the proposal for staff studies on the theory and design of financial programs and on the global effects of Fund-supported adjustment programs. He hoped that the former study would contain a documented discussion on the difficult problems posed in such programs by the need to adjust repressed prices.

The forthcoming World Economic Outlook survey should be distributed to the Executive Board at the very latest before the beginning of the informal Board recess, Mr. Kafka said. If there were important changes in the outlook, they could be discussed in a supplementary paper. In that context, consideration should be given to whether or not the content of the Annual Report should be changed to reflect the simultaneous publication of a World Economic Outlook general survey. Of course, the Annual Report was discussed in detail by the Executive Board before its publication, whereas the World Economic Outlook surveys were not. To publish two such closely related reports almost simultaneously nevertheless seemed inadvisable: either the Annual Report should be limited strictly to IMF activities, or the updated World Economic Outlook survey should not be published.

Like others, he saw little point at present in a seminar on the conditional use of SDRs, Mr. Kafka stated. But he looked forward to the staff papers relating to an early allocation of SDRs, which he continued to believe was essential.

The staff should prepare for Board discussion before the Interim Committee meeting, Mr. Kafka considered, a paper on the question of perceived asymmetries originating in certain types of performance criteria in Fund arrangements with different members, particularly criteria on multiple rates and restrictions.

He had doubts about the suggestion to study and perhaps to make an increased effort to "project" the Fund in member countries, Mr. Kafka remarked. His preferred attitude was to let the Fund's efforts speak for themselves. Certainly, he would oppose any attempt to go beyond the provision of information, strictly defined.

Finally, Mr. Kafka stated, every effort should be made to admit Mozambique to membership before the Annual Meetings.

Mr. Grosche noted that he agreed in general with the outline of the work program. Bearing in mind the experience of 1983, the discussion on enlarged access policy and on the guidelines on access limits should not be left until too late in the year. However, considering the heavy workload preceding the Annual Meetings, it might not be possible to hold a thorough discussion by that time. If the staff papers could be forwarded to the Executive Board before the Annual Meetings or in early October, they could be taken up as soon as possible. The semiannual review of the Fund's liquidity and financing needs, which was scheduled to take place before the September meeting of the Interim Committee, would constitute one element of the discussion on access in general.

With respect to the proposal to publish a World Economic Outlook general survey at the time of the Annual Meetings, or shortly thereafter, Mr. Grosche went on, he was in favor of maintaining the principle of one World Economic Outlook publication a year and of not publishing an updated version at the same time that the Annual Report was being released to the public. The publication of updated tables, together with the Interim Committee communiqué, should suffice to convey the latest insights of the Fund into world economic developments.

He looked forward with interest to receiving the background document on reserves and international liquidity that was being prepared for the G-10 Deputies, Mr. Grosche remarked. On balance, it seemed unnecessary for the Executive Board to discuss the paper before it was transmitted to the G-10 Deputies, and the practice followed so far could be continued.

He would advise against issuing the paper on the role of a possible clearing facility to promote the use of private SDRs that was under preparation for issuance by mid-June, Mr. Grosche commented. His authorities were convinced that a strong case could be made, based on the Articles of Agreement, against the broad extension of the list of other holders of SDRs; in particular, the Articles gave no mandate for the promotion of the private use of SDRs. On the conditional use of SDR allocations, his tentative reaction to the proposals by Mr. de Groote and Mr. de Maulde had not been enthusiastic. The conditional use of SDRs seemed to stray far from the objectives and the uses of the SDR envisaged in the Articles of Agreement. A seminar discussion of the subject might not therefore be very helpful, although he would certainly not object to it.

Finally, Mr. Grosche joined Mr. Wicks in proposing that the Fund study its public relations policy. He also supported his suggestion to look at the relationship between the timing of drawings and the observance of performance criteria.

Mr. Lovato also expressed broad agreement with the suggested work program. He shared the Managing Director's feeling of pleasure at the conclusion of the four borrowing arrangements.

The formulation of exchange rate policies in programs supported by the Fund was a very important subject, Mr. Lovato continued, and he looked forward to seeing the criteria that the staff would suggest for evaluating exchange rates. Meanwhile, he expected the staff to explain clearly, in its reports for Article IV consultations and on requests by members for financial support from the Fund, the methods it had used in arriving at its judgment on the exchange rate policies of member countries. He would make the same recommendation of a straight and clear judgment for the general survey on the World Economic Outlook, in particular for the "updated assessment of the sustainability of the global recovery in the light of the evolution in the level of interest rates, exchange rate relationships among the major currencies, and the international debt situation."

The paper being prepared by the staff on reserves and international liquidity, as background material for the G-10 Deputies, would be available in the first part of June, Mr. Lovato noted. Because the G-10 Deputies might decide to meet again during the summer, it might be useful to find a way to accommodate the desire of the Deputies to receive the background paper, even if the Executive Board had not yet discussed it. Finally, he asked whether the absence of any further reference in the Managing Director's statement to the other background paper for the work of the G-10 Deputies on the future role of the Fund, which was also an important matter for the Executive Board, was intentional, and if so, why.

Mr. de Vries considered that the work program was well designed. He liked the timing of the discussions on the Fund's liquidity and financing needs, scheduled for early September, and on the policy on enlarged access and access limits, scheduled for after the Annual Meetings, although like Mr. Grosche he could envisage a date closer to the Annual Meetings, so long as those discussions remained linked.

He would tend to be cautious about accepting the proposal to publish an updated World Economic Outlook survey just when the Annual Report was being released, Mr. de Vries remarked. Although the press should be given accurate information, it should not be informed twice of the same views. As he understood it, the consideration of the statistical discrepancy in global current account balances was to be a collective effort by a representative committee. At the time of the April Interim Committee meeting, he had had the impression from brief, informal conversations that the Fund might be falling behind the schedule that the OECD and other organizations had in mind. He recognized that it was Mr. Polak who had wanted an outline of the project to be drawn up; however, the Fund should not, by dint of its careful preparatory work, hold up the study.

On the allocation of SDRs in the current basic period, Mr. de Vries remarked, a decision would have to be reached, one way or the other, before the end of the year at the latest. That issue should not be confused by the consideration of new matters relating to the SDR. Once a decision on an SDR allocation had been taken, the role of the SDR could be looked at more broadly, but not before. He had understood that Mr. de Groote's proposal had been designed to bring together the supporting and opposing views on an SDR allocation. Apparently, those who opposed an allocation were even more strongly opposed to the conditional use of SDRs. Thus, he was reinforced in his view that SDR matters, other than the fundamental issue of an SDR allocation, should be left for consideration at a later stage. He nevertheless continued to be interested in the paper under preparation on the role of a possible clearing facility to promote the use of private SDRs, both for its own sake, and because of the interest of the European Community in promoting its international reserve asset, the ECU. After all, those who were less interested in promoting private use of the SDR would not wish the creation of any international reserve asset to fall into the hands of others.

