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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 84/162

3:00 p.m., November 7, 1984

J. de Larosière, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors	Alternate Excutive Directors
	w. B. Tshishimbi
C. H. Dallara	M. K. Bush
	H. G. Schneider
B. de Maulde	X. Blandin
M. Finaish	
H. Fujino	T. Yamashita
G. Grosche	B. Goos
J. E. Ismael	
R. K. Joyce	L. Leonard
A. Kafka	
	A. S. Jayawardena
	A. Abdallah
F. L. Nebbia	B. Jensen
Y. A. Nimatallah	J. E. Suraisry
P. Pérez	
J. J. Polak	T. de Vries
A. R. G. Prowse	A. V. Romuáldez
G. Salehkhou	
J. Tvedt	A. Lindø
N. Wicks	T. A. Clark
S. Zecchini	N. Coumbis
Zhang Z.	Wang E.

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

Also Present

Administration Department: J. D. Huddleston. African Department: A. D. Ouattara, Director; F. d'A. Collings. Asian Department: Tun Thin, Director; P. R. Narvekar, Deputy Director; H. Neiss, Deputy Director; K. A. Al-Eyd, L. H. De Wulf, M. J. Fetherston, K. Saito. Central Banking Department: J. B. Zulu, Director; L. M. Koenig, Deputy Director. European Department: E. O. C. Brehmer, R. P. Hicks. Exchange and Trade Relations Department: C. D. Finch, Director; W. A. Beveridge, Deputy Director; M. Guitián, Deputy Director; M. Allen, E. H. Brau, S. Kanesa-Thasan. External Relations Department: C. S. Gardner, Deputy Director; Zhang Z. Fiscal Affairs Department: V. Tanzi, Director. Legal Department: G. P. Nicoletopoulos, Director; Ph. Lachman, S. A. Silard. Research Department: W. C. Hood, Economic Counsellor and Director; A. D. Crockett, Deputy Director; R. R. Rhomberg, Deputy Director; C. P. Blackwell, D. J. Goldsbrough, N. M. Kaibni, J. S. Smith. Secretary's Department: J. W. Lang, Jr., Deputy Secretary; A. Wright, Deputy Secretary; J. C. Corr, A. P. Bhagwat, G. Djeddaoui. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; D. Williams, Deputy Treasurer; W. L. Coats, Jr., D. S. Cutler, A. W. Lake, T. B. C. Leddy. Western Hemisphere Department: S. T. Beza, Associate Director. Bureau of Statistics: M. J. Brimble. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: A. A. Agah, S. M. Hassan, G. E. L. Nguyen, P. Péterfalvy, G. W. K. Pickering, M. Z. M. Qureshi, T. Sirivedhin, A. Steinberg, E. M. Taha, D. C. Templeman, A. Vasudevan, M. A. Weitz. Assistants to Executive Directors: E. M. Ainley, J. R. N. Almeida, M. B. Chatah, Chen J., L. E. J. M. Coene, J. de la Herrán, G. Ercel, N. Haque, G. D. Hodgson, J. M. Jones, A. K. Juusela, H. Kobayashi, K. Murakami, E. Olsen, T. Ramtoolah, M. Rasyid, D. J. Robinson, C. A. Salinas, A. A. Scholten, Shao Z., L. Tornetta, A. J. Tregilgas, E. L. Walker, Wang C. Y., B. D. White.

1. PEOPLE'S REPUBLIC OF CHINA - 1984 ARTICLE IV CONSULTATION

The Executive Directors resumed from the previous meeting (EBM/84/161, 11/7/84) their consideration of the staff report for the 1984 Article IV consultation with the People's Republic of China, together with a proposed decision concluding the 1984 Article XIV consultation (SM/84/221, 10/3/84; and Sup. 1, 11/1/84). They also had before them a report on recent economic developments in China (SM/84/229, 10/24/84; Cor. 1, 11/6/84; and Cor. 2, 11/7/84), together with the full text of the October 1984 decision of the Central Committee of the Communist Party of China on the reform of the economic structure (EBD/84/277, 10/29/84; and Cor. 1, 11/5/84).

The Deputy Director of the Asian Department said that the staff was still in the process of learning a great deal about the economy of China. A fully centrally planned economy presented particular analytical problems, but an economy that was in the process of transition from full central planning to a mix of planning and market signals presented even greater challenges. Indeed, the Chinese authorities themselves acknowledged that the process of reform would not be easy and that the various elements of the reform would have to be kept consistent with each other; therefore, while they had committed themselves to moving in the direction of greater reliance on market forces, they were convinced that it would be best to proceed gradually.

The authorities had stressed that two important features of a socialist system would remain of primary consideration for them, the Deputy Director continued; namely, an egalitarian distribution of income and a significant degree of state ownership of the means of production, distribution, and exchange. However, they were not aiming at completely equal incomes for all workers; indeed, greater wage differentiation to reflect skill and productivity differences was an important element in the process of reform. Similarly, while indicative planning would be used to increase the flexibility and efficiency of the economy, mandatory planning would continue to play an important role in economic management. It was difficult to be precise about the proportion of GDP subject to each form of planning, but the available evidence suggested that although still sizeable, the role of mandatory planning was relatively smaller in the agricultural sector. Furthermore, the proposed reduction from 120 to 60 in the number of industrial commodities covered by mandatory planning did not reflect accurately the decreasing scope of mandatory planning because the most important commodities would continue to be subject to the planning approach. With regard to prices, while there was a tendency for the prices of goods subject to mandatory planning to be controlled and for those subject to indicative planning to be flexible, the relationship was not exact. In the agricultural sector, where the prices of agricultural consumer goods were more likely to be set freely, the relationship was somewhat clearer.

Some prices had remained unchanged for many years irrespective of demand and supply conditions, the Deputy Director stated. Using international prices as a yardstick, raw materials tended to be underpriced and manufactured goods tended to be overpriced; for example, energy, coal and fuel oil were substantially underpriced while gasoline and kerosene were relatively highly priced. A similar pattern could be seen in other industries, such as steel. However, the magnitude of the economic loss arising from such distortions was difficult to quantify. The World Bank staff had developed a composite "distortion index" in an attempt to measure the effect of price distortions on GNP in various countries, but had found insufficient information with which to construct such an index for China.

The relationship between the newly developed instruments of macroeconomic policy and long-term structural change was important, the Deputy Director remarked. Measures such as tax reform and greater use of interest rate policy had implications for both short-term stabilization and for longer run growth. Under the new tax measures, enterprises would be subject to an income tax that would place the financial relationship between enterprises and the budget on a new legal basis and on a sounder footing. Until recent years, all the profits of enterprises had been automatically transferred to the budget, and, conversely, losses had been met directly out of the budget. The new system was expected to give greater freedom to enterprises, thereby helping to increase output and profitability and enhance the buoyancy of revenues to the State through the income tax. Similarly, the intended greater use of interest rates as an instrument of policy would help both the process of short-term stabilization and the long-term allocation of investment resources. The staff did not have full information on the extent to which shadow prices were used in the planning of investment, although accounting prices were used to some degree in the central plan.

The price indicators normally used to assess the appropriateness of the rate of monetary expansion were not adequate in China's case, the Deputy Director went on, because a large proportion of the prices in the price index were controlled. Furthermore, although the authorities were making progress, the index was not published with sufficient frequency. It was, therefore, particularly difficult to make a firm judgment on the appropriate rate of monetary expansion. When, as in the present circumstances of China, rapid economic transformations were taking place. However, the staff had suggested that the authorities should err on the side of caution. The authorities had usually focused on currency in circulation as the appropriate monetary aggregate, because the emphasis of policy had been on stabilizing the prices of consumer goods. In the absence of checking accounts, currency in circulation was a reasonable measure of the liquidity position of households. However, the situation was changing as savings accounts were being used on a larger scale and could be substituted for currency. Similarly, the freely usable balances of enterprises had increased. Thus, the staff believed that the authorities should monitor a broader measure of liquidity. The broad-based measure of liquidity had increased by 15 percent in 1982, 19 percent in 1983, and about 23 percent thus far in 1984, although it was expected to decline slightly in the second half of 1984. In light of those rates of monetary growth, the staff believed that an appropriate degree of monetary restraint should be exercised so that the process of price reform was not undertaken in an environment of high inflation.

Many Directors had commended the authorities' restrained fiscal policy, the Deputy Director observed. In view of the tradition of fiscal restraint, the staff had not urged the authorities to use the higher than expected increase in revenues to reduce the budget deficit. Furthermore, there were a number of areas of expenditure that had been underfinanced in recent years and in which additional outlays could be incurred without damaging the authorities' fiscal stance, particularly if bank financing for the budget deficit was kept under control. To that end, the authorities were considering the staff's suggestion that greater use be made of Treasury bond issues. In the medium term, because they complicated the management of budgetary policy, the authorities intended to reduce expenditures on subsidies, but the reductions would be offset by increases in wages in order to protect real income. On the revenue side, it was expected that the economic reforms would help to boost revenues through better enterprise performance, as the revenue reduction effects of providing increased financial autonomy to enterprises had already taken place with the earlier introduction of profit retention schemes. The staff was confident that the authorities would not permit the budget deficit to increase unduly.

While wages would be raised to some extent to offset the price increases resulting from the reduction in subsidies, the Deputy Director said, further increases in real wages would depend on the distribution of the benefits of higher productivity. The staff had not looked into the question of whether real incomes could be protected through reductions in sales taxes, as one Director had suggested. The rates of sales tax differed widely and it might therefore be difficult to design a set of reductions that would provide appropriate compensation.

The banking system was being strengthened in the rural areas in order to tap the increase in savings in the agricultural sector, the Deputy Director stated--for example, through an increase in the numbers of branches of the Agricultural Bank and of the rural credit cooperatives. The authorities had also been using interest rate policy in recent years to try to attract the sharp increase in rural savings into the banking system. More generally, interest rate policy was still in the process of evolution. In the past, all lending had been for fixed investment purposes, while working capital needs had been provided through the budget at no interest cost on the premise that because all factors of production were owned by society, they should be available to society without payments or obligations. In the present situation, however, the banking system was becoming increasingly important; even budgetary resources were being lent at varying interest rates and with repayment obligations. Nevertheless, a fully developed interest rate policy and a coherent term structure of interest rates had yet to emerge.

The development of a capital market was also in its early stages, the Deputy Director noted, and the authorities did not consider it an urgent issue in light of China's present level of development. The question would need to be given further consideration in the near future as the autonomy of enterprises increased and as the financial links between various enterprises grew more complex. Enterprises were increasingly granting credits and engaging in other forms of financial transactions, including the issuance of shares, although the latter had only been undertaken in very small amounts and, in fact, were in some respects unlike shares issued by companies in other economies. Furthermore, at present there was no secondary market in Treasury bonds, nor was there a system of mortgage financing. As savings increased, especially in the rural areas, it would be essential to develop the capital market in those directions.

The staff did not recommend a policy of aggressive external borrowing by China, the Deputy Director stated. It supported the authorities' view that active, but prudent, borrowing would be appropriate and that, to the extent possible, such borrowing should be on concessional terms, given the low level of per capita income. Of course, concessional finance was not always easily available and there were certain projects that could appropriately be financed through commercial borrowing. In view of China's credit rating and its strong balance of payments position, a reasonable amount of such borrowing should be feasible, although as the authorities maintained, it would take time for China to become acquainted with and to be readily accepted in the commercial market.

The narrowing of the gap between the official exchange rate and the internal exchange rate was welcome, the Deputy Director commented, and the present situation presented a good opportunity to unify the rates. With regard to the competitiveness of Chinese products, exports had increased rapidly, and there had been impressive gains in market shares, but an analysis by the staff had shown that there was not a strong relationship between exports and relative prices. The dominant factor in the growth of exports had been increased output. Furthermore, the linkages between the exchange system and the domestic price system were complex. It was therefore difficult to draw firm conclusions about the competitiveness of Chinese products. Similarly, in view of the continuing transformation of the economy, it was difficult to make firm projections at present about the medium-term balance of payments outlook. The staff's analysis of the balance of payments in Appendix 7 of SM/84/221 simply described a possible scenario, the realization of which depended on certain assumptions that might be considered reasonable. As the process of economic reform went on, the structure of foreign trade would have to change, with the result that the domestic cost of exports should be lower and import substitution should become more rational.

The staff of the World Bank had reviewed the Fund staff's report for the 1984 Article IV consultation, the Deputy Director from the Asian Department said, and had been in broad agreement with the analysis and the recommendations therein. It had been several months since the last full-scale economic mission by the World Bank to China. A member of the Fund staff had participated in that mission, the report of which should be available within a few months. While China was at present the third largest borrower from the Bank on a commitment basis, disbursements remained small. The staff hoped that the report for the 1985 Article IV consultation would be able to take into account more fully the World Bank's views on a number of the issues raised by Directors at the present meeting, particularly concerning the planning framework.

The staff representative from the Asian Department remarked that the proportion of food grains procured by the State had averaged about 20 percent in recent years. The ratio had been declining, mainly because output had been expanding rapidly while state procurement had been relatively constant--between 70 and 80 million tons a year. Procurement at that level did not appear to have created problems; indeed, there had been reports in the press that producers were willing to sell more than the Government was prepared to buy. In the years ahead, food grains would remain within the state procurement system, although it was expected that the amount sold through the free market would continue to increase. At present, producers could sell about a fourth of their production in the market, and it had recently been announced that the transportation of food grains across provincial borders would be permitted.

Considerable progress had been made in improving infrastructure associated with the Special Economic Zones in the south of the country, such as harbor facilities, airports, industrial sites, and water supplies, the staff representative continued. In addition, arrangements to facilitate direct investment had been completed, including notice of tax incentives, arrangements for profit remittances and for raw materials procurement, rules governing the sale of products in Chinese markets, and regulations regarding the employment and dismissal of workers. Those developments had helped to clarify the position relating to foreign direct investment and had alleviated some of the uncertainties influencing potential investors. As a result, there had been a sharp increase in the approval of direct foreign investment in the second quarter of 1984.

According to the information gathered by the staff, the savings ratio in the rural areas was considerably higher than in other areas, the staff representative from the Asian Department noted. Part of the explanation was that shortages of consumer goods had been more severe in rural areas, although a more important factor had been the relatively rapid increase in income in those areas in recent years. Furthermore, Chinese peasants had a tradition of relatively high savings, and the difference in the savings pattern between rural and urban areas might, therefore, be expected to continue for some time.

Mr. Zhang stated that the recent decision of the Central Committee constituted a blueprint for the future reform of the Chinese economy. However, in the present circumstances, the authorities believed that it was realistic only to aim at implementing the reform over a five-year period. First, many economic mechanisms and institutions had historical origins and could not, therefore, be changed rapidly. Second, the decision presented only a broad framework indicating the direction and objectives of the proposed changes. A number of detailed policies had yet to be developed, and those policies would have to be selected and changed in response to ever-changing demands and circumstances. Third, the problem was further complicated by the great diversity of economic conditions in the country. The basic approach to reform was to blend planning and market forces, centralized and decentralized decisions, state control and grass roots initiative. It would not be easy and it would take time to arrive at the appropriate blend of those elements.

The authorities were attempting to find satisfactory solutions to the various problems noted by Directors so that the reform could be put on a firmer footing in the medium term, Mr. Zhang continued. The most important questions included: how to link price and wage reforms and to implement them in conjunction with a steady increase in real wages; how to deal with the possible unemployment problems that could arise as a result of the reorganization of enterprises; how to make proper, maximum use of imported foreign technology; how to develop the forward and backward linkages between the Special Economic Zones and the rest of China; and how to change the composition of exports from traditional commodities to those goods for which world demand was rising. The Government was at present in the process of formulating the seventh Five-Year Plan, which would be published in 1985. It would then be possible to answer many of the questions raised by Directors at the present meeting.

