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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 84/181

10:00 a.m., December 12, 1984

J. de Larosière, Chairman

Executive Directors	Alternate Executive Directors
A. Alfidja	
	M. K. Bush
J. de Groote	H. G. Schneider
B. de Maulde	G. E. L. Nguyen, Temporary
	T. Alhaimus
	M. B. Chatah, Temporary
H. Fujino	
G. Grosche	B. Goos
J. E. Ismael	Jaafar A.
R. K. Joyce	L. Leonard
A. Kafka	C. Robalino
	A. S. Jayawardena
E. I. M. Mtei	A. Abdallah
	M. A. Weitz, Temporary
Y. A. Nimatallah	
P. Pérez	
J. J. Polak	T. de Vries
A. R. G. Prowse	A. V. Romuáldez
	O. Kabbaj
	A. K. Juusela, Temporary
	T. A. Clark
S. Zecchini	N. Coumbis
	Wang E.

L. Van Houtven, Secretary
J. C. Corr, Assistant

Also Present

Administration Department: R. Tenconi, Director; H. J. O. Struckmeyer, Deputy Director; J. D. Huddleston, J. B. Kaiser, J. G. Keyes, P. D. Swain, H. Wiesner, L. A. Wolfe. African Department: G. E. Gondwe, Deputy Director. Asian Department: K. A. Al-Eyd, R. J. Niebuhr. European Department: B. Rose, Deputy Director; S. Mitra. Exchange and Trade Relations Department: W. A. Beveridge, Deputy Director; S. Kanesa-Thasan, P. J. Quirk, P. M. Thomsen. External Relations Department: C. S. Gardner, Deputy Director; H. P. Puentes. Fiscal Affairs Department: V. Tanzi, Director; R. O. Khalid, R. D. Kibuka. IMF Institute: G. M. Teyssier, Director; A. H. Whitfield; A. Ally, Participant. Legal Department: G. P. Nicoletopoulos, Director; Ph. Lachman, S. A. Silard. Middle Eastern Department: M. A. El-Erian. Secretary's Department: J. W. Lang, Jr., Deputy Secretary. Treasurer's Department: D. Williams, Deputy Treasurer; W. L. Coats, Jr., D. Gupta, J. A. Gons, T. B. C. Leddy, A. F. Moustapha, D. V. Pritchett. Western Hemisphere Department: S. T. Beza, Associate Director; M. Caiola, A. Cheasty, L. E. Escobar, J. Ferrán, M. E. Hardy, C. M. Loser, S. Sosa, F. van Beek. Bureau of Language Services: J. E. Merry. Bureau of Statistics: W. Dannemann, Director; R. V. Kennedy, J. B. McLenaghan. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: H. A. Arias, G. W. K. Pickering, T. Sirivedhin, A. Vasudevan. Assistants to Executive Directors: E. M. Ainley, H. Alaoui-Abdallaoui, I. Angeloni, W.-R. Bengs, J. Bulloch, L. E. J. M. Coene, V. Govindarajan, G. D. Hodgson, Ismail Z. b., H. Kobayashi, S. Kolb, M. Lundsager, K. Murakami, D. J. Robinson, J. E. Rodríguez, A. A. Scholten, A. J. Tregilgas, A. H. van Ee, E. L. Walker.

1. DESIGNATION PLAN AND OPERATIONAL BUDGET FOR DECEMBER 1984-FEBRUARY 1985

The Executive Directors considered the designation plan (EBS/84/241, 11/28/84) and the operational budget (EBS/84/242, 11/28/84) for the quarterly period December 1984-February 1985.

Mr. Pérez, Mr. Prowse, Mr. Goos, Mr. Leonard, Mr. Robalino, and Mr. Nguyen expressed their support for the proposed decision.

Ms. Bush recalled that in the quarterly period June-August 1984 the use of U.S. dollars had exceeded the budgeted amount by about SDR 200 million. She noted that the staff intended to reduce the use of U.S. dollars in the current budget by about SDR 100 million and in the next quarterly budget by another SDR 100 million to offset the earlier excess use. The staff had been engaged in negotiations with members and lenders for the use of currencies other than U.S. dollars for the payment of interest and principal in an effort to maintain the use of currencies, including U.S. dollars, within the planned amounts. In view of the sizable repayments to lenders scheduled in the period ahead, such arrangements should prove helpful. As had been noted in EBS/84/189 (8/31/84), other members had been cooperating under special arrangements with respect to the use of their currencies in place of U.S. dollars.