A long-standing weakness of the Fund's approach was its tendency to look at developments in the economies of its members, country by country, Mr. de Vries commented. It was a particularly glaring weakness when the Fund was dealing with developing countries, especially at a time when the Fund was deeply involved with those non-oil producing developing countries that had debt problems. For almost two years, the Fund had been assisting members to resolve their debt-related problems, and it might at any moment be asked about its experience, with greater or lesser interest depending on the intensity of the debate on the problem of external indebtedness. It seemed to him that the staff should be preparing a paper describing the circumstances in which countries did well and those in which they did not do so well, and the types of program that led to success and those that were less successful.

To conclude, Mr. de Vries observed that the answer to Mr. Wicks's question about how the Fund projected itself was not very clear. The general public believed that the Fund was imposing hardships on member countries. As a central banker, he tended not to concern himself too much about what the public or the press thought of the Fund's activities. Nevertheless, he believed that the Fund had assumed such a prominent role that it should stand back and take a look at how to improve the public's understanding of its work, making it clear that the circumstances provoked the hardships and that the Fund's intervention was designed to alleviate those hardships rather than to impose them.

Mr. Senior said that he was in broad agreement with the Managing Director's comprehensive statement on the work program until the Annual Meetings. He had noted with pleasure the conclusion of the four borrowing agreements with SAMA, the BIS, Japan, and the National Bank of Belgium. As the Managing Director had indicated, those agreements considerably strengthened the Fund's ability to continue providing resources to members under the policy on enlarged access, and he expected the next review of the Fund's liquidity position to be much more optimistic than recent reviews. He also expected that the analysis of the Fund's liquidity position would take careful account of the financing needs of members and of the comments made by his and many other chairs during previous liquidity reviews on the relatively small amounts of financing estimated for individual members' use of Fund resources. The Executive Board would soon discuss the prolonged use of Fund resources, and on that occasion, he had no doubt that many Directors would address the issue of the appropriate amount of financing for individual members and the interpretation of the guidelines approved for determining access. The semiannual review of the Fund's liquidity position scheduled for early September should make allowance for the enhanced liquidity of the Fund and the views that would be expressed by Directors in discussing the staff paper on the prolonged use of Fund resources.

In connection with the subject of the use of Fund resources and Fund-supported adjustment programs, Mr. Senior continued, he greatly welcomed the paper being prepared on the formulation of exchange rate policies in programs supported by the Fund. The paper would deal with a delicate but important subject, and possibly the one that had given rise to the most heated public discussion about the content of Fund programs. The purpose of the paper seemed to have been well defined, and he hoped that the paper itself would be just as thorough and comprehensive. In that respect, he urged that, building on the recent discussion of experience with multiple exchange rate regimes (EBM/84/60, 4/18/84 and EBM/84/61, 4/19/84), special attention be given in the study to the Fund's experience with the programs of members having multiple exchange rate systems, and in particular dual exchange rate systems, which had been introduced lately in some programs. There might have been significant changes since the Fund had established its original policy on multiple currency practices, and in new circumstances, imaginative solutions for dealing with current problems might be justified.

As he had indicated on previous occasions, Mr. Senior said, the publication of the World Economic Outlook survey had served a useful purpose, not only in enhancing the image of the Fund, but in providing accurate, objective, and thorough information to member countries. His authorities would have no problem with increasing the frequency of publication. As long as the World Economic Outlook exercise was being carried out, publishing the survey should help to disseminate more up-to-date knowledge, and if anything, to galvanize the concerted action required to manage the world economy.

The program of work outlined both for area departments, as far as individual country items were concerned, and for administrative and other related matters indicated that the schedule of work in the months ahead would be very heavy, Mr. Senior remarked. That would be especially true of consultations, reviews under arrangements, and requests for use of Fund resources, reflecting the serious situation in which the great majority of developing countries still found themselves. It was clear from the tentative schedule and the list of country items to be brought before the Executive Board that the Western Hemisphere Department would remain hard-pressed to handle all the work effectively. Once again, he reiterated his view that there seemed to be a need to reinforce that department.

To conclude, Mr. Senior mentioned that a firm decision on an SDR allocation was far more necessary than further studies. He hoped that the Executive Board's discussions on the subject would bring about the required consensus on an allocation in the current fourth basic period.

Mr. Hirao said that, like others, he was in general agreement with the work program. He looked forward particularly to receiving the staff paper on the formulation of exchange rate policies in programs supported by the Fund, because it should further an understanding of the process of formulating programs, thereby placing the Executive Board in a better position to evaluate them more appropriately and comprehensively.

The important review of the policy on enlarged access could perhaps take place earlier, Mr. Hirao considered, preferably before the Interim Committee met at the end of September, because it might take a fairly long time to reach a conclusion. It also seemed appropriate to look at the Fund's liquidity position at roughly the same time.

On the proposal to increase the frequency with which the World Economic Outlook survey was published, Mr. Hirao continued, he was somewhat concerned that the second publication might follow too closely the release of the Annual Report. Although the "World Economic Outlook - General Survey" was a staff document, while the Annual Report was a Board document, both were Fund publications from the public viewpoint. There might also be some duplication of the material covered in the general survey and the Annual Report because of the short interval between their publication.

If other Directors wished to hold a seminar on the conditional use of SDR allocations, he could take a flexible position, Mr. Hirao commented, even though his authorities had strong reservations about the idea.

Finally, Mr. Hirao said, he looked forward to receiving the staff paper on the Fund's jurisdiction, under Article VIII, Section 3, over multiple currency practices applicable solely to capital transactions.

Mr. Salehkhou noted that the Managing Director's statement on the work program was as comprehensive as usual; he particularly appreciated that many issues had been viewed in a wider perspective than that of the Annual Meetings.

The forthcoming discussions of the Fund's financial and income position should make it possible to maintain at least some element of concessionality in charges, Mr. Salehkhou continued. Although the valid arguments of the Treasurer should be recognized, it was necessary at the same time to be mindful of the severe problems of the Fund's borrowing member countries.

To enable him to be present when the staff paper on the prolonged use of Fund resources was discussed, Mr. Salehkhou asked for a postponement of the discussion until the second week of June. Responding to the suggestion that Executive Directors would have an opportunity during the discussion of that paper to express views "on Fund-Bank collaboration on medium-term structural change in countries that are implementing Fund-supported adjustment programs," he observed first, that although he was a strong proponent of such collaboration, he could not but express his concern at the highly visible enlargement of so-called cross conditionality.

There had been an increasing number of cases recently of one or the other institution withholding disbursements, waiting for the green light from across the street. The adverse effects for borrowing countries, especially when it came to investment planning, could lead to results opposite to those sought in the programs. Second, given the expected extension of Bank-Fund collaboration, and in order to avoid the kind of problems he had mentioned, he reiterated his proposal during the discussion of the administrative budget for a "cell," at the level of the Deputy Managing Director, which would be in charge of following up the various aspects of that collaboration that would otherwise remain dispersed among the many departments of the two institutions. He was aware that both the Managing Director and the Deputy Managing Director were heavily involved in cooperating with the World Bank, but he believed that it would be useful to establish a cell to take specific charge and to report directly to the management.