The Chairman made the following summing up:

> Directors expressed their admiration for the remarkable achievements of the Chinese economy in recent years. Income growth in 1983 and 1984 had been again impressive, permitting a substantial improvement in both urban and rural living standards. The recorded rate of price increases had remained low. The balance of payments continued to be strong, despite an unfavorable world economic situation and a strong growth of imports, and external reserves had risen to a comfortable level. Fiscal policies had remained cautious, and budget deficits had been kept to a level well below 2 percent of GDP, of which less than half had been financed by the banking system. Directors noted, however, that there were indications of excess demand pressures and that shortages and bottlenecks continued in some areas.
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> Directors welcomed the reform measures introduced in recent years, and expressed appreciation of the pragmatism and flexibility shown by the authorities. They recognized the contribution of the reforms to stimulating production by forging a stronger link between the efforts of peasants and workers and the rewards received by them. Reforms had, thus far, been most extensive in the rural areas, where production and distribution were now regulated by contracts between the peasants and the

communes, and where the results, in terms of output growth, had been most impressive. Directors welcomed the recent decision of the authorities to proceed with further reforms, concentrating on the urban economy. They supported the authorities' resolve to reduce the scope of mandatory planning, to extend the roles of indicative planning and market forces, to strengthen incentives, and to provide greater autonomy to state enterprises. The intentions to encourage competition and give greater scope to the private sector were also welcomed. At the same time, it was observed that the scope of mandatory planning in industry and agriculture would remain important.

Directors noted that, despite the generally favorable developments, the economy still faced a number of difficulties, and that economic success, by itself, created new problems. Foremost among the challenges were the low level of enterprise efficiency and a somewhat distorted price structure. The authorities' determination to tackle those problems was greatly welcomed. Success in those efforts would benefit budgetary revenues, which were heavily dependent on enterprise profitability. A number of Directors stressed that the reabsorption of excess labor arising from increased productivity in the course of economic reform constituted a major challenge to the authorities.

Another area of concern noted by Directors was the continuation of excess demand pressures leading to shortages, delays in project implementation, and unauthorized price increases. A number of Directors found it difficult to pass judgment on the question whether recent growth rates in liquidity might have been somewhat excessive. However, the priority attached by the authorities to the avoidance of inflation argued for a cautious monetary policy, which required limiting credit expansion to a rate reasonably in line with the growth of production, taking into account the increasing monetization of the economy. In that context, Directors noted that it was difficult to gauge how much further the reduction in the velocity of circulation could be expected to go. Directors believed that a cautious monetary policy would be an essential complement to the proposed price reform and to measures granting increased financial responsibility to enterprises. They also believed that, in light of recent increases in the proportion of total savings generated in the household and enterprise sectors, development of new savings instruments and means of financial intermediation would contribute to a better allocation of investment resources. The recent division of the central banking and the commercial functions of the People's Bank of China had established the basis for the development of the necessary monetary instruments to regulate credit expansion. In that connection, Directors welcomed the recent announcement of differential interest rates on the specialized banks' deposits with and loans from the People's Bank. They agreed with the staff's suggestion that additional sales of treasury bonds could contribute to the containment of liquidity growth. Directors also welcomed the greater use of macroeconomic measures to increase the share of investment financed by the Central Government. They agreed on the need to ensure adequate financing for priority projects, which in previous years had borne the brunt of measures to restrain demand.

Directors welcomed the recent decision to initiate a price reform that would considerably expand the scope of flexible and market-determined prices. They stressed that an appropriate price system was indispensable to the success of other elements of the reform process. To provide appropriate signals to enterprises, the system should yield prices that reflected both costs of production and relative shortage, and that were more in line with prices prevailing internationally. They also welcomed the decision to reduce subsidies through price adjustments. Several Directors noted that a price reform was a delicate matter that could only be put into place gradually; nevertheless, they emphasized the substantial benefits that early action could bring. Many Directors observed that the present favorable economic situation provided a timely opportunity for tackling price and subsidy problems. It was also observed that improvements in the quality and timeliness of the price indices would assist the authorities in the early identification of incipient inflation.

More generally, Directors commented on the multiple linkages between the various aspects of the reform process, which made it a complex task for the authorities to move forward in a balanced and coherent manner. They stressed the need to develop more diversified macroeconomic tools in addition to the fundamental price reform. In that context, they noted that the prospective substantial impact of the reforms on budgetary revenue and expenditure called for continuous cautious fiscal policies in the coming years.

Directors noted that the balance of payments position was strong, despite the marked increases in imports since 1983. They commended the authorities for their policies of gearing the expansion of imports to the absorptive capacity of the economy and to the alleviation of supply bottlenecks. Some Directors believed that, in conjunction with the price reform and considering the present high level of reserves, there was scope for a prudent further expansion of imports in the short term. Directors welcomed the new measures to attract foreign direct investment, as such investments could play an important role in attracting foreign savings, technology, and managerial skills.

The internal settlement rate used for foreign trade transactions had been introduced in 1981 on an experimental basis, Directors noted. It had not been changed since, and remained a temporary measure that was under active review by the authorities. Directors observed that the differential between the official exchange rate and the internal settlement rate had gradually narrowed to about 5 percent, and a number of Directors expressed the hope that the authorities would seize the present opportunity to unify the exchange rate. Directors endorsed the view that the selection of an exchange rate system that corresponds to China's needs was an important complement to the price reforms.

Directors welcomed the improvements in statistics supplied for Fund publications and for the consultation reports. They supported the ongoing efforts of the authorities and of the staff to improve statistics further and to broaden the coverage of Chinese data in Fund publications.

It is expected that the next Article IV consultation with China will be held on the standard 12-month cycle.

The Executive Directors then took the following decision:

1. The Fund takes this decision relating to the People's Republic of China's exchange measures subject to Article VIII, Section 3, and in concluding the 1984 Article XIV consultation with China, in the light of the 1984 Article IV consultation with China conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. China continues to maintain restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV. The Fund notes with satisfaction the intention of the authorities to eliminate the remaining bilateral payments arrangements with Fund members. The maintenance by China, in addition to the official rate, of an internal settlement rate for trade transactions and an exchange tax on remitted profits of joint ventures, gives rise to a multiple currency practice subject to approval under Article VIII, Section 3. The exchange restrictions, multiple currency practices and bilateral payments arrangements that relate to this decision are described in SM/84/221 (10/3/84), and Supplement 1 (11/1/84), and in SM/84/229 (10/24/84).

Decision No. 7836-(84/162), adopted
November 7, 1984

2. WORK PROGRAM

Executive Directors considered the work program until the spring 1985 meetings of the Interim and Development Committees, together with a tentative schedule of Executive Board meetings (Secretary's Circular No. 84/121, Rev. 1, 11/6/84).

The Managing Director made the following statement:

With the Annual Meetings of the Boards of Governors and meetings of the Interim and Development Committees behind us, we should hold the customary exchange of views on our Work Program for the coming months in the light of the guidance provided by Governors and the Committees during these meetings. As you know, the spring 1985 meetings of the Interim and Development Committees are scheduled to take place on April 17-19. Accordingly, in this statement I shall cover the main elements of the work program for the period through April 1985. If needed, a midterm review of this work program could be carried out in January 1985.

1. Enlarged access policy, access limits for 1985 and Fund liquidity

As far as the Enlarged Access Policy and Access Limits for 1985 are concerned, we need a short paper from the staff incorporating proposed decisions, in order to formalize and give effect to the understandings reached by the Interim Committee concerning the continuation of the enlarged access policy in 1985 and the access limits that would be applicable under that policy. This paper has been circulated and placed on the agenda for November 16.

A staff paper for the next semiannual review of the Fund's liquidity position and financing needs has been tentatively scheduled for consideration on March 29.

2. Surveillance and world economic outlook

A staff paper on surveillance, to be issued in mid-February, has been placed on the agenda for March 15. The first part of this paper will provide the annual review of the implementation of surveillance, which, as Directors will recall, should be completed by April 1, 1985 in accordance with the procedures for surveillance and the Executive Board decision on surveillance taken last year. The second part of the paper will be concerned with the impact that the exercise of surveillance should have on the issues that the Fund has been asked to study for the April 1985 meetings of the Interim and Development Committees (cf. pp. 2-4 below). Indeed the Fund has, during the Annual Meetings, received a strong mandate inviting it to enhance the effectiveness of surveillance. I was struck by the commitment expressed by Governors from a broad spectrum of the membership for effective, evenhanded Fund surveillance. For example, Secretary Regan affirmed that "the United States is prepared to move ahead decisively to strengthen international surveillance" and expressed support for such measures as increased public awareness of Article IV consultations with member countries, and a greater use of ad hoc consultations between the Managing Director and Finance Ministers. Sentiments similarly supportive of effective surveillance were expressed by many Governors, as can be ascertained from the compilation of Excerpts from Governors' Speeches that has been circulated to the Executive Board on October 5, 1984. I would like to invite Executive Directors to give specific indications and make practical suggestions to convert the declarations of collective political will into practical results.

Two papers are planned for the World Economic Outlook exercise under the current work program. The "General Survey" paper will cover, as usual, recent economic developments and short-term prospects, and will examine the key policy issues that arise in this context. It will accent, in particular, the various aspects of policy interdependence, both within and among member countries, as well as between industrial and developing countries. Executive Board discussion has been scheduled on April 1.

The second World Economic Outlook paper will focus on "Medium-Term Prospects and Issues," and will be part of the preparatory work for the spring meetings of the Interim and Development Committees (cf. pp. 2-4 below). It will analyze the factors that affect the balance of payments and debt prospects of member countries in the medium term and discuss the economic policy issues that arise in this context. The paper will present alternative scenarios of economic developments over the period to 1990. It will give attention to the developments and policies within the industrial countries that are likely to affect the environment for financing, adjustment, and growth in developing countries. These developments and policies include both macroeconomic and structural policies and the impact that they can have on variables such as the growth of output and trade, inflation, interest rates, and exchange rates. The paper will also discuss ways in which policies adopted by developing countries themselves can affect their capacity to achieve satisfactory growth of output, exports, and investment in a given world environment. The paper will conclude by presenting the economic policy issues that arise in a medium-term context, for both industrial and developing countries, and will attempt to reach conclusions concerning the types of policies that would contribute most to resolving debt problems and promote growth and adjustment as well as other internationally agreed objectives.

It is planned to circulate this paper in the second week of March so that it would be available as a background document for the Board discussion on external indebtedness and capital flows scheduled on March 20-22 (cf. p. 3 below). Executive Board consideration of this second World Economic Outlook paper is scheduled on April 3.

It is the intention to publish the World Economic Outlook studies soon after the meetings of the Interim and Development Committees. Executive Directors will be informed about the publication plans, including procedures and timetable for prepublication clearance from the Executive Board.

3. Other preparations for the April 1985 Interim and Development Committee meetings

In the recent communiqué of the Interim Committee, it is stated that "at its next meeting, the Committee will discuss, in a medium-term framework and in the context of the global financial environment and the current approaches toward resolving debt problems, certain issues relating to the adjustment efforts and balance of payments prospects of member countries. These will include external indebtedness, international capital flows, trade policies, and the role of Fund surveillance in dealing with these issues. In this connection, it called on the Managing Director to prepare, in the framework of the Fund's competence, background papers for consideration by the Executive Board, and to report to the next meeting of the Committee, in order to provide a basis for its discussion of these issues."

The special papers on surveillance and world economic outlook mentioned above would form a very important part of the April 1985 agenda of the Interim Committee. In addition, the staff will prepare the following background papers for Board discussion. A report will be prepared on commercial bank lending to developing countries, which will include an assessment of the prospects for the evolution of bank debt restructuring toward a multiyear approach and of the prospects for the resumption of normal access by these countries to international credit markets. Another paper will examine developments in official debt reschedulings and their future role. A further paper will discuss developments and issues concerning official export credits for countries experiencing payments difficulties and improvements. A fourth area to be covered is that of protectionism and trade policies which continue to warrant close scrutiny and a report will be drafted examining recent trends in trade practices in selected developed and developing member countries. These papers will pay due attention to policies that promote adjustment and conditions conducive to growth. The report on trade policy issues and developments is tentatively planned for Executive Board consideration on March 18 and the three papers on external indebtedness and international capital flows are to be discussed on March 20, and would be continued, if necessary, on March 22.

My report to the Interim Committee, called for in the Committee's communiqué, will draw on Executive Board discussion of the staff papers mentioned above on surveillance, world economic scenarios in the medium term, external indebtedness and capital flows, and trade policy issues--and on the material contained in these papers.

The recent communiqué of the Development Committee stated that "at an extended meeting in spring 1985, the Development Committee will discuss, within the context of a medium- to long-term framework and the current approaches toward resolving debt problems, the structural and development aspects of the problems of developing countries in their efforts to achieve sound economic growth. These include, inter alia, external indebtedness, protectionism, commodity prices, interest rates, the structure of capital flows, and obstacles to direct investment and equity capital flows. In this connection, it called on the Managing Director of the Fund and the President of the World Bank to prepare in close collaboration, contributing from the perspective of their respective mandates and conferences, background papers for submission, after consideration by their respective Executive Boards, to the next meeting of the Committee."

Some of the topics referred to in the Development Committee communiqué will be covered in the staff papers mentioned earlier in this section. Most of the preparation in the areas of structural change and development in the medium to long term will be included in the work program of the World Bank. On issues of common interest to the Fund and the Bank, the two staffs are working in close collaboration. The Fund staff will prepare for consideration by the Committee of the Whole on the Development Committee a paper, from the perspective of the Fund's mandate, on topics raised in the Development Committee's communiqué. This paper will draw on the relevant background papers mentioned earlier in this section, as well as on the views expressed at the Board on these subjects. It will be prepared in close consultation with the Bank and it will be coordinated with the documents that are to be prepared in the Bank for the Development Committee meeting. This paper will be for consideration by the Committee of the Whole on the Development Committee in early April and the timing will be coordinated with the preparations in the World Bank. My report to the Development Committee will draw on that staff paper and its discussion in the Committee of the Whole.

4. SDR matters

With regard to the question of allocations of SDRs, the latest communiqué of the Interim Committee notes that "...the Committee recognizes that the matter should be kept under close and continuing consideration. Therefore, it urged the Executive Board to continue its examination of the issues involved." The staff will continue to prepare updated material in support of further consideration of the question of an SDR allocation and this material could be put on the agenda whenever renewed Board consideration of the matter would prove fruitful. I trust that Executive Directors will keep me informed if there were to be changes in individual positions on the question of allocation. Moreover, in accordance with my obligations under the Articles of Agreement, I will continue to conduct consultations in order to ascertain whether the required broad support might emerge among the participants to justify a proposal by the Managing Director for an allocation of SDRs.

In the meantime, however, I believe that the Executive Board should do more than that. From the comments made on SDR matters in the Interim Committee and from my conversations with individual Governors at the time of the Annual Meetings, I have been strengthened in my view that we should collectively reflect in depth on the role of the SDR in the international monetary system. In that context, we should examine such issues as whether and how the SDR can contribute to international monetary stability and whether SDR allocations can improve the quality of international reserves. I look forward to receiving Directors' reactions to this suggestion and if it is agreed to proceed along these lines, I would appreciate receiving the considered views of Directors on the nature and scope of the proposed reflection on the role of the SDR. We can then set up a work program on the matter and decide how to consider it e.g., in the form of Board seminars. In a dialogue of this type, I would also look forward to substantive contributions from individual Directors. In this context, I note that we have already received for examination Belgian and French proposals on conditional use of SDRs.