The Executive Board then took the following decisions:

a. SDR Department - Designation Plan for December 1984-February 1985

The Executive Board approves the designation plan for the quarterly period beginning December 12, 1984 as set out in EBS/84/241 (11/28/84).

Decision No. 7869-(84/181) S, adopted
December 12, 1984

b. Operational Budget for December 1984-February 1985

The Executive Board approves the list of members considered sufficiently strong as set out in EBS/84/242, page 3, footnote 1, and the operational budget for the quarterly period beginning December 12, 1984, as set out in EBS/84/242 (11/28/84).

Decision No. 7870-(84/181), adopted
December 12, 1984

2. JAMAICA - REVIEW UNDER STAND-BY ARRANGEMENT AND WAIVER OF PERFORMANCE CRITERIA; AND EXCHANGE SYSTEM

The Executive Directors considered a staff report for a review under the stand-by arrangement for Jamaica and a request for a waiver of performance criteria (EBS/84/233, 11/19/84; and Sup.1, 12/7/84).

The staff representative from the Western Hemisphere Department noted that the review under the stand-by arrangement for Jamaica had been postponed to give Executive Directors time to consider the new exchange arrangements and to allow the staff to learn about recent developments in the foreign exchange auction market, particularly those of December 6, 1984 when the exchange rate had appreciated to J$4 per U.S. dollar. The staff had sought further clarification from the authorities on the operations of the auction system, the forward market, and the letter of credit mechanism, and on their plans to implement understandings on intervention so as to build up reserves and to correct any tendency for the Jamaica dollar to appreciate unduly. The latter point had been a matter of particular concern, given the slender margins under the program in all areas, the lack of reserves of the Bank of Jamaica, and the significant level of arrears, which would have to be reduced sharply by the end of December 1984. The staff had discussed those questions with the authorities and had gained a better understanding of the auction arrangements recently implemented. In the auction on the previous day, the clearing rate had been J$4.41 per U.S. dollar. The Bank of Jamaica had retained US$3.4 million of the total resources--US$5.9 million--supplied to the auction. The staff would continue to monitor the auction system closely to ensure that its operations were consistent with the objectives and targets of the program, including the elimination of arrears and the rebuilding of the Bank of Jamaica's foreign reserve position.

During the recent mission to review demand management policies, the staff representative from the Western Hemisphere Department added, the staff had found that achievement of the balance of payments and other targets of the program remained feasible, but that there were no margins in the fiscal and monetary areas. The achievement of the program targets was highly dependent on Jamaica receiving all planned official foreign exchange inflows on time and on the authorities taking prompt action to pass on the price impact of exchange rate depreciation. In light of the somber economic outlook in the medium term, the staff had urged the authorities to make every effort to create margins to ensure achievement of the program goals and to lay a better basis for the economy in 1985 and 1986.

Mr. Joyce made the following statement:

> Since the Executive Board's approval of the stand-by arrangement in support of an economic program for Jamaica for 1984/85 (EBM/84/89 and EBM/84/90, 6/8/84), the Government of Jamaica has made considerable progress in implementing the necessary adjustment measures. Jamaica met all quantitative performance targets

of the program at the end of June and September 1984. Although the end-September overall level of public sector external arrears was below the ceiling provided for in the program, some new arrears were incurred during the period as a result of delays in the disbursement of two external loans. These new arrears violated the provisions of the program. However, since the overall ceiling was respected and the new arrears arose solely from a temporary delay in disbursements, my authorities are requesting a waiver with respect to that element. The two loans in question are expected to be disbursed during the present quarter and the new arrears will be cleared before the end of the program.

Since the inception of the program, the Government of Jamaica has introduced a number of measures. Certain fees and charges have been raised, including those for motor vehicle licenses and health services. Rural water rates and fees paid by market vendors have also been increased. Water company rates have been raised by 69 percent and the investment program of the Jamaica Public Service Company has been constrained to program levels. In September and October 1984, the Bank of Jamaica raised the minimum savings rate by 2 percentage points and the rediscount and bank rates by 3 percentage points. In late November, new exchange rate arrangements were announced to provide for free floating of the exchange rate. Previously, movements of the rate had been constrained within bands. A forward exchange market has also been set up in which commercial banks can deal forward cover for one-to-six-month periods.