The papers under preparation on the review of the policy on enlarged access, the guidelines on access limits under that policy, and access limits under special facilities should pay due regard to the concerns expressed of late by many Directors, Mr. Salehkhou considered. Those concerns related to the effective limits on access as well as to the interpretation of the conditionality attached to drawings up to 50 percent of quota under the compensatory financing facility. The misunderstandings that had apparently arisen in the recent past led him to hope that the Board would soon have a full-fledged discussion on the issue.

He had some problems with the proposed outline of the paper being prepared on the formulation of exchange rate policies in programs supported by the Fund, Mr. Salehkhou remarked. It would be inappropriate to adopt the too mechanistic approach that seemed to be implied in the stated purpose of that paper, namely, to clarify the processes for identifying and determining the appropriate extent of exchange rate action, the technique and timing of the action, and its presentation to the Executive Board. Although the paper was to note the ways in which account was taken of members' institutional arrangements and special circumstances, he feared that such qualifications would tend to be forgotten if trigger mechanisms were delineated. In general, an effort should be made to avoid codifying every action. The Executive Board as well as management and staff had so far been able to exercise some flexibility in exchange rate matters, and he saw no reason why they should not continue in the same vein.

He welcomed the new feature of a longer-term assessment in reviews of programs supported by stand-by and extended arrangements, Mr. Salehkhou observed. The forthcoming paper on the design of adjustment programs in planned economies was also a step in the right direction. The Fund should be cognizant of the diversity of its membership, and he would be grateful if a similar study could be made on Islamic economies.

He could accept the proposals relating to the World Economic Outlook, an exercise that had always been of great interest to his constituency, Mr. Salehkhou said. He would be more than ready to agree to the publication of two general surveys a year, although it might be advantageous to highlight on each occasion a few of the more pressing current problems afflicting the international economy. One or two of those problems, ranging from protectionism to volatile interest and exchange rates, could be selected for special emphasis.

On SDR matters, he had been puzzled by the number of proposed papers and seminars, Mr. Salehkhou said. The outcome might well be the indefinite postponement of a much awaited decision. Although he was always prepared to discuss any matter, he reiterated the position of his chair, which had consistently favored a sizable allocation of SDRs. First, the case for an outright allocation had been convincingly established by the staff and accepted by a majority of the Executive Board, although regrettably not by the required majority. Second, his chair had opposed on-the-side proposals, which would only distract attention from the main issue and delay a decision. Third, short of a decision on a sizable SDR allocation, work on ways of simplifying operations in SDRs and on other related topics--even though the resulting improvements might be useful--would not help the SDR to fulfill its role as principal reserve asset.

Finally, Mr. Salehkhou noted, given his special interest in the preparation of the paper on the role of the Fund in the settlement of disputes between members relating to external financial obligations, he requested a postponement of its discussion, in line with his earlier request for a postponement of the Board's consideration of the paper on the prolonged use of Fund resources, until the middle of June.

Mr. Mtei said that he was in broad agreement with the proposed work program, which was comprehensive and included important policy issues. The review of the Fund's financial and income position would occur at a time when pressures on the Fund's liquidity had subsided, so that the Fund was in a better position to respond to the needs of its members. He hoped that that improvement would be reflected favorably in the financial assistance provided by the Fund in support of member countries' adjustment programs, not only under stand-by arrangements but under extended arrangements as well. The staff papers on the review of programs, and their policy formulation and design, should provide a good opportunity for considering how best to adjust programs to suit specific conditions in member countries. Like Mr. Nimatallah, he hoped that the importance of giving higher priority to growth in Fund-supported adjustment programs would be brought into sharper focus as one way of easing the social costs of adjustment measures; those costs were undoubtedly higher in a stagnant economy or at worst one in which output was declining. It was hardly necessary for him to mention to the Board that social and political stability was a prerequisite for attaining the objectives of a program. In preparing its paper on the effects of Fund-supported adjustment programs, the staff should consider the question of growth seriously. The Fund's image could be improved only by regearing its policies toward growth, and not by public relations exercises.

Increasing the frequency with which the World Economic Outlook general surveys were published would make it easier to provide updated information, Mr. Mtei considered. The forthcoming survey would be particularly interesting if, in its assessment of international debt, it paid special attention to analyzing the debt problems facing the group of low-income countries whose debt was extremely large relative to their income, even though it did not threaten the international monetary system. The debt problems of that group of countries had so far received little attention.

Technical work on the issue of an SDR allocation in the fourth basic period had surely been fully carried out, Mr. Mtei said. It was the political will to act that had not been mustered. He hoped that Executive Directors, especially those whose authorities were not yet enthusiastic about a new SDR allocation, would find the forthcoming staff papers helpful in drumming up support in their capitals to permit a consensus to be reached on that most important issue. His own authorities were not anxious to pursue the idea of issuing conditional SDRs; as he had mentioned on a previous occasion, its further consideration would confuse the main issue and could only divert attention from the important subject of a conventional SDR allocation.

Finally, Mr. Mtei observed, the work schedule for area departments was heavy. More than 100 country items were expected to be brought before the Executive Board before the Annual Meetings, apart from the nine subjects covered in the Managing Director's statement. The staff would be under considerable pressure to circulate its papers on time. However, he trusted that Mozambique's application for membership could be expedited to enable the country to be a member at the time of the Annual Meetings.

Mr. Malhotra noted that he agreed broadly with the proposed work program. In the paper being prepared on the formulation of exchange rate policies in programs supported by the Fund, attention should be paid to the actual effect of devaluations--especially large ones--carried out at the recommendation of the Fund on the promotion of exports or a more viable balance of payments. He also supported the remarks of Mr. Nimatallah and Mr. Mtei on the need, in reviewing experience with stand-by and extended arrangements, to consider ways in which Fund programs could be oriented toward growth objectives. Such an approach might well be the best way to improve the Fund's image.

Instead of publishing two full-fledged World Economic Outlook surveys in one year, it might be better to supplement the main survey with a review at the time of the Annual Meetings, Mr. Malhotra considered.

The background document on reserves and international liquidity, which was destined for the G-10 Deputies, should not be transmitted with any recommendations of the Executive Board, Mr. Malhotra said.

As for the possibility of holding a seminar on the conditional use of SDRs, his chair was opposed to the idea for obvious reasons, Mr. Malhotra remarked. First, as many Executive Directors had pointed out, the result would be to confuse the issue of an SDR allocation, thereby delaying a decision. Second, the idea of conditional use of SDRs was a departure from the Articles of Agreement, and its consideration could lead to a much broader discussion on amending the Articles in various other respects. Executive Directors had already discussed Mr. de Groote's proposal for the conditional use of SDR allocations (EBM/84/45 and EBM/84/46, 3/26/84), although they had not considered its substance in great detail; nevertheless, from the large number of comments, the response appeared to have been negative. Therefore, he would much prefer to avoid a seminar on the subject.