The staff have also in preparation papers examining the possibilities for improving the usability of the SDR in financial transactions and operations, and the role of a possible clearing facility to promote the use of SDR-denominated assets. If the Board wishes, these papers could be completed for consideration in early 1985. Let me also note that some time ago staff papers (SM/83/187, Sup. 1, 1/13/84; and SM/83/188, 8/16/83) were circulated containing proposals for the simplification of operations in SDRs and for the establishment of special procedures for operations to set aside SDRs to secure the performance of obligations. As agreed, these papers will be placed on the agenda upon request.

Unrelated to the proposed reflection on the role of the SDR is the review of the SDR valuation basket, which will need to be made in time so that any changes will come into effect on January 1, 1986. The staff will prepare an initial paper on this topic for circulation in April 1985. Also, the staff continues to explore the issue of representative rates for the currencies included in the SDR basket.

Finally, I would like to inform Executive Directors that the staff is preparing two papers in response to a request from the G-10 Deputies. The first of these will be an abridged version of the paper entitled "The Evolving Role of the SDR in the International Monetary System" (SM/82/107, 6/4/82 and Cor. 1, 6/15/82), which was discussed by the Board in July 1982. It will be circulated shortly to the Executive Board and forwarded to the Deputies two weeks later for their meeting in December. The second is intended to be a general paper on aspects of the provision of reserves in the current international monetary system. It is expected to be circulated to Executive Directors in early December and will be forwarded to the Deputies early in January for consideration at their subsequent meeting.

5. Area departments' work program

During the period until the end of April 1985, we should anticipate some 70 staff reports on consultations under Article IV and around 50 reports concerning the use of Fund resources, of which about half would be for reviews under existing arrangements and the remainder for requests for new arrangements. Some requests for drawings under the special facilities are also anticipated.

The tentative timing of the work program relating to Article IV consultations and reviews under arrangements with the Fund is summarized in Attachments II and III. Recalling the interest shown by Executive Directors in suggesting topics for discussion by the staff with the authorities in the consultation process, I would like to draw their attention to the timetable in Attachment II. Since missions leave about three to four months before the expected date for Board discussion and questionnaires are usually mailed to authorities four or more weeks prior to the mission's departure, Directors are invited to contact the area departments concerned, bearing in mind the lead times involved. In this connection, the staff will also refer to the Board discussion on the previous Article IV consultation with a member country for suggestions made by Executive Directors at that time.

6. Issues concerning adjustment programs and Fund arrangements

A staff report for the annual review of experience with upper credit tranche arrangements and of the application of conditionality will be circulated early in November and has been tentatively scheduled for Executive Board consideration on December 3. In connection with this Board discussion, Directors will also have available to them a staff paper on formulation of exchange rate policies in programs supported by the Fund and another reviewing the Fund's experience with adjustment policies during the ten-year period 1973-83. Some of the issues that have arisen with respect to prolonged use of Fund resources are discussed both in the paper for the annual review of conditionality and in the paper reviewing experience with adjustment policies during 1973-83. Let me further recall that the staff has in hand a paper on the design of adjustment programs in centrally planned economies which it is now expected to circulate in time for an Executive Board seminar on January 30.

Executive Directors have just discussed a paper examining the recent experience with the procedure for "approval in principle" for Fund arrangements and suggesting guidelines concerning the circumstances in which this procedure would be appropriate. Another technical paper concerning Fund arrangements, on the relationship between performance criteria and purchases under arrangements, which was requested at the time of the last discussion on the Work Program, will be circulated early November for Board discussion on November 30.

7. Operational matters

In its discussion last April on overdue obligations to the Fund, the Executive Board called for semiannual reports on overdue payments. It has now received the first of these reports, which identifies issues that have arisen in the implementation of the agreed policies and procedures and proposes for the Board's consideration several adaptations to clarify and strengthen the procedures. This paper has been placed on the agenda for November 7. For that Board discussion, Directors will also have available for background information a paper entitled "Overdue Financial Obligations to the Fund: Effect on Income and Treatment in Financial Statements"; this latter paper could be discussed by the Board on November 26. It is expected that the next six-monthly report on overdue financial obligations to the Fund will be issued in early March 1985.

Complaints in accordance with Rules K-1 and S-1 for members with overdue payments in the General Resources Account and the SDR Department and notices with respect to overdue obligations to the Trust Fund will be submitted to the Board as the need arises.

It will be recalled that in our discussion last February on the level of the Fund's SDR holdings, it was agreed that before the end of April 1985 the Fund would review the level of its SDR holdings to determine whether and to what extent they should be further reduced. Since the level of the Fund's holdings of SDRs in the General Resources Account has a bearing both on the Fund's liquidity and its income position, it is planned to issue a paper for this review in the first part of March 1985 and Executive Board consideration has been tentatively scheduled on March 29. A staff paper for the Board's review of the Fund's income position for the financial years 1985 and 1986, which will deal with the rate of charge for financial year 1986 as well as the annual review of SDR interest rate, will be issued in time to be available as a background document for the Board's consideration of the Administrative Budget for FY 1986; it will be brought to the agenda around the middle of May.

A paper on "Accounting and Budgeting for Capital Assets" is under preparation and expected to be circulated to Executive Directors during the present work program period.

Other operational papers may need to be brought to the Executive Board, e.g., the investment of the proceeds from interest payments, and the repayment of, Trust Fund loans and the disposition of the proceeds of repurchases of EAR purchases originally financed with borrowed resources.

The Designation Plans and the Operational Budgets for the December 1984-February 1985 and March-May 1985 quarters are tentatively scheduled for consideration on December 12 and March 13, respectively.

8. Other policy matters and reports

Directors have already received a progress report on Fund collaboration with the Bank (SM/84/210, 8/27/84), which provides background information for the Board's discussion of a paper dealing with the policy issues that have arisen in connection with the subject of Fund/Bank collaboration. The paper on policy issues will be issued shortly and brought to the agenda in late November/early December.

At the time of our discussions last spring on multiple exchange rate regimes, the staff had been asked to prepare a paper addressing the issues relevant to the question of the Fund's jurisdiction over multiple currency practices applicable solely to capital transactions. That paper will be circulated by mid-November and has been scheduled for discussion on December 14.

A brief outline of Part I of the Annual Report on Exchange Arrangements and Exchange Restrictions, 1985 will be circulated for consideration by the Board on January 11. Following the practice of recent years, a draft text of Part I of the report will be circulated early in April for comments by Executive Directors, and then put forward to the Board for approval on a lapse-of-time basis.

During its discussion last February of coverage and currentness of data published in IFS, the Board called for an annual review of statistics. Accordingly, the staff is preparing a paper reviewing the developments in statistics published in IFS in 1984, including the reporting performance of member countries and its effect on the coverage and currentness of published statistics. The paper will also report on the procedures developed by the staff over recent months to review statistical issues in Article IV consultation reports. It is planned to issue the paper in early February and Board discussion has been scheduled tentatively on March 4.

Unless extended, the Fund's authority to provide financial assistance under the decision on compensatory financing for fluctuations in the costs of cereal imports will expire on May 12, 1985. A Board decision extending this authority is therefore necessary for the cereal facility to continue to remain operative. The staff will prepare a paper reviewing the operation of the facility during the four years that it will have been in existence by next May; together with a proposed decision, it is planned to issue the paper around the beginning of April and it has been tentatively scheduled for Board consideration on May 3.

9. Staff studies under preparation

It is anticipated that the following six papers will be completed and circulated during the period of the present work program. As members of the Board may find some or all of them suitable subjects for seminar discussions, at the time of their issuance we would invite Executive Directors to indicate if they feel that an Executive Board seminar should be scheduled.

(a) The Aggregate or Global Effects of Fund Programs

This paper examines the concern that wide application simultaneously of similar Fund programs of adjustment could have aggregate effects, positive or negative, not visualized when designing any of the individual programs. To be completed this fall.

(b) Theory and Design of Fund Financial Programs

The purpose of this paper is to outline and discuss the analytic framework underlying Fund programs. To be completed by early in 1985.

(c) The Effects of Fund Programs on Economic Growth: An Empirical Survey

The criticism that Fund-approved programs have an adverse effect on economic growth is examined in this paper in the light of empirical evidence. To be completed during the fall.

(d) Fund Programs and Their Effects on the Income and Wealth Distribution

The assertion that Fund programs have an adverse effect on the distribution of income and wealth is examined with particular emphasis on the fiscal components of adjustment. To be completed by the end of the year.

(e) Social Expenditure in the G-7 Countries

Social expenditure has been the fastest growing component of government expenditure in the industrial countries and has been an important factor explaining the growth of budgetary deficits. This study will examine the likely development of social expenditure through the early part of the next century for the G-7 countries, with discussion of the policy implications of such developments. Attention will focus on each of the four principal areas of social expenditure: pensions, health, income maintenance, and education. Particular emphasis will be placed on the implications of aging populations. To be concluded by March 1985.

(f) Inflation and the Fiscal Deficit

This paper will examine the issue of the relationship between inflation and the fiscal deficit, and how to measure the deficit during inflationary periods. To be completed by April 1985.

10. Administrative and related matters

On October 26, the Board will consider the terms of reference of the Joint Committee on the review of the staff compensation system. Once the terms of reference have been agreed, we should proceed promptly with the selection of Fund Board members on the Committee, a matter on which I will have informal consultations with Executive Directors. It is indeed necessary that without further delay the Committee can turn to the substance of its work on the basis of papers which the staff of the two institutions are preparing. As I have emphasized on earlier occasions, I regard it to be of the utmost importance that the results of the Joint Committee's work and its recommendations become available in time to be incorporated in the 1985 compensation review. The staff paper on the nature and scope of the 1985 compensation review should be brought to the agenda in April. Similarly, the results of the work on Career Streams being directed by the Deputy Managing Director are expected to become available in time for incorporation in the 1985 compensation review. This timetable is very tight and it will impose a heavy burden on all concerned. But you will understand that delays in the consideration and resolution of these issues could have a detrimental effect on staff morale, which should be avoided at a time when the staff is subjected to unprecedented work pressures.

In the coming months, the Board will also be reviewing two important elements of staff benefits. A paper on expatriate benefits is on the agenda for December 14 and it is anticipated that a paper reviewing the Staff Retirement Plan can be brought to the Board by February following action by the Pension Committee.

Directors will recall that as a result of our seminar last April on electronic data processing in the Fund, a further staff paper had been requested concerning the establishment of a computer center for the Fund and the medium-term outlook for expenditures on electronic data processing. It is planned to issue this paper in the second part of November and Board discussion has now been tentatively scheduled for December 19.

I intend to circulate my midyear budget statement at the end of November and we can have an exchange of views on it on December 10, when we will also carry out our midyear review of the Fund's income position. A paper containing proposals for the transfer of FY 1985 appropriations will be issued in the second half of February.

Executive Directors can expect to receive an outline of the Administrative Budget for FY 1986 in early March. The budget document itself is planned to be issued at the end of March and has been scheduled for Board discussion on April 12 in view of the timing of the Interim Committee and Development Committee meetings.

Mr. Joyce said that he broadly endorsed the proposed work program, which contained a diversity of topics for the attention of the staff and the Board, and which would require a major effort on their part.

The staff paper on surveillance would clearly be a major building block in the preparations for the forthcoming spring meetings, Mr. Joyce commented. He welcomed the assurance that the U.S. authorities were prepared to move ahead decisively to strengthen the international surveillance process. His Canadian authorities, together with those of other key industrial countries, were actively involved in a review of surveillance in the Group of Ten that he hoped would bring forth specific suggestions for improving the Fund's surveillance procedures. The authorities of some of the countries that had elected him felt strongly that there should be a more systematic procedure for consultations in the Executive Board and for reporting by the Managing Director on the outcome of his periodic discussions with the G-5 countries on their economic policies; however, perhaps those countries were not consulting the Managing Director with sufficient frequency or in sufficient depth. The annual review of surveillance, to be conducted in the spring of 1985, also should cover the enhanced Article IV consultations envisaged in recent agreements between Mexico and Venezuela and the commercial banks. As he understood it, the Fund would be conducting midyear reviews of the performance of those countries' economies within the framework of the Article IV consultative process, but the role of the Board was still not clear. Executive Directors should exchange views on those procedures and their implications at an early date and before the consultation process itself was fully under way, especially if its use became more widespread.

He attached considerable importance to the second paper on the world economic outlook, focusing on alternative scenarios for the period up to 1990, Mr. Joyce added. The arrangements for publishing the updated world economic outlook study following the 1984 Annual Meetings had happily avoided some of the problems encountered with the previous publication at the time of the 1984 spring meetings.

The preparations to be put in hand for the spring meetings themselves properly reflected the conclusions of the Interim Committee at its recent meeting, Mr. Joyce continued. In order to avoid unnecessary duplication and to ensure pointed discussion by the Interim Committee and Development Committee, the agendas should be carefully structured. His preference would be for the Interim Committee to concentrate on short-term to medium-term issues of special interest to the activities of the Fund. The Development Committee should address those policy issues that needed to be considered in a longer-term framework; most of those issues would, of course, be developmental or structurally oriented, although many would touch on matters in which the Fund was interested as well. For that reason, the Development Committee had been set up as a joint Fund/Bank committee, and preparations for its meetings must continue to take account of that fact. The World Bank rather than the Fund should be charged with the responsibility for preparing the necessary papers on aid and official development finance flows, for assessing the potential for direct investment in developing countries, and for examining the probable evolution of sectoral growth patterns and the longer-term implications of such developments for world trading patterns. That sort of agenda might serve as background in identifying the key elements in a medium-term strategy designed to ensure a smoother transition to longer-term growth and development.

Any such effort raised fundamental questions about the future role of the Fund, and more particularly of the World Bank, as well as the evolution of Bank/Fund collaboration, Mr. Joyce commented. He also wondered to what extent other organizations should be called upon to help in the preparatory work. For instance, he was aware that a great deal of work had already been undertaken in the OECD on the structural adjustment process in industrial countries. The Fund and the World Bank should perhaps consider asking the OECD to prepare a paper outlining the achievements of its member countries in that respect to date and the likely prospects for structural adjustment in the future. Similarly, presumably the staff would want to ask for a status report from the GATT and for any views that the GATT might have on future prospects for world trade and the reduction of protectionism.

The four background papers to be prepared on trade matters and capital flows seemed to cover adequately the topics of immediate concern to the Fund, Mr. Joyce remarked. Underlying those and most other major issues at present was, of course, the debt question. The Fund had played a pivotal role in dealing with the recent debt difficulties of its members; it should continue to do so but only if it made sure to deal only with those aspects falling within the Fund's mandate. Moreover, however important and topical the debt issue might be, it should not become the overriding subject for discussion at the spring meetings. The Interim Committee should examine only those debt questions directly related to the context of the specific studies proposed in the work program.

He strongly supported the idea that the staffs of the World Bank and the Fund should work in close collaboration on issues of common interest, Mr. Joyce stated. However, the Fund should not limit itself to subjects that interested it uniquely; it was entirely appropriate for the Fund staff to prepare papers, or to comment from the perspective of the Fund's mandate, on some of the topics raised in the September communiqué of the Development Committee that might be of more direct concern to the World Bank.

In both the Interim Committee and the Development Committee, many Ministers naturally took advantage of the opportunity to set out in broad terms the concerns of their constituencies, Mr. Joyce commented. But if the spring meetings were to aim higher in terms of results, it would be necessary to encourage a more spontaneous dialogue on some of the issues on the agendas. He had no ready answer to the problem of how that could be accomplished. The solution might lie in part in more extensive use of the traditional lunches or dinners, restricted attendance for at least some of the discussions, or even in the technique sometimes employed in Commonwealth and certain summit meetings of industrial countries of inviting certain Ministers in advance to lead off the debate on specific topics, with other Ministers responding to the points raised. Those were matters on which the Chairman would no doubt wish to reflect and take soundings in the coming months.

