

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 84/29

10:00 a.m., February 24, 1984

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

Executive Directors

J. de Groote
B. de Maulde
A. Donoso
R. D. Erb
M. Finaish
T. Hirao
J. E. Ismael
R. K. Joyce

G. Laske
G. Lovato
R. N. Malhotra

J. J. Polak

G. Salehkhoul

J. Tvedt
N. Wicks
Zhang Z.

Alternate Executive Directors

L. K. Doe, Temporary
H. G. Schneider
X. Blandin

M. K. Bush
T. Alhaimus

Jaafar A.

C. Robalino
G. Grosche
C. P. Caranicas
A. S. Jayawardena
J. E. Suraisry

K. G. Morrell

E. I. M. Mtei
J. L. Feito
A. Lind^a
T. A. Clark
Wang E.

L. Van Houtven, Secretary
R. S. Franklin, Assistant

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Also Present

Asian Department: X. Vongsathorn. Exchange and Trade Relations Department: C. D. Finch, Director; S. Mookerjee, Deputy Director; M. Guitian, S. Kanesa-Thasan. External Relations Department: D. D. Driscoll, H. O. Hartmann. Legal Department: G. P. Nicoletopoulos, Director; A. O. Liuksila. Research Department: W. C. Hood, Economic Counsellor and Director. Secretary's Department: J. W. Lang, Jr., Deputy Secretary; A. P. Bhagwat. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; D. Williams, Deputy Treasurer. Western Hemisphere Department: E. Wiesner, Director; S. T. Beza, Associate Director. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: S. R. Abiad, A. A. Agah, C. J. Batliwalla, J. Delgadillo, S. El-Khoury, L. Ionescu, W. Moerke, G. E. L. Nguyen, Y. Okubo, I. R. Panday, D. I. S. Shaw, D. C. Templeman. Assistants to Executive Directors: J. R. N. Almeida, I. Angeloni, R. L. Bernardo, J. Bulloch, M. Camara, M. B. Chatah, L. E. J. M. Coene, M. Eran, G. Ercel, I. Fridriksson, G. Gomel, V. Govindarajan, D. Hammann, A. K. Juusela, H. Kobayashi, G. W. K. Pickering, E. Portas, M. Rasyid, J. Reddy, C. A. Salinas, A. A. Scholten, S. Sornyanontr, Wang C. Y.

1. REPORT BY MANAGING DIRECTOR

The Managing Director observed that the legal agreements necessary to effect the \$6.5 billion commercial bank loan to Brazil had been successfully concluded on February 23, 1984. The first tranche of the loan--\$3 billion--would be disbursed in roughly three equal installments on March 8, March 15, and March 22, 1984. On a related matter, reports from the Fund mission currently in Brazil suggested that management would soon be in a position to propose to the Board the technical waivers of certain performance criteria--covering arrears, net domestic assets, and net foreign assets--that had not been satisfied at the end of 1983 because of delays in the completion of the commercial bank loan. The mission was scheduled to return to headquarters the following week, and he expected to be able to bring the proposal for a waiver to the Executive Board in the early days of March. If the Board agreed to the proposal, Brazil's first purchase from the Fund in 1984 could be made shortly thereafter.

2. INTERIM COMMITTEE - AGENDA

The Executive Directors considered the provisional agenda for the twenty-second meeting of the Interim Committee (EBD/84/47, 2/15/84).

The Chairman noted that the General Survey of the World Economic Outlook, which should be ready for circulation to Executive Directors in the course of the following week, concentrated on three main policy issues: sustaining recovery in the industrial countries; exchange rates and policy interaction; and debt, adjustment, and growth in developing countries. Following Board discussion of the Survey, he would prepare his usual memorandum on Main Issues in the World Economic Outlook for circulation in the first week of April.

In preparation for the other substantive item on the provisional agenda, the Executive Board would continue its consideration--probably on March 26--of the question of an SDR allocation. Staff material for that discussion was being prepared in light of the views of Executive Directors expressed a few weeks previously at EBM/84/15 (1/25/84). If it was agreeable to the Executive Board, he would report to the Interim Committee on the question of an SDR allocation on the basis of his summings up of the past Board meeting on January 25 and that to be held on March 26.

Mr. Erb said that he had no difficulty with the proposed agenda; his only question was one of procedure. Would the Chairman be following--and would he want Ministers to follow--the practice that had been employed in the past of covering all substantive items on the agenda in a single intervention?

The Chairman replied that, for a one-day meeting, he would lean instinctively toward a single intervention by Ministers as a way of ensuring that all who wished to do so would be able to speak. His own introductory remarks could be similarly presented.