In conclusion, Mr. Malhotra considered that there had not been enough experience with the new access limits under the policy on enlarged access to begin the review before the next meeting of the Interim Committee and the Annual Meetings. If the Executive Board was to refer the matter to the Interim Committee, it would first have to come to a view of its own. Therefore, he was inclined to believe that the review should take place before the end of the year rather than before the Annual Meetings.

Mr. Leonard said that the work program discussed in the Managing Director's statement had the support of his chair. He looked forward especially to the various studies under way; as the Board had come to expect, they should be of great value in improving its understanding of current economic problems and of the response that the Fund should make in dealing with them.

The updated survey paper on the World Economic Outlook would be a short document, as he understood the proposal, and would contain mainly statistical tables and projections, Mr. Leonard continued. In addition, he recalled that in response to points made by his chair during the discussion of the World Economic Outlook (EBM/84/48 and EBM/84/49, 3/30/84), the Executive Board had been good enough to agree, at the Chairman's suggestion, to make available to the press and to the public an advance copy of Chapter 1 of the survey. The idea had been to assist public comment, based on firm information, but unfortunately, the updated projections published in the World Economic Outlook survey had differed from those contained in the Managing Director's report to the Interim Committee (ICMS/Doc/84/2, 4/9/84). As a result, at least one Minister of Finance had been left with the dilemma of having to choose, in his public statements, between using either published data that were out of date or updated material that could involve a breach of confidentiality. He hoped that it would be possible to avoid similar problems when the "mini-WEO" was published in the autumn. Finally, he urged that care be taken not to upstage the Annual Report, which was the first reference source for those wishing to acquaint themselves with the activities of the Fund. Both the staff and Executive Directors put a great deal of effort into the Annual Report, an important document, which should not be downgraded in any way.

Mr. Coene remarked that he could endorse the proposed work program. He joined others in their preference for an earlier discussion of the policy on enlarged access in order to allow the Interim Committee to provide some guidance to the Board on that difficult and important matter.

He appreciated the new focus of the review of adjustment programs supported by stand-by and extended arrangements, Mr. Coene continued. By extending the assessment of some representative programs to cover a longer period, the Fund would obtain a better view of the adequacy of their design and thereby be enabled to improve, where improvement was possible, the growth component of those programs.

He looked forward to the various papers to be prepared on SDR matters, Mr. Coene remarked, particularly the paper on the possibility of a clearing facility to promote the use of private SDRs. The role of the SDR could be further enhanced only if the SDR was more widely used, especially outside official circles. If the experience in the European Community with the ECU was any guide, the Fund should take an active part in the endeavor to set up a clearing facility.

The proposed seminar on the conditional use of SDRs would be welcome as a means of reaching a better understanding of the idea, Mr. Coene commented, especially as it was clear that there were still a number of misconceptions about the nature and intent of the proposals described by Mr. de Groote in his statement at EBM/84/45. His chair did not wish to insist on an immediate discussion of those proposals, if Executive Directors generally considered that that would delay or preclude an early decision on a traditional SDR allocation. The proposals could be taken up later, after a decision had been reached on a regular allocation of SDRs in the fourth basic period. Mixed feelings about the chances of arriving at an early decision had however led his chair to conclude that alternative proposals should be considered in due course. It would seem suitable to take them up in a seminar.

Mr. Alfidja stated that he agreed with other Directors that more emphasis should be put on growth in designing forthcoming Fund-supported programs. As to the conditional use of SDR allocations, his chair was prepared to discuss the subject in a seminar.

Every effort should be made on the Fund side to accommodate Mozambique's desire to become a member before the Annual Meeting, Mr. Alfidja considered.

It should be possible to impart a better idea of the Fund's activities to the outside world by expanding the present program of seminars for non-officials, Mr. Alfidja said. He had been greatly impressed, at the recent seminar held in West Africa, by the interesting exchange of views that had taken place between people from very contrasting backgrounds. In passing, he reiterated the interest of all the countries in his constituency in having another Fund seminar in the region as soon as possible.

Finally, Mr. Alfidja stated, he was prepared to consider any proposals aimed at alleviating the pressure of work on the staff of area departments.

Mr. Nguyen stated that he was in general agreement with the work program in the Managing Director's statement. On the timing of the discussion on the enlarged access policy, he had no difficulty either with the proposal in the work program, or with bringing the discussion forward, if there was a broad consensus in favor of an earlier discussion.

He shared Mr. Coene's views on the proposal to discuss the conditional use of SDRs in a seminar, Mr. Nguyen added. The proposal of his chair in that respect would be circulated as soon as possible.

Mr. Zhang said that he supported the proposed work program. He was also in favor of scheduling the Executive Board's discussion on the policy on enlarged access and access limits, as well as the limits on access under special facilities, in November, as proposed by the Managing Director.

The staff paper on the design of adjustment programs in planned economies should be discussed in a seminar, Mr. Zhang considered, as had the earlier staff paper on the application of Fund policies in planned economies.

Finally, Mr. Zhang remarked, he was not enthusiastic about the proposed seminar on the conditional use of SDR allocations.

Mr. Alhaimus said that he had no difficulty with the proposed work program, except that he did not think that a seminar on the use of conditional SDRs would be of help in focusing on the basic issue of an SDR allocation. He associated himself with the comments made by several other Directors on that point.

Mr. Fridriksson said that his chair supported the work program outlined in the Managing Director's statement. He had no difficulty with the idea of bringing forward the discussions on access to the Fund's resources.

He favored the regular publication of a World Economic Outlook general survey after the Annual Meeting, Mr. Fridriksson added. In light of Mr. Kafka's comments, excessive overlapping with the Annual Report should be avoided, preferably by reducing the coverage of the latter.

Mr. Teijeiro considered that the work program was well structured and complete; therefore, he could support it. A number of papers were to be issued on crucial aspects of Fund policy, such as enlarged access, the review of programs supported by arrangements, guidelines for conditionality, and design of performance criteria in arrangements supporting programs of members with planned economies, as well as two important studies on the theory and design of financial programs and the global effects of Fund-supported adjustment programs. Since most of those important subjects were apparently to be discussed toward the end of the year, it might be more convenient to establish an order of priorities so as to avoid bunching together the discussion of important policy issues within a relatively short time. Along those lines, he was ready to support the suggestion that the policy on enlarged access should be discussed before the next meeting of the Interim Committee.

He had no difficulty in supporting the proposal to increase the frequency of publication of the World Economic Outlook general survey from one to two issues a year, Mr. Teijeiro said, especially if the second publication was a short update, as suggested by Mr. Wicks.