My authorities also met most of the program targets for the first half of the stand-by arrangement. Fiscal policy, which had been an area of weakness, has been strengthened. Steps have been taken to increase revenues and limit expenditures and the overall deficit of the Central Government in the second quarter of the program was, indeed, smaller than programmed, principally because total expenditure outlays were held to lower than programmed levels. Revenue collections, however, were below expectations in the second quarter.

My authorities anticipate further reductions in expenditures as the plan to reduce the central government payroll by about 6,000 workers takes full effect. The Minister of the Public Service announced late last month that almost 4,000 workers have been laid off. This represents an important decrease in the present government work force.

With regard to the operations of the public entities, my authorities have moved promptly to deal with financial slippages. They intend to continue to administer the prices of goods and services supplied by the public sector in a flexible manner to reflect changes in exchange rates and other cost factors.

My authorities agree that tight credit policies continue to be necessary. The Bank of Jamaica has raised the liquid asset ratios for both commercial banks and nonbanks, increased the cash reserve ratio of commercial banks, and raised interest rates. These measures, as intended, have achieved a slowdown in the rate of expansion of private sector credit.

The external current account remains on target. Export shortfalls for both bauxite and other goods have been more than offset by lower than programmed imports. The outturn for imports also reflects the tightening of credit as well as the impact on import demand of the depreciation of the Jamaica dollar.

The introduction of a foreign exchange auction system in March 1984 brought about important corrections in the exchange rate, and the rate moved from J$3.25 to J$3.55 per U.S. dollar in late March to about J$4.90 per U.S. dollar in late November 1984. Directors will have noted from information contained in Supplement 1 to EBS/84/233 that my authorities have now introduced a floating exchange rate system, with provision for limited intervention in the spot market by the Bank of Jamaica as well as the setting up of a forward exchange market. Details of these changes are set out in the paper. This change should permit a strengthening of the adjustment effort and lead to greater flexibility in the exchange rate system and reduced speculation against the Jamaica dollar. To support this effort, my authorities are seeking a modification of the performance criteria for December 1984 and March 1985 for net international reserves, with consequential changes in the ceiling for net domestic assets of the Bank of Jamaica and in the permitted levels of external arrears. This will assist the authorities in eliminating part of the unsatisfied demand for foreign exchange in the spot market. The operation of the new auction system, at least until March 31, 1985, may give rise to a temporary multiple currency practice. Accordingly, my authorities are seeking approval of this practice in order to permit the system to operate as intended. In addition, a waiver is also sought to cover the introduction in September and October 1984 of temporary exchange restrictions that have since been removed.

The medium-term outlook for the balance of payments has reinforced my authorities' view of the need for a sustained and determined adjustment effort. The weakened outlook for bauxite exports and tourism receipts has only served to strengthen their resolve in this respect. They continue to welcome the advice and support of the Fund, and they intend to make every effort to meet the objectives of the current adjustment program.

Mr. Clark commented that, as many Directors had observed at EBM/84/89 and EBM/84/90 (6/8/84), the stand-by arrangement for Jamaica was ambitious. In several areas the planned adjustment was stronger than in the three years under the earlier extended arrangement. Such an ambitious program was essential, given Jamaica's difficult economic situation. Against that background, there had been significant progress, which was particularly commendable in view of the weakening in the bauxite and tourism sectors. While the overall program appeared to be on track, developments in certain areas, particularly with respect to the exchange rate, had not been satisfactory. He welcomed the recent decision to float the Jamaica dollar. The program remained tight; in some cases, the targets had been achieved with the help of measures that could not be repeated and might have to be reversed. In general, he agreed with the staff's comments in its appraisal.

Further steps would be required, especially on the fiscal side, Mr. Clark continued. The considerable progress noted by Mr. Joyce with respect to reductions in the government payroll was encouraging. He strongly supported the emphasis on the need for wage restraint; in view of the tightness of the fiscal position, it would be particularly important to ensure that wage increases in the government sector were kept to moderate levels. Recent settlements in the bauxite sector were a matter for concern, given the importance of that industry in Jamaica and the continued weakness of the bauxite market, which could result in plant closures. On revenue, he invited the staff or Mr. Joyce to indicate whether the authorities had developed firm plans to implement the measures suggested by the staff. In general, he agreed with the staff's comments in its appraisal.