He agreed with the Managing Director's suggestion that the Executive Board should reflect further and more fundamentally on the role of the SDR in the international monetary system, including whether and in what ways the SDR could contribute to greater international monetary stability, Mr. Joyce stated. The question however was how much progress could be made in the months ahead, and specifically, before the spring meetings, given the many other issues on the Board's agenda. He recognized that the broader role of the SDR was a matter of high priority to many Executive Directors, and due attention should be paid to their concerns. Certainly, efforts to reach agreement on at least a modest allocation of SDRs should not be impeded by the desire to carry out work on the longer-term role of the SDR. Therefore, he encouraged the Managing Director to persist in his efforts to achieve a broader measure of support than was apparent at present for such an allocation.

Mr. Ismael said that everyone recognized that surveillance should continue to be the most important function of the Fund. The issue at stake was how to make surveillance more effective, especially with respect to industrial countries whose policies had a major influence on the world economy. In his view, industrial countries might have to make important policy changes in three main areas: fiscal, trade, and exchange rate policies. In those areas the Fund should continue to express the collective concern of its membership to the relevant governments, and in doing so it should highlight the repercussions of the policies of major industrial countries on the rest of the world.

It was immensely difficult to sell the Fund's policy prescriptions to members who, after all, were sovereign political entities, Mr. Ismael continued. Therefore, in communicating its point of view, the Fund should be sensitive to political realities in member countries without necessarily deviating from its objective of fostering adjustment in all member countries. The suggestion to publicize Fund assessments of members' policies might not be the most appropriate course of action. First, the Executive Board was not always unanimous in its assessment of what constituted the best policy prescription; to be fair, publicity should reflect all viewpoints, but that could be confusing and detract from the credibility of Fund advice. Second, even if there was unanimity as to what constituted appropriate policy, publicizing the Fund's views could be embarrassing to the authorities, leading to defensive statements on their part and to a souring of relationships with the Fund, without in any way contributing toward more effective surveillance. Therefore, he would hesitate to support any proposals to publicize staff reports or the views of the Executive Board on policies of member countries.

He had detected a widespread concern among Governors at the Annual Meetings on a number of issues, Mr. Ismael remarked. It was incumbent upon the Executive Board to investigate and, where appropriate, to act upon those grievances. First, a large number of Governors had expressed concern over the deliberate shift toward lower access limits in the implementation of the Fund's policy on enlarged access, despite the considerable improvement in its liquidity situation during 1984. The implication was that the institution, although able, was unwilling to provide the resources required by members. In addition, a large number of Governors considered that in tightening conditionality, the Fund might have overstepped to the extent of discouraging members from coming to the Fund for assistance until a crisis had developed. Many Governors had also stated that the Fund insisted on too rapid a rate of adjustment without taking due account of the social and political repercussions. A number of Governors had noted their disappointment with the Fund's handling of the special facilities, and in particular, the practice of granting use of its resources under the compensatory financing facility beyond 50 percent of quota only in association with a Fund-supported program. Finally, several Governors had recorded the view that Fund programs often did not pay due regard to the growth objectives of member countries.

Against that background, Mr. Ismael considered, it would be timely for the Fund to examine a series of questions. Had the Fund become very conservative in its lending policies? Had Fund conditionality become so tight that it was discouraging members from seeking Fund assistance? Should social and political considerations be given somewhat greater weight in designing Fund programs? Was provision being made for adjustment to take place within an adequate timeframe and without causing social and political difficulties? Was it reasonable to impose the stand-by type of adjustment for members using special facilities designed to assist them to resolve balance of payments problems that were self-reversible? Were Fund programs appropriately designed to achieve the goals of economic policy? What weight should be given to growth objectives in Fund programs? It would be both opportune and appropriate for the Fund to answer those questions and, if possible, for it to engage outside consultants to evaluate the way in which the institution carried out the purposes for which it had been created.

On SDR matters, the main focus of future work should be on an SDR allocation, Mr. Ismael said. The most recent staff papers pointed to a clear need for reserve supplementation through an allocation of SDRs. The fact that a few large members of the Fund were opposed to an allocation should not lead the institution to abandon the idea and to shift attention to other more academic issues. It would be helpful if the staff could prepare updated material on an SDR allocation for discussion in the Executive Board in February 1985. Because the majority of the Fund membership favored an SDR allocation, the subject would no doubt again be on the agenda for the spring meeting of the Interim Committee.

Mr. Kafka stated that he was in general agreement with the work program, which was a heavy one. He also agreed to a large extent with the previous speakers, although he would go further than Mr. Ismael, and note that in practice there had not been any recent compensatory financing drawings below 50 percent of quota in the absence of a stand-by or extended arrangement.

Surveillance was ineffective for an obvious reason: the lack of sanctions except over member countries with arrangements with the Fund, Mr. Kafka continued. He was not sure whether anything could be done to deal with the embarrassing asymmetry that had been introduced into the Fund's surveillance activities, but he recalled that after the first oil shock, an attempt had been made to reinforce consultations by asking members to sign a "trade pledge." Although insufficient support had been forthcoming to make the pledge effective, no one had objected to the process on the grounds that it would infringe upon the functions of other organizations. An OECD pledge had in fact later become effective. It might be worthwhile to consider resurrecting the pledge method. Such pledges would of course be published. Otherwise, he would agree entirely that neither staff reports nor the summaries of Executive Board discussions concluding Article IV consultations should be published, for the reasons given by Mr. Joyce and Mr. Ismael. He welcomed the Managing Director's invitation to Executive Directors to ensure the continuation of his consultations with Finance Ministers, and he hoped other Ministers as well; he insisted that the Executive Board should be kept fully informed at all times about those consultations.

Two additional subjects might well be the focus of attention in the papers on the world economic outlook, Mr. Kafka suggested. First, the implications of the medium-term scenarios for employment, which had not been dealt with in the previous survey, were worth study. Second, the equilibrium real rate of interest was far from its historical level and much higher than it had been even from the 1950s to the 1970s. Yet complaints about excessively high real interest rates seemed to have their origin in the much lower rates of the distant past. Perhaps the long-term equilibrium real rate of interest had been underestimated, just as the natural unemployment rate had for so long been underestimated.

The papers proposed in preparation for the meetings of the Interim and Development Committees were entirely appropriate, Mr. Kafka said. He would suggest merely that those papers should stress, above all, the conditions--national and international--necessary for a resumption of growth in the developing countries, particularly the major debtor countries, and, in that connection, the conditions necessary for a return to voluntary lending to those countries.

Neither the Executive Board nor the staff could be absolved of the task of continuing to examine the need for a reasonable SDR allocation, Mr. Kafka observed. The issues to be examined in greater depth were important and would acquire additional interest in the context of the forthcoming papers on the reform of the international monetary system. But those papers should not in his opinion be relegated to discussions in seminars; nor should the need for an SDR allocation be postponed until such papers could be prepared and discussed. He believed that consideration of an SDR allocation could be accompanied by consideration of the re-establishment of a modest reconstitution provision. The so-called conditional SDR did not seem to have a realistic prospect of being acceptable, based on the Board's discussions in the past few months.

With reference to the work of area departments, Mr. Kafka mentioned the rule that Article IV consultations should take place on a standard 12-month cycle. The obligation to observe that rule should be reciprocal: the country should be prepared to accept a yearly mission, but the Fund should also be prepared to send one. As both the Chairman and Executive Directors were aware, one member of his constituency had brought to his attention the extension of that cycle to 15 months, against its wish.

Reviews of upper credit tranche arrangements, and of conditionality, suffered greatly from the fact that they were prepared by operating departments rather than by an independent evaluating department, Mr. Kafka reiterated. Unpopular as it was in the Fund, the example of the World Bank in that respect could not be ignored forever. Furthermore, Fund practices had recently undergone extensive codification, generally subjecting members to more and more stringent control by the institution. He did not object to the proposed paper on the relationship between performance criteria and purchases under arrangements per se, but felt strongly that there should be a pause in the process of codification and in the increase of stringency--with or without codification.

Finally, Mr. Kafka said that he particularly welcomed the promised paper on social expenditure in the G-7 countries, which should be accompanied by an analysis of the effects on the savings ratio. He also welcomed the paper examining the relationship between inflation and fiscal deficits.

Mr. Schneider said that he could basically endorse the work program, which however seemed somewhat overloaded and therefore called for certain priorities to be set. Topics for consideration by the Interim and Development Committees at their April 1985 meeting--surveillance, the World Economic Outlook, and other relevant preparatory work--should have the highest priority. In that context, he wished to mention in passing that the preparations did not so far seem to be completely synchronized because not all the papers were linked to a specific common goal. Nevertheless, he had to assume that the discussions on those issues were not only taking place for the sake of the April 1985 meeting, and he expected that they would lead eventually to appropriate actions. The analysis of the current world economic situation, along with the assessment of likely developments in other areas, should also have an influence on the Fund's part in attempting to achieve a better economic and financial climate worldwide in the second half of the 1980s.

In sum, Mr. Schneider continued, the Managing Director's report on the Executive Board discussions, as well as those discussions themselves, should be policy oriented to enable the Fund to further improve its work on the international monetary system. Consequently, sufficient time should be provided not only for discussing all relevant items relating to the spring meetings in the Executive Board, but also for the preparation of the Interim and Development Committee meetings. Therefore, the Board should complete its discussions, including the discussion in the Committee of the Whole on the Development Committee, before the end of March.

His chair was of course still in favor of a straightforward allocation of SDRs, Mr. Schneider went on. At the same time, however, he supported the Managing Director's view that the basic role of the SDR in the present international monetary system should be reassessed. Some of the questions to be raised were: whether an international reserve asset issued by the Fund was really needed; if so, how it could improve the functioning of the international monetary system and possibly how it should be created. The discussions should by no means be limited by the present Articles of Agreement but should be conducted independently of them; moreover, they ought to be based on a longer-term perspective of the possible evolution of the international monetary system that would call for the exercise of some imagination by all discussants. A debate based on short-term considerations could easily be counterproductive. As soon as recommendations emerged, they could be examined to see whether or not they were consistent with the present Articles of Agreement. An informal Board seminar in which the staff and Executive Directors contributed individually could well help to reach a new consensus on the role of the SDR.

He looked forward to the papers on the formulation of exchange rate policies in adjustment programs supported by the Fund, as well as those reviewing the Fund's experience with adjustment polices during the ten-year period from 1973 to 1983, Mr. Schneider commented. Because they dealt with the longer-term results of the Fund's action in supporting balance of payments adjustment, those papers deserved full attention. Moreover, his chair was most interested in the promised papers on the design of adjustment programs for centrally planned economies.

Among the other policy matters on the work program, Mr. Schneider added, the issue of Fund collaboration with the Bank would continue to demand attention, especially in view of the spring meetings.

Referring to the staff's study under preparation on the aggregate or global effects of Fund programs, Mr. Schneider mentioned that the work should not focus on Fund programs alone but also on policy recommendations formulated in the framework of Article IV consultations. For example, it would be helpful to find out to what extent slow growth in most European countries could be linked to the general move toward fiscal retrenchment irrespective of large divergences in fiscal performance. It was still too early, however, to decide how deeply the studies should be discussed in a Board seminar; only after the studies had been distributed, and sufficient interest had been expressed, should such a seminar be scheduled.

The issue of staff compensation also merited full attention, Mr. Schneider stated. Maintaining a healthy staff morale required immediate action in order to avoid growing doubts about the Fund's future compensation policy. Experience with past compensation reviews left him skeptical about the ability of the Executive Board to incorporate the Joint Committee's recommendations in the 1985 compensation review, especially as that Committee had not yet even been established.

Mr. Polak said that, heavy as the work program was, he generally endorsed it. Specifically, he agreed with the approach outlined under the two main headings of surveillance and other preparations for the April meetings.

In response to the Managing Director's request for the considered views of Directors on SDR matters, and on a collective reflection in depth on the role of the SDR, Mr. Polak remarked first that he hoped that a continuing canvass of members would lead to broad support for an SDR allocation at an early time. But the clear impasse that had been reached on SDR matters did not manifest itself only every six months in discussions on an SDR allocation; it touched much more deeply on the issues raised by the Managing Director, and many other issues as well. A number of fundamental questions had to be raised, with respect to the basic nature of the SDR, and second, with respect to the features of the SDR.

To the two main issues of a basic nature mentioned in the Managing Director's statement, he would add the question of whether or not there was a role for the SDR in a multicurrency system, Mr. Polak went on. It might not be entirely accidental that the few member countries that took a basically negative attitute toward the SDR were reserve currency countries. A related question was how the SDR competed with reserve currencies and, consequently, what monetary adjustments would have to be made in reserve centers to accommodate an SDR allocation in the reserve currency system. Another question concerned the effect of an SDR allocation on the quantity of reserves and on the composition of reserves. Finally, in what way was an SDR allocation compatible with the Fund as a dispenser of conditional credit?

As for the features of the SDR, Mr. Polak added, serious consideration should be given to the difficulties that some countries had allegedly experienced arising out of its weaknesses as a reserve asset. The Belgian and French authorities had made proposals for issuing conditional SDRs, neither of which had found much support, but both might still merit further consideration. The possibility of reintroducing a reconstitution provision as an instrument for making the SDR more attractive in general should be looked at. A much wider question was whether the SDR should be made more broadly usable outside official circles. One idea to that effect that had already been mentioned and that deserved further study was the possibility of allowing central banks to use SDRs directly in intervention instead of having to turn to the Fund for reserve currencies in exchange. As he had mentioned on an earlier occasion, there would have to be a trustee willing to issue SDR certificates for SDRs, just as trustees issued stock certificates for stocks with limited usability; a central bank could then use these certificates in intervention in its dealings with commercial banks. The important implications of such a proposal should be explored, not as part of an academic study program, but as a real matter of necessity in order to breathe new life into the SDR. The staff's work program on the SDR cited the role of a possible clearing facility to promote the use of SDR-denominated assets. He was not opposed to such a facility, but considered that it was of much lower priority. The first priority should be the resuscitation of the SDR.

The SDR was the Fund's money, Mr. Polak remarked, and the staff and Executive Board members would have to work hard to carry out the Fund's responsibility for that money. As Mr. Schneider had mentioned, the input of Executive Directors would be extremely important. He did not assume that all the work would be finished before April; but that should not stand in the way of agreement on an SDR allocation in April, if such an agreement could be reached. He suggested that informal procedures be instituted to enable Executive Directors to express their ideas freely rather than making official policy statements. In that way, it might be possible to make progress and find once more the consensus on the role of the SDR that had been lost for some time.

Mr. Nimatallah said that he was in general agreement with the Managing Director's statement. The work program was understandably dominated by the mandate to prepare for the proposed global financial discussions in April. That mandate was wide ranging and objectives would have to be defined as clearly as possible if it was to be carried out successfully. The staff should have three main objectives in mind--adjustment, growth, and repayment of external debt--and its papers should deal primarily with ways and means to achieve those objectives as well as with the role of each interested party. The intention should be to examine the global financial environment and to identify coherent, workable solutions to global financial problems. If the Executive Board could make specific recommendations in each area so that Ministers could focus on a consistent set of policy options, there would be a good chance of progress at the spring meetings toward a deeper understanding of economic problems facing all the groups comprising the Fund's membership and what could be done to solve them. One round of discussions in the Executive Board would almost surely not be sufficient for the task; a second round of meetings on some of the papers might be needed before the Interim Committee met. He had therefore been pleased to note that several meetings were scheduled for March and early April on those important topics.

Fund surveillance was of course important for the smooth functioning of the international financial system, Mr. Nimatallah noted. The question was how to make surveillance more effective. There might be scope for strengthening the surveillance procedures; for instance, he would be prepared to consider more active use of supplemental or ad hoc consultations. An essential requirement of more effective surveillance was greater cooperation from all members, particularly the major industrial countries, and it would be helpful to know how the discussions of the Group of Ten on the question would fit into the Fund's preparations for the Interim Committee meetings.