On SDR-related matters, he would be in favor of a discussion in the Board of the background document on reserves and international liquidity by mid-July or on any other suitable date prior to its transmittal to the G-10 Deputies, Mr. Teijeiro observed. He was less favorably disposed to hold a seminar on the conditional use of SDRs; he was more of the opinion that efforts should be concentrated on reaching agreement, before the next meeting of the Interim Committee, on a new allocation of SDRs.

Finally, owing to the continuing debt problems of many member countries, he looked forward to the early discussion of the two papers on international capital markets and direct investment flows to developing countries.

The Chairman said that the trend of the comments on the timing of the Executive Board's consideration of enlarged access favored a first round of discussions before the Interim Committee met. The staff would try to circulate the paper in good time. Certainly, the matter would have to be brought back onto the agenda after the Interim Committee had expressed its views.

There was a consensus on publishing an updated paper on the World Economic Outlook, the Chairman observed, on the understanding that the content would not duplicate or conflict with the material in the Annual Report. The publication would be limited to updated tables and to one chapter presenting information essential to an understanding of those tables. The updated survey should be released after the Executive Board had discussed the World Economic Outlook, and after the Annual Meetings were over, in order to avoid "competition" with the Annual Report. Mr. Leonard's point in that respect was well taken.

No clear view had emerged as to whether the Executive Board should consider the background document on reserves and international liquidity before it was transmitted to the G-10 Deputies, the Chairman noted. If, after the paper had been circulated, Executive Directors felt strongly that it should be taken up in the Board before it was transmitted to the G-10 Deputies, their wishes would be accommodated. Otherwise, the Board would receive a report of the G-10 Deputies' views on the matter.

In response to Mr. Wicks, the Chairman explained that the staff had been working on the relationship between the timing of drawings and the observance of performance criteria, on which it could prepare a paper. Clearer guidelines on the circumstances in which stand-by or extended arrangements should be brought to the Executive Board for approval in principle, pending the satisfaction of certain conditions, could also perhaps be formulated, based on past experience.

In reply to Mr. de Vries, the Chairman said that an effort could be made to measure the degree of success of Fund-supported adjustment programs of members experiencing debt problems. The review of Fund-supported programs would provide an opportunity to evaluate the adjustment; stock would also have to be taken of progress toward handling the debt problem, but there were too many developments at present in various quarters to permit an immediate review.

He had not discerned much support for giving further thought to ways of improving the Fund's public image, the Chairman remarked. It would be easy to mishandle such a study, and he would want to look at the idea with great caution.

There had also not been much support for a seminar on the conditional use of SDRs, the Chairman commented. The Executive Board had taken the position that it would be ready to discuss ways to improve the SDR system, but not at the expense of delaying a clear decision on the fundamental issue of an allocation of SDRs in the fourth basic period.

There would be no difficulty in discussing the paper on the design of adjustment programs in planned economies in a seminar, the Chairman said.

He had taken note of Mr. Nimatallah's suggestion that the Fund staff should work closely with the Institute of International Finance on its study on international capital markets, the Chairman remarked. The staff of the two institutions were in fact cooperating with each other.

The Economic Counsellor, in response to a question by the Chairman, explained that it had been thought wiser not to issue a paper on the future role of the Fund until the staff had received some indication of the ideas that the G-10 Deputies might wish to pursue. The staff would then be happy to analyze those ideas in reporting to the Executive Board.

The Deputy Treasurer, responding to Mr. Nimatallah's question relating to Mozambique's quota, noted that the quota for Mozambique, calculated with the approval of the Committee established to process its application for membership, would be added to the present total of Fund quotas.

The Director of the Legal Department observed that the Fund, unlike the World Bank, had no fixed capital. The Board of Governors had adopted a Resolution providing for specific increases in the quotas of individual members under the Eighth General Review. Those increases were available only to the individual members specified; the failure of a member to consent to an increase in its quota before the period of consent expired did not make a like amount available for any other member. That result would be achieved only by a new Resolution of the Board of Governors providing for a special quota increase for the other member. Similarly, the Board of Governors would adopt a Resolution on the quota for Mozambique.

The Executive Board agreed on the work program, in the light of the discussion. A revised tentative schedule of meetings would be circulated.

The Deputy Managing Director then took the chair.

2. SWAZILAND - 1984 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1984 Article IV consultation with Swaziland, together with a proposed decision concluding the 1984 Article XIV consultation with Swaziland (SM/84/77, 4/11/84; Cor. 1, 5/8/84; and Sup. 1, 5/11/84). They also had before them a report on recent economic developments in Swaziland (SM/84/92, 4/30/84).

Mr. Mtei made the following statement:

> Economic activity in Swaziland in the last two years has been adversely affected by a combination of factors which were beyond the control of the authorities. The drought which hit the Southern African region continued well into 1983 and led to a substantial decline in the production of maize, the principal food crop grown in the traditional sector. At the same time, sugar exports suffered from the drop in prices in general, and specifically from the imposition of quota restrictions in one of Swaziland's major markets. Other export commodities, such as timber, also experienced depressed demand as a result of the global recession. Consequently, real GDP declined by 0.5 percent in 1982, after registering an increase of 8.2 percent in the previous year, and preliminary estimates indicate that real output was stagnant in 1983. The slowdown in economic growth has compounded the problem of the high level of unemployment and underemployment in Swaziland. Given the rather high rate of increase in the labor force, one of the basic aims of economic policy is to expand employment opportunities in the various sectors of the economy.
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> The development of the agricultural sector is an important part of the Government's strategy aimed at achieving self-sustaining growth. Therefore, efforts are being intensified within the context of the Rural Development Area Program, which has recently been re-evaluated, in order to raise the productivity of traditional farmers and increase production of cash crops. Improving the livestock industry is also a priority. In this connection, a study is being undertaken to develop an appropriate strategy with a view to solving the problem of overgrazing as well as improving other husbandry practices.
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> The manufacturing sector, which has been one of the main sources of growth in the past, will continue to benefit from the Government's liberal economic policies. The exchange, trade, and price systems are relatively free of restrictions, serving as an inducement to both foreign and private investors. Establishments are encouraged to locate outside existing industrial zones in order to create job opportunities in other parts of the country, as well as to use labor-intensive production methods. At the same time, emphasis is being placed on vocational training to make up for the shortage of skilled manpower. The National

Industrial Development Corporation of Swaziland (NIDCS) and its subsidiary, the Small Enterprises Development Company (SEDCO), assist investors by undertaking feasibility studies, providing loans for worthwhile projects, and participating in joint ventures.

The Fourth Development Plan which is being formulated will spell out in some detail the medium-term goals and policies of the Government. For now, the task for the Government is repairing the damage to the country's rail and road network that occurred from the cyclone last January. The urgency of this matter needs very little explanation: Swaziland is a landlocked country, and the rail and road network is the lifeline of its external trade. The authorities have been particularly concerned that delays in getting repairs started would have serious consequences for the sugar industry given the shortage of storage space. Therefore, with financing provided by the Central Bank of Swaziland, the rail link to Maputo (Mozambique) has been reopened. It is hoped, however, that foreign assistance would be forthcoming from donor countries and multilateral institutions. With regard to the road system, some help is already coming from the outside, including a gift of Bailey Bridges from the United Kingdom.