Mr. Malhotra said that, whatever procedure was followed, he hoped that appropriate emphasis would be given to the report of the Managing Director on the question of an allocation of SDRs. In the past few meetings of the Committee, such reports had been limited to an indication that there was not yet sufficient support in favor of another allocation. He would propose that the Managing Director should provide a more substantive report, perhaps in the form of a position paper, setting out the pros and cons of the issue as well as the views of Executive Directors. His own feeling was that the matter should be discussed in the Interim Committee, both in the open session and separately, with a view to developing some consensus. In that context, while it was of course up to the Managing Director to decide how to make his statement, it might be better if the report on an SDR allocation was delivered separately, as a way of giving emphasis to the substantive nature of the item.

On another matter, Mr. Malhotra recalled an earlier discussion on the possibility of including in the provisional agenda a separate item on the debt situation. At the time, it had been felt that the issue was a complex one that might require greater preparation than was possible under the current timetable. The Managing Director had suggested that the matter might be covered substantively in the World Economic Outlook and in his introductory remarks on the Outlook. He hoped that that course would be followed, perhaps with some highlighting of the issues, which would facilitate comment by Ministers on the debt situation.

The Chairman replied that the debt question would be extensively covered in the World Economic Outlook paper and in his own statement. In that respect, it would be appropriate for Ministers and Governors to express themselves on debt matters in the framework of the general discussion on the World Economic Outlook; for the reasons indicated earlier, it would not be appropriate to have a separate item on the debt question.

While he understood Mr. Malhotra's preference for separate interventions on the World Economic Outlook and on the question of an SDR allocation, the Chairman continued, he was certain that it would be difficult to hold two separate rounds of discussion. Indeed, even with conservative estimates of 10-15 minutes of speaking time for each speaker, it would be impossible in a single day to cover the agenda with separate interventions on the two substantive items.

Mr. Malhotra said that he could appreciate the time constraint outlined by the Chairman and could accept a single statement so long as the item on SDR allocations was not submerged in a way that detracted from its importance. His main concern was the format of the report.

Mr. Laske stated that he could support the proposed agenda as set out in EBD/84/47. With regard to the handling of the substantive items on the agenda, the preference of his Minister was to make comments on the World Economic Outlook and on the question of SDR allocations in a single intervention.

Mr. Joyce remarked that, apart from the question of time, another reason for having a single intervention by Ministers was to ensure that different points of view on both the World Economic Outlook and the question of SDR allocations were voiced before the working luncheon, when preliminary indications were usually gathered in preparation for the drafting of the communiqué later in the day. Still, he agreed with Mr. Malhotra that the issue of SDR allocations should be properly highlighted in the Managing Director's introductory remarks.

Mr. Polak agreed with others that the provisional agenda was acceptable and that a single intervention by Ministers was the only feasible approach. However, it should be made clear that Ministers were being asked to make separate statements on Item 3--World Economic Outlook--and Item 4--Report of the Managing Director on the Question of an Allocation of SDRs--although at a single turn at the microphone.

Mr. de Maulde observed that, if the Managing Director was himself going to make a single statement on Items 3 and 4, it might be preferable to change Item 4 to read simply "Question of an Allocation of SDRs."

The Secretary commented that there were precedents for referring to the "Report of the Managing Director" language which had been used in the past and, incidentally, which avoided confusion with reports of the Executive Board. Still, there was nothing to prevent Mr. de Maulde's suggestion from being accepted.

Mr. Erb stated that his own preference was to leave the language as it stood to avoid any confusion with a report of the Executive Board listing the pros and cons of an allocation and calling for a consensus. In that connection, he was not certain that the Managing Director's report should be so broad in scope as was being suggested by some Directors. Normally, the responsibility of the Managing Director was only to inform Ministers whether or not there was a sufficiently broad basis of support for an SDR allocation.

Mr. Malhotra said that he preferred Mr. de Maulde's suggestion for a more general title for Item 4 precisely because the Report of the Managing Director was traditionally so narrow in scope. His feeling was that the agenda item should promote discussion, which was why he had proposed putting forward a position paper on the matter. Moreover, the information developed by the staff for the Board discussions should be made available to Ministers to encourage discussion of the issues.

Mr. Wicks commented that he also favored a single intervention by Ministers on the substantive items on the provisional agenda. In September, the unforeseen extension of discussion in the Interim Committee had cut into the scheduled Development Committee dinner, and he would not wish to see that unfortunate development repeated in April.

With regard to the title of agenda Item 4, his preference was to maintain the language proposed in EBD/84/47, although it was clear that a change in title would probably not change what Ministers planned to say on

the matter. He had some doubts about whether the Report of the Managing Director should take the form of a position paper. The discussions on an SDR allocation thus far had raised complicated technical and political issues, and the Board was nowhere near a consensus at the present stage. Once Directors were nearer a consensus, a position paper could be put forward that isolated two or three important items on which Ministers could focus, but it was premature to adopt such an approach for the April meeting. Still, in his report, the Chairman could indicate some of the issues that had been discussed in the Board.