The proposed paper on medium-term prospects and issues in the framework of the world economic outlook, particularly the emphasis on adjustment with growth in member countries, was welcome to him, as was the paper on trade policies, Mr. Nimatallah continued. International cooperation on world trade was urgently needed, as he had said many times; the paper should examine specific steps that members could take to roll back protectionist barriers and also deal with cooperation among the international organizations active in that critical area.

He looked forward to the report on matters relating to multiyear debt rescheduling, Mr. Nimatallah remarked. A central issue was the Fund's role in helping to initiate such reschedulings and in following up on their implementation. He had been convinced by the arguments of some indebted countries, creditor countries, and banks as well, that it was very important to keep the Fund in the picture throughout the entire period of a multiyear debt rescheduling. Questions would be raised that would require careful study: for instance, to what extent could or should the Fund be involved after the expiration of a member's adjustment program, and how could any involvement by the Fund be made effective? If those questions could be answered satisfactorily, the Executive Board might be able to design a general policy for the Fund to follow after members' adjustment programs with the Fund were completed. Without prejudging the staff's study, he believed that the Fund could continue to play a useful role, especially as it would take several years for member countries to make all the repurchases.

As the Managing Director had rightly proposed, it was time to consider in depth whether or not the SDR could still be assigned the part given to it under the Articles of Agreement, Mr. Nimatallah observed. At present the SDR still lacked the qualities to make it attractive and in demand. An impasse existed with respect to the future supply of SDRs and on the criteria for their allocation. The three major options had not changed: to return to the situation existing before the SDR had been created; to take a longer view and start thinking about an alternative reserve asset; or to support the SDR, with all its limitations, but to use it to its full potential. If, as he hoped, there was agreement that the SDR was still of use to the international financial system, the Fund should explore additional ways of enhancing the demand for the SDR and try to find an acceptable set of criteria for resuming SDR allocations. He endorsed Mr. Polak's ideas for research; the task would not be easy but was worth the effort if members wanted to keep the SDR alive. In that respect, the paper on the role of the SDR prepared by the staff for the Group of Ten made some useful points.

It was an excellent idea for the Fund to look back at its experience with adjustment policies during the decade from 1973 to 1983, Mr. Nimatallah considered. The review should help the Executive Board to adapt Fund policies in certain respects if necessary. In any event, the Executive Board might have to modify some aspects of Fund policies for the future simply because the objective should not simply be adjustment, but adjustment with growth. Coordination with the World Bank would assume increasing importance in that connection, and he was glad to see that Fund/Bank collaboration would be on the Board's agenda in November.

Mr. Tshishimbi stated that the good work program outlined in the Managing Director's statement had the support of his chair. It was gratifying to note the commitment expressed by many Governors during the Annual Meetings to more effective and even-handed Fund surveillance; it was therefore appropriate that the preparation of the various papers for the spring meetings had been placed in that context. As his chair had stated on several occasions in the past, Fund surveillance had so far been effective over small countries or countries using or seeking to use the Fund's resources, but it had never been effective as far as major industrial countries were concerned. Therefore, he joined others in welcoming the willingness of the largest industrial country, the United States, to actively seek a strengthening of international surveillance. The Article IV consultation process would suffice to enhance surveillance under the Articles of Agreement, provided that major industrial countries heeded the Fund's policy recommendations. Whether publicizing the conclusions of Article IV consultations with major countries would be helpful in that respect was a matter for further exploration; but he did not believe that such a procedure would be helpful in respect of Article IV consultations with smaller countries, which usually concurred with the staff's recommendations.

The world economic outlook continued to provide a good framework for analyzing the main issues related to surveillance, Mr. Tshishimbi considered. The emphasis on the medium term in the second paper to be prepared would be most opportune in helping to analyze balance of payments, debt, and growth prospects. It was essential to examine policies within the industrial countries that were likely to have an adverse impact on the rest of the world, mainly on developing countries, such as exchange rate, interest rate, and trade policies. Like others, he looked forward to the various papers on external debt, on international capital flows, and on trade matters that the staff was to prepare for the spring meetings. The time had come to explore new ways of approaching the external debt situation of developing countries. His constituency had endorsed efforts to find appropriate solutions to the debt problem, including the possibility of debt relief arrangements in a multiyear framework, and as well as the possibility of converting all or part of official development assistance into grants. The growing problem of protectionism and trade policies should be examined thoroughly against the same background.

His constituency had a longstanding commitment to making the SDR the main international reserve asset, Mr. Tshishimbi recalled. Therefore, he supported the discussion of any paper likely to result in an enhanced role for the SDR. As his chair had indicated on various occasions, improving the usability of the SDR would contribute to the stability of the international monetary system. Thus, he welcomed studies such as the one on the possible establishment of a clearing facility to promote the use of SDR-denominated assets. Because there was no longer a definite date in the work program for examining the question of SDR allocations, he was somewhat perplexed to note the attention given in the work program to the idea of conditional SDRs, an idea that had been resisted by many Governors both at the September meeting of the Interim Committee and during the

Annual Meetings. Like Mr. Joyce, he encouraged the Managing Director to keep the question of an SDR allocation in the forefront by asking the staff to update the papers examined by the Executive Board before the September meeting of the Interim Committee and by establishing a clear timetable for their discussion before the spring meetings.

Finally, on a point of procedure, Mr. Tshishimbi asked whether the Executive Board's input into the preparation of the papers for the forthcoming meetings would take the form of a multiple-stage consideration of at least the most important papers--for instance, those on the SDR and the adjustment process--similar to the procedure for the preparation of the Annual Report.

Mr. Zecchini noted that the proposed work program adequately covered the main issues on which analysis and discussion was needed at the present juncture of the international financial system, as well as the more current operational aspects of the Fund's activities. In particular, the program seemed to respond to the demands raised during the recent meetings of the Board of Governors and of the Interim and Development Committees.

Referring to the staff paper on surveillance, Mr. Zecchini said that it was not fully clear to what extent the second part of that paper would draw on the work of the Group of Ten, which still had the matter as one of the main issues on its agenda. He would be interested in knowing how the background material to be considered by the Executive Board would be related to the papers requested by Group of Ten. For many people, it was highly important to proceed from declarations of principle on the strengthening of surveillance to actual implementation. Therefore, it might be advisable to devote a special meeting to the discussion of the specific indications and practical suggestions requested from Executive Directors by the Managing Director.

In the preparation of the two papers for the World Economic Outlook exercise, Mr. Zecchini considered, particular attention should be paid to the analysis of what had been described as "the various aspects of policy interdependence...among member countries" and an attempt "to reach conclusions about the types of policies that would contribute most to resolving debt problems and promote growth and adjustment...." Those were critical features in an evaluation of the international repercussions of economic policies and in the design of appropriate guidelines for multilateral surveillance.

In that connection, Mr. Zecchini added, the Managing Director's invitation to Executive Directors to contact staff before Article IV consultation missions went to a member country might well be a way to enhance the effective monitoring by the Executive Board of economic developments in member countries, making it possible for the Board to put forward specific policy suggestions. If necessary in particular cases, informal meetings could be arranged between members of the Board and the mission to agree on a series of topics to be raised in the consultation.

As far as the preparatory work for the Interim and Development Committee meetings were concerned, it was appropriate to study separately three aspects of the current debt problem of developing countries, Mr. Zecchini said; namely, commercial bank lending, official debt rescheduling, and official export credits. However, it could not be ignored that there were other sources of financing with a significant role to play in the near future, including foreign direct investment and official development aid. The material prepared for the spring meetings should analyze those sources of financing; the paper on direct investment could actually take the form of an updated version of the study recently discussed in the Executive Board (SM/84/145, 6/26/84; EBM/84/111, 7/18/84).

On SDR matters, he attached a great deal of weight to the preparation of updated information on the possible scope for an SDR allocation, Mr. Zecchini stated. At the same time, it was necessary to go beyond that specific issue and rethink the role of the SDR in the international monetary system, particularly with respect to the creation and the composition of reserves. The most appropriate and openminded way to discuss the issue would probably be in seminars. With respect to the two papers being prepared by the staff for the G-10 Deputies, he asked whether it would be possible for the second general paper on the provision of reserves in the current international monetary system to be prepared in time for consideration by the Deputies at their December meeting.

He had found the topics proposed for seminar discussion of great interest, Mr. Zecchini commented. The study on the theory and design of Fund financial programs would be of particular relevance in responding to a number of points raised recently in the Executive Board concerning the design of programs and touching, among other things, the delicate issue of coherent performance criteria and program objectives. Although the subject could not be exhausted in a single paper and discussion, the proposed study was a good way to make a fresh effort in that direction. The other subjects proposed for seminars also deserved attention, but the heavy workload implied by the program suggested to him that those subjects not scheduled for discussion in the current semester should be taken up at a later date.

Mr. Dallara said that in general he joined other Directors in supporting a work program that was ambitious and challenging for the staff as well as for the Board, reflecting as it did not only the need for ongoing and regular work in a number of areas but also the priorities set by the Ministers at the recent Interim and Development Committee meetings.

As Secretary Regan had made clear at the September Interim Committee meeting, and as the Managing Director had noted in his statement, the United States was prepared to move ahead decisively to strengthen international surveillance, Mr. Dallara continued. His authorities had already put forward various suggestions for strengthening surveillance in general that merited serious consideration, such as increased public awareness of Article IV consultations, and greater use of ad hoc consultations between the Managing Director and Fund members; in addition, work by the staff and an exchange of views in the Board on such matters would be welcome. He recognized the complexity of some of the particular proposals, such as the question of increased public awareness, which had both advantages and disadvantages. But he found it somewhat ironic that those who appeared to question the effectiveness of the surveillance process on the U.S. economy were also apparently among those who were rather reluctant to move ahead in strengthening surveillance in general. If there was some dissatisfaction with the process, all members should be prepared to consider seriously changes in the surveillance procedures that would strengthen surveillance over all countries.

The second part of the surveillance paper to be prepared as background for the spring Interim Committee meeting was designed, he understood, to focus on ways of improving the role of surveillance dealing with issues identified for consideration at those meetings, including--in a medium-term context--external indebtedness, international capital flows, and trade policies, Mr. Dallara said. A specific issue worthy of particular attention was the role of enhanced surveillance where, for one reason or another, a member's continued reliance on Fund credit was seen as undesirable or inappropriate. There had been cases, and might be again in the future, of prolonged use of Fund resources leading creditors, for example, to seek information from the Fund--raising again the question of public awareness--or even additional assurances regarding the economic performance of a country. It would be helpful if the implications of such cases could be explored.

The ongoing work on the world economic outlook, as well as the special medium-term work to be done in preparation for the spring meetings, was strongly supported by his authorities, Mr. Dallara remarked. They could also support the continuation of a practice along the lines of the experimental publication, following the Annual Meetings, of an updated world economic outlook, which had been well received. In the papers on the world economic outlook, there should be an appropriate disaggregation of forecasts in order to identify the relative economic prospects of individual countries and groups of countries, and, for the spring meetings in particular, to provide a disaggregated basis for analysis emerging from the other policy papers to be prepared--for instance, on capital flows. In addition, he would welcome an assessment of the importance of structural problems, such as labor and capital market rigidities in both industrial and developing countries, to the achievement of various growth and balance of payments objectives, again in the medium-term context to be stressed in the spring meetings.

The array of papers outlined in the Managing Director's statement as preparation for the forthcoming meetings was consistent with the mandates given to the Executive Board by the Interim and Development Committees, Mr. Dallara considered. In the paper on international bank lending, it would be of particular interest to have an assessment of the outlook for private lending in various forms, including bank loans, syndicated credits, and issues in international security markets. In that context, it would be helpful to have an analysis of the relationship between policy changes in industrial and developing countries as well as possible effects on those flows. On official debt rescheduling, a review of the treatment of private sector debt in rescheduling exercises appeared warranted. No doubt the staff would draw largely, in preparing its further paper on official export credits, on the recent drafts--circulated to Executive Directors for there comment--on its study of export credit cover (policies and payment difficulties). He also hoped that a forward look would be taken at the role of trade financing in support of adjustment in growth. Again, particular attention should be given in the paper on protectionism and trade policies to examining trade policies that would promote adjustment and growth in the medium term. Efforts should be made to evaluate the magnitude of the impact of protectionism--in both industrial and developing countries--on the growth of world trade and on domestic growth in countries following protectionist policies. The role played by subsidies and restrictive measures in triggering trade restrictions or offsetting trade measures and the prospects of avoiding such counterproductive action might also usefully be considered.

Many of the preparatory papers would of course provide a basis for the discussion in both the Interim and Development Committees, Mr. Dallara commented. But there appeared to be no paper in the work program that was directly related to one of the agenda items proposed in the Development Committee's communiqué; namely, obstacles to direct investment. As Mr. Zecchini had observed, work in that area could be developed from the well-received staff paper on foreign direct portfolio investment, which had been discussed earlier in the year by the Executive Board. The sense of that discussion had been that the Fund should play a cautious and prudent role in the area, in which the World Bank and the International Finance Corporation had a more significant interest. Nevertheless, it would be appropriate and useful in the context of the spring Development Committee meeting if the Fund itself did further work on the issue; in particular, because the two specific issues were not viewed always in the same broad context, the Fund could analyze the relationship between direct investment policies and the resolution of both industrial and developing countries' problems of external indebtedness.

Collaboration between the World Bank and the Fund during the period of preparation for the special spring meetings would be of great importance, and he was confident that it would be forthcoming, Mr. Dallara noted. The work program did not appear to contain any plans for jointly produced papers, which might be feasible in some areas.

At the present stage, he had no precise ideas about the conduct of the meetings themselves, Mr. Dallara said. Like Mr. Joyce, he hoped that a procedure could be found that would be conducive to a genuine dialogue and exchange of views, possibly in less formal and less structured meetings. It would seem especially useful to consider Mr. Joyce's suggestion concerning the use of discussion leaders; similarly, restricted attendance, or a dinner meeting, also might be worthwhile. Finally, he proposed that thought should be given to whether the outcome of the meetings had to be a full communiqué.

Though his authorities were prepared to participate with an open mind in any fundamental review of the role of the SDR, Mr. Dallara continued, its timing was a question of concern, especially if it took place in the midst of the staff's and the Executive Board's preparations for the spring meetings. The collective, in-depth reflection on the role of the SDR in the international monetary system, proposed by the Managing Director, was worth undertaking, although his authorities would most likely approach it not so much from the perspective of finding another rationale for an SDR allocation or, for that matter, of breathing life into the SDR. Indeed, changes in the international monetary system in the 15 years since the creation of the SDR facility raised fundamental questions that his authorities would have very much in mind as they approached any discussion of the role of the SDR in the current system.

It was clear from the area departments' work program that the schedule of Article IV consultations was a very busy one, Mr. Dallara said. The Fund should try to respect the 12-18 month consultation cycle, although he had some sympathy for Mr. Kafka, who had made mention of a special problem in that respect. He joined Mr. Zecchini in welcoming the suggestion that Executive Directors provide indications to the staff in advance of consultations of matters of particular concern or interest to them. He recalled that the Executive Board's discussion of the 1984 Article IV consultation with the United States had been of a high quality, thanks to such early indications by Executive Directors of points of interest.

The way in which the Fund continued to deal with members' overdue obligations should be kept under close review, Mr. Dallara added. The Fund's credibility was at stake, as was its financial soundness and the public perception of it, and he looked forward to the discussion of the first semiannual report on overdue obligations later in November.