The budget deficit in 1983/84 was modest, being the equivalent of only 3 percent of GDP. Despite the fact that the economy was stagnant, the strict enforcement of existing tax laws led to a 7 percent increase in revenue. Expenditure increased by 5.8 percent, implying a decline of about 7 percent in real terms. However, the authorities are aware of the need for continued improvement in expenditure control. Steps are being taken to tighten accounting procedures and to abolish the system whereby all authorized funds were placed at the disposal of spending agencies at the start of the fiscal year. Allotments will be issued on a quarterly basis, making it easier to monitor the spending pattern of the various ministries. As for the Central Transport Authority, efforts are being made to ensure that its operations will at least break even.

The authorities will maintain their cautious approach to fiscal policy in 1984/85. Revenue is projected to rise by 10 percent with the widening of the tax base when the sales tax, which has been approved by Parliament, is put into effect, and with an increase in receipts from the customs union. Due to the urgent need to repair damages to the transportation network, as discussed above, expenditure will be higher than anticipated in the budget. Despite this situation, the authorities intend to keep the budget deficit at a reasonable level by attempting to contain the growth in personnel costs and to postpone certain capital projects.

Net domestic credit increased by E 33.3 million in 1983 compared with E 24.0 million in 1982. The increase in broad money for the year was 23 percent. Interest rates were adjusted several times in 1983: the savings rate, which had been reduced by 1/2 percentage point in March 1983, was returned to its original level in August 1983. The prime rate was raised to 20 percent at the end of March 1984.

By bilateral agreement, the Central Bank of Swaziland holds a 100 percent rand backing for the emalangeni. Although Swaziland is a member of the Rand Monetary Area, convertibility of its currency is the obligation of the Swazi authorities.

The current account of Swaziland's balance of payments continued to improve in 1983, recording a deficit that was about E 14 million less than in 1982. The basic balance also registered some improvement, with the deficit dropping to E 7.1 million from E 17.7 million. Gross official reserves increased by E 22.7 million in 1983 to E 116.5 million, the equivalent of about 2.4 months of imports. The anticipated downturn in reserves is not yet apparent, and advance receipts from the loan for the Northern Rail Link provide a useful cushion. However, the authorities have indicated that it might become necessary to draw on Fund facilities, including the reserve tranche.

The balance of payments outcome for 1984 is difficult to predict at this stage because the cost of repairing the damage caused by the cyclone is still unknown. Short-term capital movement is also expected to play a role depending on interest rate differentials between Swaziland and international financial centers. One of the promising developments is that the price of sugar in the free market is expected to increase by about 20 percent, which should lead to an improvement in Swaziland's earnings from sugar exports.

By the end of 1983, Swaziland's total disbursed official and government-guaranteed debt was $175 million. Debt service payments for this period amounted to only 3 percent of exports of goods and services. This gives the authorities some room to maneuver if the need arises to borrow from abroad.

Extending his remarks, Mr. Mtei said that, according to the revised figures for the 1983/84 fiscal year, expenditure was E 12.1 million below the preliminary estimate; spending had thus declined by more than 7 percent in real terms. In addition, although the updated figures showed an overall deficit of about E 2 million above the original estimate, the ratio of the deficit to GDP had not changed materially.

Swaziland had been afflicted by a cyclone in January, as mentioned on pages 11 and 12 of the staff report, Mr. Mtei reiterated. Urgent repairs had had to be carried out to the transportation system, especially the railway line to Maputo. A suitable contractor had been found from among companies engaged in the construction of the Northern Rail Link.

The repairs had been financed by borrowing from the Central Bank. On May 1, 1984, the Maputo railway link had been reopened, and sugar exports had resumed at a nearly normal rate. The U.K. authorities had also responded to the emergency by offering Bailey bridges to facilitate urgent road repairs. As a result of those emergency expenditures, the Government had had to introduce a supplementary budget, totaling E 15 million, for 1984/85. It would of course cost much more to rectify all the damage caused by the cyclone: the preliminary reckoning was that the Swazi Government would have to spend about E 50 million over the next four years. Concessional financing would of course be most handy, and timely assistance from donors--both multilateral and bilateral--would definitely obviate the need for larger outlays in the future as well as prevent the distortions that were likely to emerge if the transportation system and other structural networks, like the electricity lines and irrigation systems, were not quickly returned to full operation.

Inevitably, Mr. Mtei remarked, because those emergency expenditures would continue to be incurred for some time, the balance of payments position would be affected. Swaziland's external reserve position had so far been good, but the authorities might have to draw on their reserve tranche in the Fund in the near future. He also hoped that the necessary data would be available to justify a drawing under the compensatory financing facility later in the year so that Swaziland could tackle its repair problems promptly rather than allowing them to worsen.

Mr. Clark remarked that Swaziland was greatly dependent on developments in the outside world, and, owing to its membership in the Rand Monetary Area (RMA), in South Africa especially. But the country also had transportation difficulties, shortages of skilled manpower, and overdependence on one commodity, sugar; last, but certainly not least, it was vulnerable to natural disasters, as the devastating effects of the cyclone had shown. Those were features reminiscent of the small tropical island economies, which had been discussed recently in a seminar.

Within those constraints, however, the Swazi authorities had generally followed prudent and forward-looking policies, as his chair had observed at the time of the 1983 Article IV consultation, Mr. Clark continued. The disappointing stagnation of real GDP in the past two years had been largely due to external factors, in particular, low commodity prices and droughts at home and abroad. Nevertheless, the slippages in expenditure control and the consequent increases in the fiscal deficit were worrying. In such an open economy, as the staff had noted, fiscal policy directly and quickly affected the balance of payments. Much of the increase in the projected 1983/84 deficit was being financed by domestic bank credit, leaving commensurately less room for private sector borrowing. In addition, since the level of public expenditure was the major policy instrument available to the Swazi authorities, it was particularly important to maintain effective expenditure controls. He therefore welcomed the authorities' intention to introduce improved control mechanisms in 1984.

It was encouraging to note from the supplement to the staff report that work on essential repairs following the cyclone was proceeding on schedule, Mr. Clark went on, and that exports would not be disrupted. He also noted that it should be possible to meet the immediate extra expenditure on reconstruction from the budget, provided that projects were implemented at the same rate as in previous years. Although he understood that the World Bank was considering a reconstruction loan to Swaziland, it might not materialize until the end of the year. Thus, it might prove necessary to take another look at current expenditure, and particularly at public sector wages. The prompt introduction of the new sales tax, which had already been delayed two years, would be important, and he asked whether any progress had been made in that respect since the staff mission.