Mr. Salehkhon considered that there was much logic in Mr. Malhotra's views. Whether it was better to present a position paper to Ministers or to provide for a more detailed Report by the Managing Director was a matter of judgment; however, it was clear that the question of an SDR allocation had not been given much prominence in the past, and the time had come for a more substantive discussion. The way in which the subject was presented in the agenda did not give a clear indication to Ministers about the extent to which they should focus on the issue.

With regard to the question of external debt and its treatment in the World Economic Outlook, Mr. Salehkhon noted that the crisis was far from resolved; a study of the sequence of past events showed that a crisis situation could easily reappear, and the subject thus deserved emphasis. Perhaps a task force on external debt could be formed to monitor the situation and to provide advance warning so that an impending crisis could be dealt with before the debt problem got out of hand.

Mr. Morrell said that, like others, he could support a single intervention by Ministers, and he agreed with Mr. Wicks and Mr. Erb that Item 4 should remain a Report of the Managing Director on the Question of an Allocation of SDRs. His own recollection of previous reports was that they were a fair and comprehensive summing up of the Board's discussions on the subject and not simply an indication of whether or not sufficient support for an allocation existed. Changing the title of the agenda item to "Question of an Allocation of SDRs" would require additional papers for transmittal to Ministers, and agreement on those papers could be time consuming. Finally, with regard to the item on the World Economic Outlook, it might help Ministers if a footnote were added to the agenda indicating the structure of the World Economic Outlook paper, along the lines mentioned by the Chairman in his opening remarks.

Mr. Lovato stated that, for the reasons expressed by others, he would prefer a single intervention by Ministers and the original wording for Item 4 of the provisional agenda.

Mr. Suraisry said that he too could support a single intervention by Ministers at the Interim Committee meeting. On the matter of the item on SDR allocations, he agreed that the importance of the issue should not be minimized, either through the procedure for a single intervention or in the analysis of the issue provided by the Managing Director and by Ministers themselves.

Mr. de Maulde stated that, on reflection, he could go along with the original wording for Item 4 on the provisional agenda, provided that the subject was given a place in the communiqué.

Mr. Hirao commented that, like others, he was in favor of a single intervention by Ministers and of the original language for Item 4 of the provisional agenda.

Mr. Zhang wondered about the possibility of circulating to Interim Committee members the staff paper that would be prepared for the March 26 Board meeting on SDR allocations.

The Chairman said that the intention was to hold a substantive discussion on March 26 on the basis of a new staff paper that had been requested by the Executive Board. His summing up of that discussion, together with his summing up of the discussion on January 25 would be presented to the Interim Committee; and it was his understanding that a number of Directors wished his summing up to be substantive and to reflect the various issues and concerns that had been underlined--or would be underlined--in the two Board discussions. He would do his best to fulfill that desire. It was another matter entirely to transmit a position paper from the Executive Board to Ministers; such a paper would have to be carefully worded, and the effort to reach agreement on the wording could lead to rigid positions by Executive Directors on the issue at hand. The staff papers on which the Executive Board discussions had been or would be based would in any event be passed on by Directors to Ministers informally, and the information and analyses therein would be available for Ministers to use in putting forward their arguments on the question of an SDR allocation.

Mr. Malhotra observed that it might be better to wait until after the March 26 Board discussion to decide whether a position paper was needed. And there were ways in which the Managing Director could word his report on the question of an SDR allocation that would serve the purpose of position paper without leading to some of the complications that the Chairman had mentioned.

The Executive Directors then turned to Mr. Morrell's suggestion for incorporating in the agenda a footnote under Item 3 that would indicate the three main policy issues that would be focused upon in the World Economic Outlook.

Mr. de Maulde said that he was open-minded about whether or not the subheadings of the World Economic Outlook should be referred to in the provisional agenda, especially since they would no doubt be incorporated in the Managing Director's introductory remarks.

Mr. Laske commented that he too was indifferent about whether Mr. Morrell's footnote should be included. As Mr. Wicks had noted earlier, Ministers would say what they wished, regardless of whether they were guided by a footnote in the agenda.

Mr. Erb noted that, initially, he had been inclined toward Mr. Morrell's suggestion. However, it had occurred to him that there might be other issues, such as trade protectionism, on which Ministers might wish to speak; and it would be better not to limit the subject matter by including a footnote of the sort proposed by Mr. Morrell.

The Secretary commented that it might be helpful to include a footnote suggesting that members of the Committee should address Items 3 and 4 of the provisional agenda in a single intervention.

The Executive Board then agreed to the provisional agenda in EBD/84/47, amended to include a footnote stating "It is suggested that members of the Committee address Items 3 and 4 in a single intervention." The Chairman of the Interim Committee would be informed of the Board's acceptance of the provisional agenda, which would be transmitted to the members of the Interim Committee in the usual manner.

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/84/28 (2/22/84) and EBM/84/29 (2/24/84).

3. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/84/38 (2/22/84) is approved.

APPROVED: August 10, 1984

LEO VAN HOUTVEN
Secretary