A number of interesting staff studies under preparation were mentioned in the work program as the possible subjects of seminars, Mr. Dallara commented. While he understood the wish not to overload the Executive Board schedule with seminars in coming months, he had discerned an important central theme in some of those studies. If he was correct, that theme was the need to convey a clear message to the public regarding the objectives of the Fund. Other Directors had already pointed to the need to explore some of the areas to be covered in those papers, and he would be prepared to discuss such topics in the Executive Board, if that was deemed appropriate.

He joined other Directors in stressing the considerable importance that his authorities placed on a successful and early conclusion of the work of the Joint Committee on the Review of Staff Compensation, Mr. Dallara stated. Finally, he looked forward to the forthcoming paper on the establishment of a computer center for the Fund. He strongly supported the Fund's efforts to update its electronic data processing capability in the medium term, as it grappled with more and more complicated issues. At the same time, he stressed the need to consider the requirements of members of the Board themselves; in that connection, he would appreciate the inclusion in the documentation for the meeting to be held on December 19 of an updated paper, revising the guidelines for electronic data support for Executive Directors' offices, which had been circulated late in 1983 and that Executive Directors had been advised might be modified as the computer program evolved.

Mr. Prowse considered that the proposed work program was immense, both for the Executive Board but more particularly for the staff. It seemed to him that there was no prospect that the Executive Board would be able to discuss in seminars all of the six staff studies to be prepared, and he therefore suggested that an order of priority be assigned to those studies. Also, while he shared the view that a review in depth of the role of the SDR was needed, he questioned whether it should be given a very high order of priority at the present stage. The Executive Board in particular, as well as the staff, should be judged not merely by the volume but by the quality of its work, and there were limits to what both could comprehend properly in a limited period.

The background papers to be prepared in preparation for the meetings of the Interim and Development Committees were so wide-ranging, Mr. Prowse remarked, that it might be helpful to consider tentative agendas at an early stage, together with possible changes in the procedures for the conduct of the meetings. Conceivably, the nature or type of papers needed might be affected by the agenda and format of the meetings; in any event, the magnitude of the material being prepared or portended suggested a major task for the Executive Boards of the World Bank and of the Fund in distilling and focusing the issues before the Committees actually met. The Managing Director's statement to the Interim Committee would take on special importance as a way of concentrating the discussion in what would be a relatively brief meeting. In that connection, one administrative aspect of the meetings that should be resolved well before the spring was the review of the policy on attendance at the meetings of both the Interim and Development Committees. He drew attention to the exchange of memoranda between the Secretary and himself on the matter.

His authorities looked forward with particular interest to the paper being prepared for the Interim Committee on protectionism and trade policies, Mr. Prowse commented. The list of subjects to be discussed by the Development Committee was very long, and he understood that Executive Directors and the staff of the World Bank had begun informal discussions on a tentative agenda. He asked whether that agenda was available and whether it was consistent not only with the outline in the Managing Director's work program of the subjects to be taken up by the Development Committee, but also with the subjects on which papers were to be prepared for the Interim Committee.

The proposal for a fundamental consideration of the role of the SDR was timely, Mr. Prowse considered, but he doubted whether the review could be completed in the near future. The number of studies that could be made of the SDR was also large; but again, not every possible aspect of the SDR needed to be the subject of a paper. He recalled that the Fund had sponsored a conference on international money, credit, and the SDR in 1983, at which many papers had been presented for discussion, but with very few results. On the occasion presently under discussion, it might be more productive to begin more informally by attempting to clarify the source of the particular obstacles to an SDR allocation and then to find ways of overcoming them. Otherwise, there was a risk of reviewing a long list of issues of marginal concern. He envisaged prior, informal meetings of small groups to prepare the way for the in-depth review of the role of the SDR, which was in itself desirable. As Mr. Kafka had mentioned, the reconstitution provision might well be a topic for consideration in that review. On reflection, the decision to forgo the reconstitution requirement had probably not been wise. The papers under preparation by the staff on the possibilities for improving the usability of the SDR and the role of a possible clearing facility to promote the use of SDR-denominated assets, subject perhaps to a review of the papers when they were issued, should be placed on the agenda for the Executive Board to consider as matters for decision. The second of the two papers being prepared for the G-10 Deputies on aspects of the provision of reserves in the current international monetary system might also raise fundamental issues relating to the future of the SDR, and he would be interested if the Executive Board could discuss that paper in December.

In considering whether or not the work program in its entirety was feasible, he had been struck in particular by the work schedule of area departments, Mr. Prowse said. Broadly speaking, 120 staff reports on country matters would be issued in the period covered by the work program, which encompass the Christmas and New Year holidays and during which the preparations for the spring meetings would also have to be made; 50 of those reports would concern the use of Fund resources--about half of them for reviews under existing arrangements and the remainder on requests for new arrangements. At that rate, the Executive Board would be considering a new arrangement every week; the possibility of five or six country items on the agenda each week in the period leading up to the meetings of the Interim Committee and Development Committee--a time when so many other papers were being prepared for discussion--was a matter of concern to him. It might be an opportune moment to review the guidelines for Article IV consultations, if the workload on country items was becoming so heavy.

In conclusion, Mr. Prowse said that he welcomed the proposed paper on the Fund's jurisdiction over multiple currency practices applicable to capital transactions. He recalled that his chair had been instrumental in proposing that that paper be issued. The staff study of the theory and design of Fund financial programs was also of great potential interest and central to the activities of the institution. He would expect such a paper to be discussed in substance in the Executive Board and not merely in a seminar; the types of problem to be dealt with constantly recurred in discussions in the Executive Board.

Mr. Wicks said that he would limit his remarks to points of emphasis or disagreement. On the question of publicity, he believed that an unusually large proportion of the papers suggested in the work program--including the studies for discussion in seminars and the background papers to be prepared for the spring meetings--could and should be published, as long as each case was considered on its merits. A wider world should have the benefit of the extensive work that the staff was going to have to undertake, and he hoped that the Executive Board would be advised on the possibility of publication as the papers were prepared. The objective was to start a dialogue, not only within the two Committees, but much more widely.

Publicity for staff reports on Article IV consultations was a matter of tension between surveillance and publicity, Mr. Wicks considered. It could be argued that tough and tight surveillance was best carried on in private; yet publication of some of the background material could give an edge to surveillance. He was fully aware of the political sensitivity of staff reports at certain periods in a country's history. But at some stage or other, the Executive Board would have to face up to the question of whether some Article IV material could be published.

The discussion in the Executive Board of the special papers being prepared for the Interim Committee on surveillance would in some sense have to be preliminary, Mr. Wicks commented. It was unlikely that the Group of Ten would complete its paper on surveillance until after the Interim Committee met. The Executive Board would probably prefer to give its views on both sets of papers at the same time.

The broadening of the background material for the deliberations on surveillance to encompass an analysis of medium-term prospects and issues was useful, Mr. Wicks stated. He would be wary of including figures on unemployment in such medium-term scenarios, as suggested by Mr. Kafka. Unemployment was a highly sensitive issue, in Europe in particular, and the U.K. Government, in fact, had not published forecasts of unemployment since 1976. Therefore, he was skeptical about the publication by the Fund of either aggregate data or particular figures on unemployment in individual countries. Certainly, the study on social expenditure in the G-7 countries would make a welcome contribution to what might be called longer-term surveillance because it was part of the process of drawing governments' attention to a potential long-term fiscal problem. Further work on structural ridigities, including labor market problems, to which Mr. Dallara had referred, was also part of the process of surveillance. As time permitted, and not necessarily during the months covered by the proposed heavy work program, it would be appropriate for the Fund to give some attention to such longer-term problems. As he had mentioned previously in the context of surveillance, there was scope for and advantage in reviewing regional problems; for instance, those of the French franc area, the East Caribbean Monetary Union, and similar arrangements.

Referring to Mr. Kafka's interesting suggestions, Mr. Wicks observed, first, although it was only too easy to spot all the disadvantages of asking countries to sign a pledge of good behavior on economic policies, he would be quite willing to give the matter further consideration as one way of toughening up the surveillance process. Second, the suggestion that the staff, as well as member countries, should accept a symmetrical obligation to hold Article IV consultations on a 12-month cycle might not in practice serve members' interests well. If the staff members who normally participated in a particular Article IV consultation mission unexpectedly had to give priority to other important work, it would not necessarily be right to replace them with less experienced staff. Enough flexibility should be retained in scheduling Article IV consultation missions evenly over the year within the relevant departmental divisions so that the timing of a specific Article IV consultation mission could be changed if, say, elections or other developments made that necessary.

The background papers to be issued in preparation for the April 1985 Interim and Development Committee meetings could give further emphasis to the importance of the exchange rate as an instrument of economic adjustment, Mr. Wicks considered. That issue had not been mentioned explicitly in the work program, and it did not need to be the subject of a separate paper, but it nevertheless should figure prominently in one of the studies being prepared for consideration in the Interim Committee. He supported the suggestion by Mr. Dallara and Mr. Zecchini that the Fund should expand on the useful paper on foreign direct portfolio investment that had been discussed earlier in the year. He welcomed the proposed paper on official export credits, in which the timing of the provision and the restoration of such credits should be considered. Another matter of concern, that might, however, lie more in the province of the World Bank, was how to give export credit agencies and others, including Ministries of Finance in the developing countries, greater assurance that the projects being backed were sound. Another disturbing practice that should be examined was the undercutting by countries using the Fund's resources of terms offered by the export credit agencies of creditor countries, a practice that might be a major element in decisions on the restoration of export credit cover to debtor countries in a period of economic adjustment and recovery.

There should of course be the closest collaboration between the staff of the World Bank and of the Fund on the preparation of all the proposed papers, Mr. Wicks stated. The work program of the World Bank was particularly relevant to the preparations for the meetings of the Development Committee. It would be of great interest to the Executive Board of the Fund if the World Bank's work program could be circulated for information, since the Development Committee was a joint Fund/Bank Committee.

The need for informality in the deliberations of the two Committees had been raised by Mr. Joyce, Mr. Wicks remarked. The selection of discussion leaders was a procedure that seemed to work well in the Commonwealth and certainly should be considered as one way of introducing more of a dialogue into the discussions, a desirable objective despite the difficulties of achieving it.

He agreed with Mr. Prowse that the overburdened agenda for the months ahead suggested that the proposed collective reflection in depth on the role of the SDR in the international monetary system was not of sufficiently high priority to crowd out any of the other work on the agenda, Mr. Wicks continued. As Mr. Dallara had pointed out, such a fundamental review might take a direction that might not be well received by some chairs. At the September meeting of the Interim Committee, the Chancellor of the Exchequer had referred to the question of an SDR allocation as being possibly an unhelpful distraction; he had gone on to mention, in a different context, that a fairer way of looking at the SDR would be to recognize that the circumstances leading to its creation no longer existed, and that the present system was a multireserve currency system. Therefore, although it might well be necessary at some stage to review the role of the SDR in greater depth, it would be preferable not to embark on that review for the next few months.

Mr. Salehkhou remarked that it was most opportune to be discussing the rather overloaded work program of the Executive Board preceding the spring 1985 meetings of the Interim and Development Committees. Given the importance of the matters for consideration and the uncertainties surrounding them, he agreed with the Managing Director's proposal to carry out a midterm review of the work program in January 1985, if necessary.

He looked forward to the paper on surveillance, to be issued in mid-February, and to its discussion by the Executive Board, Mr. Salehkhou added. Despite the strong commitment shown by a broad spectrum of the membership to effective and evenhanded Fund surveillance, surveillance as practiced currently was only effective in developing countries, and specifically those with Fund programs. Even the smaller industrial countries had stood apart from the Fund's recommendations, and he failed to see how the larger industrial countries in particular could be persuaded to submit to more effective surveillance. The Fund needed no further mandate from its Executive Directors on how most effectively to fulfill its global surveillance role; the problem lay in the uncertainty of political understanding and cooperation on the part of members. Therefore, he urged the Fund to practice its surveillance more evenhandedly, and to balance the pressure applied on developing countries with similar pressure on industrial countries. Furthermore, he proposed that the paper on surveillance should address specifically the problems of the misalignment of exchange rates and of the adequacy and coordination of policies among major industrial countries for the achievement of the international objectives specified in the Articles of Agreement. Due emphasis should also be given to countering current protectionist tendencies that were adversely affecting the output of many individual member countries.

The focus on medium-term prospects and issues in the world economic outlook exercise was welcome, as an effort to address some of the fundamental factors responsible for present disparities in the international economic and financial environment, Mr. Salehkhou continued. However, in striving for a comprehensive analysis, alternative scenarios and methodologies should be taken into account, as his chair had repeatedly stated in the past.

The tremendous amount of work to be carried out by the staff of the World Bank and the Fund in preparation for the April 1985 Interim and Development Committee meetings should open up a real dialogue, Mr. Salehkhou considered. But in his opinion, before embarking on discussions that would place a heavy burden on management and the staff, the willingness of all interested parties to discuss the issues seriously and to arrive at a commonly agreed point, rather than the imposed solutions witnessed so far, should be ascertained. The latest recommendations by the Interim Committee on the reduction in access limits and on the nonallocation of SDRs were not encouraging signs. The staff of the two institutions should come up with specific proposals and timetables, within the general terms of reference stipulated by the Interim and Development Committees.

Before the September meeting of the Interim Committee, the Executive Board had discussed the question of an SDR allocation relatively extensively, Mr. Salehkhou recalled. As he understood the outcome, there had been a consensus that the main issue was that of a straightforward allocation, even though a voting majority in favor of such an allocation had not been reached. Therefore, the Executive Board had decided to postpone any discussion on pertinent but already debated issues mentioned in the Managing Director's statement. Moreover, the so-called Belgian and French proposals on conditional SDR allocations had attracted no special interest or support either from Executive Directors or from Ministers at the September Interim Committee meeting. The staff had made a convincing case for a sizable allocation of SDRs, and to discuss other issues and proposals further would serve only to distract attention from the evidence. In fact, as a gesture of political will and credibility, the Interim Committee should resolve the impending question of the allocation of SDRs at the start of the April 1985 meeting.

Finally, Mr. Salehkhou asked whether the discussion of two important subjects--the Managing Director's midyear budget statement and the relationship between performance criteria and performances under Fund arrangements--could be discussed at an earlier date, because he would be traveling on official missions during the second and third weeks of December.

Mr. de Maulde remarked that the proposed work program appeared to him to follow fairly faithfully the guidance provided by Governors during the Annual Meetings. It would seem advisable, as the Managing Director had suggested, to leave enough flexibility to modify the agendas of both the Interim and Development Committees, adding items or deleting others, in response to developments during the coming months.

It was unfortunate that no Executive Board meeting on the question of an SDR allocation had been scheduled, Mr. de Maulde considered. During the previous two meetings of the Interim Committees, a majority of member countries had supported an allocation, even if a few Ministers had disagreed. In its September communiqué, the Interim Committee had reiterated that the matter should be kept under close and continuing consideration and that the Executive Board should pursue its examination of the issues involved. Obviously, the question of an SDR allocation should be on the agenda of the spring 1985 meeting; therefore, it should be considered before then by the Executive Board and in greater depth than simply a broader review of the role of the SDR in the international monetary system. However stimulating such a fundamental review might be, time was of the essence. As for the reference to the Belgian and French proposals on the conditional use of SDRs, he joined Mr. Schneider in recalling that the French authorities also considered that the best solution would be a straightforward SDR allocation in a sufficient amount. The possibility of conditional use of SDRs had been suggested as a second best solution that might contribute to the emergence of the broad consensus needed for a regular SDR allocation.

It would be useful to make a special study on interest rates, Mr. de Maulde continued, the importance of the issue for industrial as well as for developing countries being self-evident. He noted that interest rates were the only topic mentioned in the Development Committee communiqué that had not been singled out for specific study by the Fund.