Receipts from the South African Customs Union (SACU) accounted for about 70 percent of tax revenue, according to Table 1 in SM/84/77, Mr. Clark observed; those receipts were also rather volatile. The problems posed for fiscal policy again highlighted the contribution that the new sales tax could make to revenue. More generally, the payment of SACU receipts with a lag of two years and the compensating adjustment based on trends in the two preceding years, as explained in Appendix I (SM/84/92) on the SACU system, suggested that the revenue side of the Government's balance sheet reflected economic developments two to four years in the past. In theory at least, fiscal policy might thus have a procyclical bias, with the low revenues of bad years being received in good years, and vice versa. In practice, the effect might not be too important, but he would welcome comments by the staff.

The interest rate differential of 2 percent that had emerged in December 1983 when Swaziland had not increased its rate in line with the increase in the prime rate of the Republic of South Africa (RSA) had been described as appropriate in the staff appraisal, Mr. Clark noted, based on the magnitude of capital inflows from outside the RMA at that time. Following the further 1 percent increase in South Africa's prime rate in March 1984, he wondered whether the staff had changed its view and whether there was any prospect of an increase in Swazi interest rates.

While the authorities were rightly giving priority to reconstruction, Mr. Clark remarked, they should not lose sight of their medium-term goals. Indeed, some reconstruction--particularly the rebuilding of the secondary road network--could be carried out with a particular eye to promoting development. He welcomed the continuing emphasis on agricultural development, especially in light of the increase in imports of food and livestock. The Swazi authorities were especially to be commended for opening their economy to foreign direct investment, which had served Swaziland well in past years. The shortage of skilled manpower made it entirely appropriate to emphasize vocational training, and he would be interested to know how effective the training had been in practice.

The recently signed accord between South Africa and Mozambique should have important consequences for Swaziland, and should considerably enhance its role in entrepôt trade between South Africa and Mozambique, Mr. Clark considered. Tax revenue from customs receipts should increase, although as he had already mentioned, there were disadvantages to Swaziland's dependence on SACU receipts.

Finally, Mr. Clark observed, the authorities maintained commendably free exchange, trade, and price systems, and he could support the proposed decision.

Mr. Ramtoolah observed that Swaziland had accomplished remarkable progress in developing its economy over the recent past, despite its land-locked position. Overall economic activity had expanded at satisfactory rates until 1982, with impressive gains having been made in both the agricultural and manufacturing sectors. The output of sugar cane, an important agricultural crop and the principal export of Swaziland--accounting for about 33 percent of domestic exports--had increased steadily between 1978/79 and 1981/82, while manufacturing output had grown by a higher than planned rate in the five years between 1977 and 1982. Unfortunately, factors beyond the country's control, among them a recurrent and severe drought and more recently a devastating cyclone, as well as unfavorable export price developments, were threatening the gains made so far. The authorities therefore needed to be more cautious than ever in the formulation of economic policies in the coming years. There was no doubt that Swaziland had great potential, especially in the agricultural sector.

After increasing in 1980 and 1981, inflation appeared to be on the decline, Mr. Ramtoolah noted, and had been estimated at 13 percent in 1983. It was a welcome development although there was still room for improvement. There were few price controls in Swaziland, and periodic adjustments were actually made to the controlled prices of various items to reflect increased import or production costs.

The fiscal deficit had decreased in 1982/83 to about 3 percent of estimated GDP, from 9 percent of GDP in 1981/82, even though sugar-based revenue had fallen, Mr. Ramtoolah continued. A deficit of the same ratio to GDP was estimated for 1983/84, reflecting the strict enforcement of existing tax laws. The latter development was welcome, as were the steps taken to tighten accounting procedures and to abolish the system of placing funds at the disposal of spending agencies at the start of the fiscal year. There had also been a welcome improvement in the monitoring of the spending pattern of various ministries, as Mr. Mtei had indicated in his statement. It would be difficult to reduce the fiscal deficit further in 1984/85, owing in particular to the repairs needed following the cyclone in 1984. The implementation of the sales tax would be a step in the right direction. In addition, the authorities should maintain a close watch on some items of current expenditure, especially those related to wages.

While the situation of the nonfinancial public enterprises was not alarming, Mr. Ramtoolah remarked, there seemed to be a need for better control, especially of the Swazi Railways and Royal Swazi National Airlines Corporation. He had noted from Mr. Mtei's statement that efforts were being made to ensure that the Central Transport Authority would at least break even on its operations.

Various upward adjustments had been made in interest rates in 1983 which should help to stem capital outflows, Mr. Ramtoolah considered. Commendable progress had been made in the external sector in recent years. The current account deficit as a percentage of GDP had been reduced from 17 percent in 1980 to 8 percent in 1983, and gross official foreign reserves had increased from 8 weeks of imports in 1982 to 16 weeks of imports one year later. The external debt situation was not a cause for alarm at present, and as Mr. Mtei had pointed out, it left the authorities some room for maneuver.

In concluding, Mr. Ramtoolah commended the Swazi authorities for the renewed emphasis on agriculture in the Fourth Development Plan, which was being formulated at present. He also welcomed the stress in the Plan on technical education. Those features would contribute to increasing the return on agricultural activity and help to stem the migration from rural to urban areas. He supported the proposed decision.

Mr. Williams said that he was in broad agreement with the staff appraisal and that he supported the proposed decision.

It was clear that 1984 would be a difficult year for Swaziland, Mr. Williams continued. As he had noted from Mr. Mtei's statement, the authorities might feel it necessary during the course of the year to consider a request to draw on Fund facilities. He would strongly urge the authorities to set the analysis of their future requirements, including eventual use of Fund resources, in a medium-term context. While he recognized that the authorities might be apprehensive about the great uncertainties in the international markets on which Swaziland depended, the analysis and discipline connected with the preparation of appropriately detailed quantitative projections could provide a framework that would help to eliminate some of those uncertainties. When the Executive Board next re-examined the economic situation of Swaziland, he hoped that the authorities would have cooperated with the staff in preparing quantitative projections, spelling out clearly the underlying assumptions. In addition, his chair continued to attach particular importance to the staff's qualitative analysis of the policies that the authorities had chosen to pursue.

The cyclone that had struck in early 1984 would have a major impact on the current fiscal year and beyond, Mr. Williams noted. He agreed with the staff that the Swazi authorities should reorder their spending priorities so that they could make the needed repairs to the transportation system, in particular without unduly straining the overall budget. The near-term objective of a balanced budget should guide fiscal policy over the coming period. In that context, it was important that the authorities move swiftly to implement the sales tax so as to broaden and strengthen the revenue base, and he asked the staff about the present status of that tax. He welcomed the measures announced to control expenditures and urged the authorities to implement them rigorously. The increase in domestic arrears in 1983 might be an indicator that the government deficit was greater than previously reported. The buildup in arrears, the

23 percent growth of broad money for 1983, and the additional demands placed on the economy due to the cyclone could lead to a worsening of the inflation rate in the year ahead.

The plans to increase public sector wages by 10 percent in 1984 could further exacerbate the income differential between the urban and rural sector, Mr. Williams observed. His authorities urged the Government to review wage policy carefully, in particular in light of other strains on the budget. Finally, interest rate policy should be kept under review.