He looked forward to the forthcoming discussion on Fund/World Bank cooperation, which should, of course, be on the agenda of the spring meetings of the Interim and Development Committees, Mr. de Maulde stated.

The two papers being prepared for the world economic outlook exercise were vitally important, Mr. de Maulde mentioned, and he welcomed the proposed additional assessment of medium-term prospects and issues. He suggested that the external financing needs of the developing countries in the medium term should be assessed clearly, and that different scenarios should be developed showing the consequences on the rest of the world of various stances of U.S. budget policy. He could also lend his support to Mr. Dallara's idea of studying the effects of so-called structural rigidities in different economies.

His authorities greatly welcomed the focus on issues of trade and protectionism, Mr. de Maulde remarked. The spring meetings should provide a good opportunity for Ministers to review earlier commitments, in particular those made during previous summit meetings, and to evaluate the progress made. Speaking personally, he believed that the main discussion of that issue should take place in the Development Committee, although he did not preclude its consideration by the Interim Committee as well. The related study on official export credits would obviously raise several sensitive issues and therefore should be made with care. He also awaited with interest the six staff studies under preparation for consideration by the Executive Board, perhaps in seminars.

Finally, Mr. de Maulde noted that it might be useful, as Mr. Dallara and Mr. Joyce had suggested, to review the conduct of the debate at the Ministers' meetings in good time to introduce careful innovations in April 1985.

Mr. Grosche said that he was in broad agreement with the Managing Director's presentation of the work program, even though the work load for the staff and the Executive Board was somewhat overwhelming. He supported in particular the preparations outlined for the spring meetings; the proposed papers would deal with almost all the relevant issues quite appropriately and serve well the objectives set out in the September 1984 communiqués of the Interim and Development Committees.

His authorities warmly welcomed the commitment of several Governors at the Annual Meeting, in the words of Secretary Regan "to move ahead decisively to strengthen international surveillance," Mr. Grosche continued. Unfortunately, it might be premature to make specific suggestions on how to convert those declarations of collective political will into practical results. He looked forward to receiving useful proposals in that connection, especially from the G-10 Deputies.

In its papers dealing with capital flows to developing countries, the staff should at least make an effort to address the difficult problem of capital flight and the potential for its reversal, Mr. Grosche added. The problem affected not only those countries suffering most seriously from capital outflows, but the world economy as a whole. As a potential threat to the balance of payments, capital flight should be taken into account in formulating financial policies. In passing, he mentioned that it would be helpful if more were known about the discrepancy in the global balance of payments accounts, of which capital flight was a part. He had been glad to note that research would begin shortly on at least one aspect of the discrepancy.

Inasmuch as external indebtedness would be a topic dealt with in various papers, it might be useful to identify the characteristics of "good performers," Mr. Grosche indicated. He had in mind those countries that had been more successful than others in dealing with external shocks to their economies and in preserving their creditworthiness even though they might have accumulated large external debts. Thought also might be given to including in the review of experience with Fund programs a supplementary discussion of the reasons for the success or failure of such programs. Consideration could subsequently be given to the scope for improving the design and implementation of programs supported by the Fund.

Like others, he would have some reservations if the proposed paper on official export credits initiated a discussion on export cover policies, which should continue to be discussed within the OECD Export Credit Group, Mr. Grosche remarked. Questions relating to export cover policies were quite distinct from those concerning capital flows. It was difficult to determine the precise relationship between the volume of export credits and the extent of the export credit cover. The cover policies were a matter of concern for individual governments, which granted protection from possible losses at the expense of the budget to quite different degrees; his authorities were interested in granting only the minimum cover. Therefore, they were not great believers in the idea of harmonizing cover policies; protection for export credit agencies might increase worldwide, and Germany's cover policy might be exposed to increased pressure from German exporters to provide more extensive cover without any assurance of additional export credits.

He had noted with satisfaction the intention of the staff of the Fund and of the World Bank to work in close collaboration on issues of common interest, Mr. Grosche commented. Ideally, the two institutions should be able to present joint papers; if that was too difficult, every effort should be made to avoid conflicting analysis and advice in the papers prepared by the Fund and the World Bank.

He was agreeable to having as informal a meeting as possible in order to enhance the dialogue between members of the Interim Committee, Mr. Grosche continued. However, he doubted whether it would be possible to go so far as to forgo a communiqué or even to issue a shorter communiqué that did not address substantive questions. Such an approach might be counterproductive.

Finally, on SDR matters, Mr. Grosche stated, he shared the view of his authorities that the necessity for a new SDR allocation had been carefully explored over the past two years. A new round of discussions should begin only if new developments justified it. His authorities also had doubts about the usefulness of considering the role of the SDR in the international monetary system for the time being. Careful preparation, as well as a more appropriate timing, would be required. It was in everyone's interest not to move too quickly to adopt positions that, once fixed, might hamper constructive action for a long time. To be more precise, he was prepared to participate in an examination of how the SDR could contribute to international monetary stability. But any consideration of whether SDR allocations could improve the quality of international reserves might provoke difficult discussions because it could be argued that allocations for that purpose were inconsistent with the Articles of Agreement as they stood. The technical papers in preparation on improving and broadening the usability of the SDR could have detrimental rather than beneficial results from the point of view of the SDR, and their discussion should be postponed.

Mr. Fujino noted that the work load for the coming period was diverse and possibly more demanding than usual. He was in broad agreement with the Managing Director's work program.

His chair had always attached importance to the Fund's surveillance activities and the world economic outlook exercise, Mr. Fujino recalled. He believed personally that the effectiveness of surveillance could only be enhanced through a constant process of dialogue; because members could not realistically be expected to undertake policy efforts unless they were fully convinced that they were justified, certain points relating to the exercise of surveillance might be worth noting. First, if surveillance was to be made more effective, attention should be focused on major policy areas, which might differ from case to case; generalized discussions over a broad spectrum tended to have superficial results and not to be conducive to effective surveillance. Second, it was generally agreed that the Fund was the most suitable institution for surveillance activities, because of its well-established practice of holding annual consultations with its 148 members, conducted by capable and experienced staff members. Third, while he was prepared to consider seriously any practical suggestions that other Directors might wish to make, he would remain cautious about increasing the publicity given to Fund documents on surveillance; confidentiality was essential if the quality and frankness of discussions between the authorities and the staff was to be enhanced. Fourth, hasty conclusions should be avoided, and recommendations to member countries should be neither too rigid nor binding, if surveillance was not to be jeopardized.

He looked forward to the world economic outlook paper focusing on medium-term prospects and issues, which would be part of the preparatory work for the spring meetings, Mr. Fujino went on. The Interim Committee should find helpful background material not only in that paper, but also the general survey paper, additional papers such as the report on commercial bank lending to developing countries, and papers on developments in official debt rescheduling, official export credits, and protectionism and trade policies. Of course, the emphasis in those papers should be clearly on matters of legitimate concern to the Fund. He endorsed the Managing Director's indication that he would draw on the Executive Board's discussions of those papers in reporting to the Interim Committee.

He shared the views of Mr. Dallara, Mr. Wicks, and other Directors on the importance of the staff of the Fund and the World Bank working in close collaboration on issues of common interest, Mr. Fujino added. He hoped in that way that the views of the Fund could be duly reflected in all the material to be prepared for discussion in the Interim and Development Committees.

He too was interested in reflecting on the basic problem of the role of the SDR in the international monetary system, Mr. Fujino remarked. It was true that significant developments had taken place during the 15 years since the inception of the SDR, including the rapid growth of international capital markets and the increasing size of current account deficits of major reserve currency countries. Those developments had not been clearly foreseen, but the fundamental factor that had prompted the creation of the SDR--the heavy dependence on the balance of payments outcome of one single country for the creation of global liquidity--was by no means a concern of the past. Thought would have to be given to the role of the SDR, not only in present circumstances--in which there was not yet enough evidence to justify a new allocation--but also in a longer-term and historical perspective.

He looked forward to the paper on the theory and design of financial programs, Mr. Fujino noted. Finally, he attached great importance to the review of the staff compensation system and to the work of the joint committee that was to be set up.

Mr. Finaish stated that he was in general agreement with the proposed work program. The broad commitment expressed during the recent Annual Meetings to more effective and evenhanded surveillance was particularly important. The Fund should try to build on that express commitment and, in the words of the Managing Director, convert those declarations of collective political will into practical results. While the Executive Board should assist management in making practical suggestions in that respect, it would also be useful if an indication was given in the staff paper itself of ways and means for improving the effectiveness and evenhandedness of that major Fund function.

The paper on the medium-term prospects for the world economic outlook should prove useful in providing the framework for ascertaining the implications of various policy options in both developing and industrial countries in the medium term, Mr. Finaish continued. The objective should be to help the two groups of countries formulate an internationally consistent set of policies for resolving the debt problem and for promoting growth and adjustment in an increasingly interdependent world. But in addition to examining the desired set of policies for various parts of the membership, the paper should contain a section on the role of the Fund itself. It would be helpful to discuss the implications of medium-term global economic scenarios for the conduct of the Fund's policies in relation to the debt problem as well as adjustment and growth by using the various instruments available to it such as access to its resources, surveillance, and SDR allocations.

He had noted with interest the approach suggested in the Managing Director's first paragraph on SDR matters, Mr. Finaish said. Without a prior indication of a change in the position of those opposed to an allocation, there was understandably some hesitancy about bringing the matter back to the Executive Board. However, it would still be useful for the Board to reconsider the matter before the spring meetings. That would be consistent with the view of the Interim Committee, which had urged the Executive Board to continue its examination of the issues involved. Including the question of an SDR allocation on the Executive Board agenda also would provide the occasion to update previous papers and serve as a means of ascertaining any tendency toward a change in members' positions.

In principle, he would welcome a discussion of the role of the SDR in the international monetary system, Mr. Finaish indicated. However, the objective of the exercise would have to be fully clarified so that it did not hold up consideration of the question of an SDR allocation. The main issue was how to improve the role of the SDR in accordance with the Articles of Agreement, which had laid down the objective of making the SDR the principal reserve asset in the international monetary system. To further that objective, consideration would have to be given to the manner in which a strengthened SDR could contribute to raising the quality of international reserves, improving the process of creating and managing international liquidity, and more broadly enhancing international financial stability.

Finally, Mr. Finaish maintained that he had found the staff studies outlined in paragraph 9 of the Managing Director's statement to be of considerable interest. At first sight, at least some of those studies could be placed on the agenda of the Executive Board for discussion, either in a meeting or seminar. At the same time, if the Executive Board chose to take up those studies, the discussions would have to be scheduled taking into account the heavy and challenging work program in coming months and the large number of important papers to be considered before the spring meeting.

Mr. Abdallah said that he welcomed the policy recently announced by the U.S. authorities of being willing to consider the advisability of opening up the surveillance mechanism so that it applied both to deficit countries and to countries in strong balance of payments positions. It was argued that there was not much that the Fund could do in practice to countries that did not need to make use of the Fund's resources. Yet it also had been suggested usefully that enhanced public awareness of surveillance and more ad hoc consultations would be helpful. Such an approach would be in the nature of moral suasion rather than of the imposition of sanctions, but it would be an improvement over the present surveillance mechanism, which left strong countries untouched whereas countries borrowing from the Fund were forced to comply with the requirements laid down by the Executive Board. If reports on Article IV consultations were to be published, they should be those on countries in strong balance of payments positions but whose currencies were considered to be out of line. There was certainly no need to impose additional sanctions in the form of published reports on countries that were already subjected to the sanction of conditionality.

Interesting suggestions had been put forward relating to the conduct of the spring meetings, Mr. Abdallah noted. All Third World countries would welcome any meeting at which the participants engaged in a genuine dialogue; for that to take place, it was essential that everyone should attend with an open mind. The industrial countries seemed to have closed minds on the issue of an SDR allocation, which they considered unnecessary; all countries in the third world claimed that an allocation was needed. Thus, the meetings should allow for an open debate in which third world countries could explain the reasons for their support of an SDR allocation. It was hard to understand how the SDR could be revived if there was no additional allocation in the first place. There was hardly any point in reflecting in depth on the role of the SDR and its other functions if it had been decided in advance that the SDR had outlived its usefulness. It was all the more dangerous not to face the real issue because the Articles of Agreement themselves had established a central position for the SDR in the international monetary system.

He sympathized with the Managing Director, who was in the difficult position of chairing an Executive Board that held split views on the question of an SDR allocation, Mr. Abdallah continued. His burden could be eased if the industrial countries would agree to take a more constructive view of the question; if it was conceptually impossible for those countries to concede the necessity of an allocation, then it would be incumbent upon them to suggest a new method for making additional resources available to the Third World. In the final analysis, the issue for discussion was how poor countries could find the resources to pay their debts, resume economic growth, and be able to buy the goods that the industrial countries produced.

The work program was definitely overloaded, Mr. Abdallah considered. There were limits to the absorptive capacity of the Executive Board, whose work might suffer in quality if it was pushed too hard on issues that generated emotion and on issues calling for deep reflection. Therefore, he supported Mr. de Maulde's view on the need for flexibility to review the program, perhaps casting aside those items that could await discussion until after April.

Mr. Pérez considered that the two proposed papers on the world economic outlook would be of paramount importance for the Interim Committee discussions. The paper on surveillance was certainly called for; recent experience had shown that timely surveillance was an essential ingredient, if not in preventing, at least in anticipating economic disorders in member countries. He had also noted with satisfaction that the Managing Director had explicitly used the word "evenhanded" in referring to future surveillance activities. By that, he understood that the Fund would be concerned not only with member countries experiencing balance of payments problems--mostly in less developed regions--but that it would increase its surveillance activities in industrial countries that exerted a great weight on world economic activity and thereby on the adjustment efforts of other member countries.

The importance of the second paper on the world economic outlook, focusing on medium-term prospects and issues, was that it would serve as a basis for the discussion on the debt problem and other issues, Mr. Pérez stated. The four additional background papers to be prepared by the staff for Board discussion prior to the spring meetings covered most of the relevant aspects of the so-called debt problem. However, the connection between the second world economic outlook paper and those background papers was not clear; he had hoped that the latter would form the basis for the alternative scenarios to be included in the paper on medium-term prospects and issues because the prospects for bank financing, debt restructuring, official export credits, and trade and protectionist policies would determine to a large extent the prospects for the world economy for the rest of the decade.

To conclude, Mr. Pérez stressed once more the view of his chair that the question of an SDR allocation called for a firm decision rather than for further studies. He hoped that future discussions on the subject would bring about the required consensus for an allocation in the current fourth basic period.

Mr. Nebbia indicated that he joined other Directors in broadly agreeing with the coverage of the work program outlined in the Managing Director's statement. He attached crucial importance to the surveillance function of the Fund and to the need, in particular, for the further strengthening of that function so that the policies of the major industrial countries could be effectively influenced and coordinated in the attempt to promote world economic recovery and the expansion of trade. So far, the Fund's influence had been felt basically by the users of its resources--for the most part, developing countries with balance of payments deficits; as far as major industrial countries were concerned, protectionism continued unabated regardless of the Fund's urgings, interest rates remained at excessively high levels, and the misalignment of some major currencies persisted. As Mr. Ismael and Mr. Abdallah had stated, increased public awareness of Article IV consultations with member countries would add to the pressure on developing countries, which were already under the Fund's close scrutiny. A way had to be found to bring the industrial countries under the effective influence of the Fund. Guidelines should perhaps be drawn up for ad hoc consultations between the Managing Director and Finance Ministers of industrial countries.

Referring to the special papers to be prepared for the spring meetings, Mr. Nebbia proposed that an additional study should be prepared on the enlargement of the compensatory financing facility or the establishment of a new facility designed to alleviate the debt servicing burden arising from increases in interest rates that were beyond the control of debtor countries. Such a study should be completed by the time of the April meeting.