The staff representative from the African Department said that the Swazi authorities had recently informed him of their decision to implement a sales tax levied at the point of final sale, instead of at the point of first sale. The need to introduce a new bill, which had already been prepared and would be brought to a vote in Parliament shortly, would entail a delay in the introduction of the tax; the authorities had hoped to introduce it in June, but they were now aiming for September. A sales tax at the final point of sale would be broader based, the authorities believed, and it could be administered more efficiently by the Income Tax Department. The original projection of revenue of E 10 million was still considered reasonable.

Interest rates in Swaziland had continued to follow those in South Africa, the staff representative commented. The rate had been increased in January and end-March 1984 in line with the rise in international interest rates. The prime rate in Swaziland was at present 20 percent; in South Africa it was 22 percent. The authorities felt that a differential of 2 percent could be maintained without providing an incentive for undue capital flows between the two countries.

In response to a question by the Acting Chairman, the staff representative added that a negative interest rate differential remained appropriate. Swaziland's exchange system was free of restrictions, and its currency was pegged at par to the South African rand. Thus, capital could move freely, and interest rates had to be set at a level between those in South Africa and in other capital markets, such as London. As had been noted on page 7 of the staff report, the trend in interest rates in South Africa and Swaziland had differed from the trend in international rates in 1983; it had actually moved in the opposite direction at the end of that year. Swaziland had not immediately followed the increase in the South African interest rate at the end of 1983, but the policy was still operative and fairly successful. As Mr. Mtei had pointed out, the foreign exchange position was satisfactory. Moreover, the private capital outflow anticipated by the staff at the time of the mission had not taken place.

The lag in payments receipts from the SACU should not have a major cyclical bias, the staff representative considered. If the data suggested any such bias, it would be more a matter of coincidence. Expenditure control was the primary fiscal policy tool as opposed to changes in the revenue base. The sales tax would be the first significant revenue measure used for macroeconomic purposes. Decisions on the precise amounts to be paid by the SACU were made in October for the following fiscal year, so that expenditures could be adjusted in line with receipts.

The reconstruction of the road system might indeed offer Swaziland an opportunity to coordinate the secondary road network with the Rural Development Area Program, the staff representative remarked. There was a need to improve the transportation of agricultural commodities, particularly in the low veldt but also in the middle veldt, which in Swaziland was the fairly high central region. It was unlikely that there were any active plans in that respect, mainly because of the need to finance repairs to the secondary road system, which was not at a very advanced stage of reconstruction. The World Bank had provided much of the financing for the original road system, and it would probably be involved in the expensive reconstruction project.

A great effort had been made to provide vocational training, the staff representative from the African Department commented, but there was no indication that such training was any more or less effective in Swaziland than in other countries with similar programs. However, he agreed with the authorities that it was far more useful to spend money on vocational training, which would have a quick and high return, than on university and other higher level education.

Mr. Hansen remarked that he had listened with interest to Mr. Williams's reference to the possibility of making a more quantitative analysis, together with an evaluation of the underlying assumptions, in staff reports. He would welcome the staff's views on whether that would be possible in staff reports on Swaziland.

The staff representative from the African Department replied that it was of course most important to specify clearly the underlying assumptions in a quantitative analysis. The staff had tried hard to make a quantitative analysis and projection, and had even tried to indicate in the staff report the sectors that would be strongest in the medium term, as well as to predict the behavior of various items in the balance of payments. The analysis had however turned out to be more qualitative than quantitative because, as the Swazi authorities had argued, quantitative projections of either the balance of payments or the fiscal position would not be of much use at the present time, owing to the large significance in any projections of the costs of repairing the cyclone damage. If Swaziland decided later to request a drawing under the compensatory financing facility, the staff would certainly attempt to make quantitative projections and specify the underlying assumptions.

Mr. Mtei commented that his Swazi authorities did not consider that they were as restricted as the staff had suggested by their membership in the Rand Monetary Area. The normal power of a central bank to create credit, against an increase in the money supply, was not greatly impaired by the obligation of Swaziland to earmark a small part of its external reserves as cover for the issue of currency notes.

The authorities were trying to deal as forcefully as they could with the devastating effects of the cyclone, Mr. Mtei remarked, in an attempt to forestall a worsening of the economic situation. It had not been possible at the time of the staff mission to make an assessment of all the outlays needed to repair the infrastructure that had been either destroyed or damaged. Swaziland had in fact asked for technical assistance in assessing the precise costs from the United Nations Development Programme. Although the Swazi authorities would agree that it was necessary to monitor expenditures carefully, the emergency had made it difficult to determine whether spending on reconstruction was on current or capital account. The authorities would of course reorder their development expenditures in light of the calamities that had befallen them. They looked forward to bilateral as well as multilateral assistance in resolving their problems.

The Acting Chairman made the following summing up:

Directors were in broad agreement with the thrust of the staff appraisal for the Article IV consultation with Swaziland. They noted the slowdown in economic growth since 1982 due to drought, the recession in the Republic of South Africa, and the depression in the free market for sugar. These economic difficulties were compounded by the severe damage caused by the cyclone in January 1984. Directors welcomed the early start made on repairing the damage to the railroad and noted that, following its recent reopening, sugar exports had resumed. While delayed resumption of Swaziland's normal transportation facilities would have worsened the balance of payments position, Directors were nevertheless concerned about the effect of the cost of the repairs on Swaziland's external position, and expressed the hope that adequate foreign financing would be found.

Directors realized the difficulties of budgetary adjustment in a year when emergency expenses were required, but emphasized that these expenses only made adjustments in other aspects of budgetary policy more necessary. They therefore stressed the importance of a restrained budgetary policy, given the openness of the economy and the policy constraints arising from Swaziland's membership in the Rand Monetary Area, and felt that the likely fiscal deficit for 1984/85, after supplementary expenditures, was too high. Directors noted that the Swazi authorities have traditionally followed a cautious expenditure policy; they encouraged them to seek further improvement in expenditure control and a reordering of expenditure priorities based on a realistic appraisal of development needs, to avoid incurring further domestic arrears, and to ensure that spending limits were observed. The authorities were also encouraged to keep interest rate policy under review.

Directors welcomed the maintenance by Swaziland of a free exchange and trade system as well as the encouragement given to foreign investment in Swaziland.

Finally, it is expected that the next Article IV consultation with Swaziland will be held on the standard 12-month cycle.

The Executive Board then took the following decision:

Decision Concluding 1984 Article XIV Consultation

1. The Fund takes this decision in concluding the 1984 Article XIV consultation with Swaziland, in the light of the 1984 Article IV consultation with Swaziland conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Swaziland continues to maintain an exchange system that is free of restrictions on payments and transfers for current international transactions.

Decision No. 7700-(84/77), adopted
May 14, 1984

APPROVED: November 14, 1984

LEO VAN HOUTVEN
Secretary