From the brief paragraph describing the Managing Director's report to the Interim Committee, it appeared that no account would be taken of the question of an SDR allocation, Mr. Nebbia noted. The majority of the members of the Executive Board consistently had stressed that the conditions for an SDR allocation in the fourth basic period had been fully met and that the question should be kept under close and continuing consideration, despite the fact that the required broad support for an allocation had not been found yet. To exclude the question of an SDR allocation from the Managing Director's report to the Interim Committee might erroneously lead to the conclusion that the issue was closed. Updated material by the staff should be brought up for discussion in the period preceding the spring Interim Committee meeting; that material could be considered together with papers examining other SDR matters. As Mr. Nimatallah had stated, the only option was to recognize the limitations of the SDR and to use the asset in the best possible way. That was why he was in favor of examining such issues as how the SDR could contribute to international monetary stability and how SDR allocations could further improve the quality of international reserves. The conclusions that the Board might reach could provide the needed elements for reaching a broader consensus on the question of an SDR allocation or at least might reflect willingness to keep it under active consideration.

He agreed with Mr. Kafka that the Fund and its members had a reciprocal obligation to conduct Article IV consultations on the 12-month cycle, Mr. Nebbia stated.

In order to avoid any possible bias in the evaluation process, reviews of experience with upper credit tranche arrangements and the application of conditionality might be conducted better in future by a special Fund unit not directly involved with the design of the related programs, Mr. Nebbia considered. The staff paper reviewing the operation of the authority to provide compensatory financing for fluctuations in the costs of cereal imports should also include an evaluation of the use made of the facility during its four years of existence. He had the impression that members facing increased costs in importing cereals had not fully utilized the facility.

The six staff studies under preparation were all of major importance and should be examined by the Executive Board in seminar discussions, Mr. Nebbia noted. Active, individual contributions to the discussion of the papers on Fund programs in particular might make a more flexible approach possible in future Fund-supported programs. A broader perspective on such matters could also be obtained if the Fund sought the views of selected consultants; as a possible byproduct, a sounder basis might be conferred on the Fund's present approach.

Mr. Zhang said that he agreed with the Managing Director's statement on the work program until the spring of 1985 and that he could support the proposals for the preparation of the spring 1985 Interim and Development Committee meetings.

On SDR matters, it would be appropriate to deliberate collectively and in depth on the role of the SDR in the international monetary system, Mr. Zhang added. At the same time, it was necessary to keep under continuous review the need for additional reserves, and in particular, for a new SDR allocation, which had been fully justified by the staff report to the Executive Board in August (SM/84/191). That useful work should be carried on, especially as the problem of the need for reserves remained and would simply change with circumstances.

He had been pleased to note that the staff had decided to examine the effects of Fund programs on the income and wealth distribution of borrowing countries, Mr. Zhang remarked. Such a study was long overdue. He trusted that the particular emphasis to be placed on the effects of the fiscal components of adjustment did not mean that the effects of other policy measures would not be treated equally. Experience showed that it was the total design of the program rather than that of a particular component that affected the distribution of income and wealth.

Furthermore, the paper on inflation and the fiscal deficit presumably would be directed mainly at rapid or hyperinflation. Under such conditions, the measurement of the deficit was important, especially for purposes of monitoring Fund programs. But the knowledge and understanding of the nature and mechanism of the rapid and hyperinflation under way in many counries--as well as the appropriate remedy for it--were still at a somewhat rudimentary stage. The staff could perhaps broaden its studies in that connection.

Finally, Mr. Zhang said that he supported Mr. Kafka's views on the desirability of establishing an independent unit to evaluate adjustment programs under Fund arrangements.

Mr. Jayawardena said that he would like to have an analysis of the Fund's liquidity over a longer span of time, and he would like to have the periodic projections made by the staff over the past five years reviewed against the actual liquidity position of the institution. Such an exercise would show that past estimates had been conservative, and had unwittingly led to more constrained financing by the Fund than was necessary; it also might produce ideas on how to achieve greater precision in forecasting. In not too dissimilar circumstances, commercial banks forecast their liquidity daily. He was aware of the special problems of such forecasting by the Fund, but no harm would be done by an attempt to see whether they were insurmountable.

His chair had repeatedly complained of the asymmetry in the Fund's exercise of surveillance, Mr. Jayawardena continued. Hence, he appreciated the Managing Director's request for suggestions to convert the political declarations at the Annual Meeting into practical steps. Surveillance was essentially a problem in respect of major industrial countries because of their size and dominant role in world trade and payments. Further, misalignment among major currencies was the main problem and should therefore receive more thorough and exhaustive study in the staff reports presented for Board review and during Article IV consultations with members. The manner in which major exchange rates behaved during the year, and the impact of such behavior on other countries--especially on developing countries--needed to be brought out more clearly. In that respect, he mentioned as an illustrative example that the recent appreciation of the U.S. dollar had already led to talk of a "third oil shock" in certain quarters because oil prices were denominated in dollars.

A related question was whether the exchange rate should be a residual economic indicator or whether it should be given the important role that belonged to it as an active instrument of economic policy, Mr. Jayawardena added. Some analysis of exchange rate policy and actions taken to support it--in the form of market intervention--might prove useful in improving surveillance.

Another issue that might be worth pondering was coordination of economic policies among major industrial countries, Mr. Jayawardena considered. He understood that the Group of Ten and other groups representing industrial countries were looking at that issue. There appeared to be different perceptions of what was meant by policy coordination or harmonization. It would be useful if the Fund could examine the issue with a view to devising procedures and methods of achieving policy coordination.

Article IV consultations should perhaps be conducted in a continuing framework, Mr. Jayawardena remarked. After all, for borrowing countries, the Fund had a record of previous use of Fund resources and programs were reviewed in accordance with understandings under stand-by arrangements. In the same way, surveillance could be conducted against the background of the conclusions of previous consultations and of what had actually happened since.

He agreed generally with the subjects of the special papers to be prepared for the spring meetings, Mr. Jayawardena noted. In the paper on official debt rescheduling, he hoped that the staff would consider likely scenarios for such reschedulings and their impact on the growth and adjustment process of developing countries in general. What might be called the "crowding out problem" with respect to international debt was also deserving of consideration; the Fund's rightful preoccupation with the problems of major debtor countries should not lead it to lose sight of the problems of relatively small debtor countries. Although the debt of the latter countries might not create systemic difficulties, the problems for the countries themselves--relative to their income and their capacity to repay and to adjust--were very serious. He also would like an examination to be made of the implications of recommendations made repeatedly in various fora; for instance, that official debt be converted into grants, at least in respect of the least developed countries so that they did not experience negative capital flows.

He would also be grateful if the paper on trade policies and protectionism was able to highlight in quantitative terms the economic impact on the growth of developing countries of the protectionist policies followed by major industrial countries, Mr. Jayawardena stated.

What were called obstacles to direct investment and equity capital flows were the subject of a study in preparation for the Development Committee meeting, Mr. Jayawardena observed. That issue should not be considered as one sided, and the paper also should examine the obstacles created by the policies of multinational corporations. It would be useful to know what progress was being made in the ongoing discussions at the United Nations on a code of conduct for multinational corporations.

On the question of an SDR allocation, Mr. Jayawardena said that he fully endorsed the views expressed by Mr. de Maulde. The September communiqué of the Interim Committee had mentioned that a majority of Fund members had agreed that efforts should continue toward the achievement of a broad consensus for an allocation. Consequently, he expected that those efforts and the latest developments would be brought before the Executive Board for discussion and that the Managing Director would make his usual report to the Interim Committee in the spring.

The proposal to consider the role of the SDR in the international monetary system was welcome, Mr. Jayawardena remarked. However, if seminars were held, they should not stand in the way of an allocation in the current basic period, a matter that had been exhaustively studied; he also took it that the intention was not to question the very concept of the SDR, whose role had been well examined in the past, but to consider how the SDR could make a greater contribution to international monetary stability and to improving the quality of international reserves. His chair, as well as the Group of Twenty-Four, had examined the idea of allocating conditional SDRs and had found it totally unacceptable. But he was ready to consider new initiatives, and he hoped that Mr. Polak would put his ideas on the subject into writing for circulation to Executive Directors who could then study their implications. Furthermore, he noted that support had been expressed for reintroducing a reconstitution provision in relation to an SDR allocation. In sum, many new ideas were emerging on the role of the SDR that called for reflection in depth.

In the past, Mr. Jayawardena recalled, his chair had supported the setting up of machinery, independent of the staff who designed programs, to evaluate and report directly and in totality on the success of each arrangement. The World Bank carried out an ongoing exercise along those lines, and such an evaluation procedure would be useful in the Fund.

The many studies to be undertaken relating to Fund programs, their design, their global effects, their impact on income and wealth distribution, were welcome, Mr. Jayawardena said. The Fund had recently come under some criticism on most of the areas to be studied. Hence, the studies should not be undertaken with a view to defending Fund policies at all costs; only if such studies were highly objective, even if that meant criticizing current policies, would they contribute to an improvement in the Fund's performance.

Mr. Tvedt stated that his chair broadly supported the recommendations in the Managing Director's work program. He looked forward especially to the paper and discussion on surveillance. His chair had for a long time expressed considerable interest in discussing ways and means of improving the effectiveness and evenhandedness of surveillance. In that connection, he had furthermore noted with satisfaction that the various aspects of economic policy interdependence would be accented in the forthcoming world economic outlook exercise.

The solution to the problem of prolonged use of Fund resources should primarily be found in measures aimed at strengthening surveillance and monitoring procedures to ensure sufficient program implementation, Mr. Tvedt said. He therefore also looked forward to the opportunity to discuss such issues again in relation to the paper on the annual review of conditionality and the paper reviewing experience with adjustment policies from 1973 to 1983.

His authorities remained of the view that the debt situation would seem manageable only if the world economy developed favorably, Mr. Tvedt continued. Thus, there was still a great need for a fairly comprehensive discussion on the various aspects of the debt problem. Only in that way could the Fund best prepare itself to face unforeseen situations that might arise. He hoped that the exchange of views on the subject of debt would be fruitful; the issues indicated for discussion were broadly appropriate. It would be reasonable to continue to focus attention on the main debtor countries, but at the same time, the situation of the least developed countries should not be neglected.

Other discussions on the role of the SDR in the international monetary system, along the lines indicated in the Managing Director's statement, would be useful, Mr. Tvedt considered, as might an exchange of views taking into account some of the suggestions by Mr. Polak, even if the end result was not an immediate allocation of SDRs.

As to the preparations for the Interim and Development Committee meetings, Mr. Tvedt said that he took it for granted that the Executive Board would be kept currently informed about the staff's preparatory work and be given the opportunity to exchange views as the program for the meetings was further developed. The agenda might easily become overburdened, and the dividing line between the two Committees might become blurred. It was difficult ahead of time to determine precisely how to divide the responsibilities between the two Committees for the issues to be discussed at the spring meetings. Moreover, like other Directors, he felt that it was important for the staff of the Fund and the World Bank to cooperate closely when drafting papers to be discussed by the Committee so as to reduce the likelihood of divergent views emerging from the meetings.

Finally, referring to the staff studies to be prepared, Mr. Tvedt commented that he looked forward in particular to the paper on the theory and design of Fund programs, as well as to the papers dealing with the effects of Fund programs in various areas.

The Chairman noted the broad agreement with the work program and the observation that the workload would be heavy and demanding on the Board and staff, and of course on management as well. The additional burden of the special Interim and Development Committee meetings was, he observed, the product of members' suggestions; as such, it would have to be accepted without changing in any way the Fund's regular policy course. The conduct of Article IV consultations, for example, was not a matter for discussion in connection with the work program. The Executive Board had established guidelines, for reasons that stood in their own right, for the periodicity of Article IV consultations with members that should not be changed simply because of the heavier schedule of work in the period preceding the spring meetings.

The suggestions of Executive Directors would be taken into consideration in the different papers being prepared, the Chairman said. On surveillance, he had noted the importance attached to evenhanded, effective and concrete surveillance; he had also taken note of the strong wish that surveillance should make greater inroads, especially with countries that did not have a borrowing relationship with the Fund. The specific proposals made during the discussion would be examined carefully. Although they might have multiyear debt scheduling agreements, the Fund's role in countries that still needed to adjust their balance of payments but that no longer had an arrangement with the Fund, also would have to be considered in the framework of the papers on surveillance. Because the views of the Group of Ten would probably not be known until after the April meetings, the examination of surveillance in the Fund in the coming months would be an attempt to prepare meaningful material for those meetings, which would represent the first round of the discussions. The papers prepared by the G-10 would be for consideration as part of the next stage of the discussions.

Various proposals had been made with respect to the papers on the world economic outlook, the Chairman noted, including suggestions for more disaggregated analysis, consideration of the concept of an equilibrium real interest rate, the need to emphasize the part played by exchange rate adjustment--or the lack of it--and the possibility of including different scenarios.

There had already been close cooperation between the World Bank and the Fund on the preparation of the Interim Committee and Development Committee meetings, the Chairman added. He himself had had a number of meetings with the President of the World Bank, and staff members were also working closely together. A list of items for possible incorporation in the agenda of the Development Committee was being drawn up by the two institutions and would be circulated as soon as it was at an advanced enough stage. It would no doubt be up to the World Bank to decide whether to circulate its own work program, since that was not its usual procedure, but the matter would be brought to the attention of the Bank. The two managements were convinced of the need for all papers for the spring meetings to be consistent, and to be prepared in harmony, so that the discussion would be fruitful. The April exercise was opening up a new avenue of cooperation for the two institutions, which would have an opportunity to review a number of projects that they usually undertook separately or in a distinctive way. For instance, the world economic outlook and the world development project were not inconsistent but the methodologies differed. One question that had arisen during the close cooperative and preparatory work between the Fund and the Bank so far was how to improve the compatibility of those two exercises, although merging them would still be very difficult. It would indeed be useful if some papers could be prepared in common; one possible candidate was the paper on direct investment. It was not mentioned specifically in the work program, because it was expected that the World Bank would take the lead on the subject of direct investment, which the Fund also had been studying, however. He had therefore suggested that the Fund should make a contribution to the World Bank paper.

Referring to the proposed paper on trade, the Chairman noted the request for quantification, as far as possible, of the obstacles to trade stemming from protectionism. He also had taken note of the idea of incorporating some of the work done by the OECD on adjustment in the background material for the spring meetings.

The call for a more spontaneous dialogue in a less structured format for the conduct of the spring meetings would be reported to the Chairmen of the two respective Committees, the Chairman said.

The Articles of Agreement mandated the continuing examination of the question of an SDR allocation, the Chairman observed. He wished to dispel the impression that no Board meeting on the subject would be scheduled before the Interim Committee met; his intention had been to update the basic background paper for consideration by the Board in February-March. He had sensed a wide interest in the suggestion in the work program to look into the broader, basic question of the future of the SDR. As some Directors had noted, there had been significant developments over the past 15 years, and the problems that had emerged should be considered, taking more time than usual. Certainly, that in-depth study should not become a pretext for holding back the discussion of the question of an SDR allocation. Such a study would call for careful and thoughtful preparation and should not necessarily be added to the already heavily overloaded work program for the weeks remaining until April.

The Economic Counsellor explained that it would not be possible to accelerate the pace at which the paper on the provision of reserves in the current international monetary system was being prepared for the Group of Ten. The staff was geared to the timetable set by the Chairman of the Group of Ten.

The Secretary said that an attempt would be made to meet Mr. Salehkhou's wishes relating to the timing of the Executive Board's consideration of the midyear budget statement and the relationship between performance criteria and purchases under arrangements.

The Executive Directors concluded their consideration of the work program until the spring 1985 meetings of the Interim and Development Committees.

APPROVED: August 9, 1985

LEO VAN HOUTVEN
Secretary