He fully agreed with the staff's remarks about the level of domestic interest rates, Mr. Clark stated. While the steps that the authorities had taken were welcome, further increases in rates--rather than the administrative measures that the authorities had relied on thus far--would be the most effective way to ensure full use of the available foreign credit facilities; he encouraged the authorities to move in that direction as soon as possible. The extent to which individual items in the monetary accounts differed from the projections in the program was striking, even though the totals were in line with the program targets. Could the staff explain why net domestic credit expansion to the "other public sector" had turned out to be so large.

It was clear that the previous exchange rate system had not worked satisfactorily, Mr. Clark said, partly because the authorities had taken a number of measures aimed at artificially stabilizing the rate. The measures described in EBS/84/233, Supplement 1 were, therefore, welcome, particularly the establishment of a forward market, which should be helpful to importers, although it remained to be seen how deep the market would prove to be. The staff's comments on the importance of the forward and spot rates being determined by market forces deserved emphasis; in that regard, the remarks by the staff representative at the beginning of the meeting had been encouraging. In sum, the Jamaican authorities had made considerable progress under an ambitious program, but the situation remained fragile and the medium-term prospects difficult. It was essential, therefore, that the adjustment effort should be sustained and, where necessary, strengthened. Finally, he supported the proposed decisions.

Ms. Bush observed that Jamaica's move to float its currency indicated a willingness to modify its adjustment effort in response to changing circumstances. Economic performance had not yet met expectations, due in part to disappointing developments, both internal and external, in the export and tourism sectors. While the float was the primary means of addressing the external disequilibrium, serious domestic imbalances remained. If those imbalances were not addressed decisively, they would affect the exchange rate to a larger extent than the authorities probably desired.

The fiscal effort remained the crucial element of the program, Ms. Bush continued. The authorities were modifying the budgetary revenue measures in light of the realization that revenues for 1984/85 would probably be lower than expected as a result of the decline in tourism receipts. They had advanced the planned increase in various fees and charges, and the overall deficit was on target for the first half of the current fiscal year. However, additional measures to limit current expenditure, such as reductions in transfers and subsidies, would have to be considered if savings on wage expenditures were lower than expected or if revenues fell short of the target.

The higher than expected private sector wage agreements would put increasing pressure on the Government to agree to more than the 15 percent target for average wage increases, Ms. Bush said. A 20 percent increase had already been granted in some parts of the decentralized public sector. The authorities would have to hold the line on public sector wage increases. On the positive side, although the staff had reported that the number of layoffs was behind schedule, Mr. Joyce had indicated that almost 4,000 workers had been laid off, apparently putting the rate of staff reduction back on track and improving the short-term and medium-term budgetary outlook.

Developments in the public enterprise sector had been somewhat mixed, Ms. Bush considered. Water rates had been increased substantially, but during the first half of the current fiscal year aggregate public enterprise recourse to domestic credit had been kept artificially low, a situation that could not be sustained for the entire year. The importance of adequate pricing, including prices for oil and petroleum products, could not be overemphasized. Price adjustments would have to reflect the exchange rate changes that had occurred. Two of the sugar factories would not be closed as planned, but she would not dispute that decision as long as government financial support was not required. While adequate price adjustments in the public sector were one means of containing current expenditures, the authorities should hasten their planned divestment of certain government assets.

Monetary policy appeared to have tightened in the fall of 1984 with increases in the cash reserve requirement and in the liquid assets ratio, Ms. Bush noted. The authorities had also raised interest rates, so that the minimum savings deposit rate was currently 13 percent. However, inflation was projected to be about 25 percent in 1984, which would leave most rates substantially negative in real terms. Further increases were important, especially in light of the move to float the Jamaica dollar.

The float and the development of the forward market were important policy changes that deserved strong support, Ms. Bush stated. She hoped that the next review under the arrangement would provide further details on developments in the exchange system and that the overall external accounts would soon show the same improvement as nontraditional exports, which were expected to increase by more than 50 percent in 1984 following earlier exchange market adjustments. However, there was one cause for concern. At the previous week's auction, the Jamaica dollar had appreciated significantly because of a combination of demand and supply factors. Because Jamaica's international reserves were low and most of its new inflows from the World Bank and other creditors were needed for the reduction in external arrears, the authorities could not afford to intervene in the float; too much was at stake. A stronger fiscal and monetary effort was called for if the authorities wished to affect the exchange rate further.

The medium-term outlook was even more pessimistic than at the time of approval of the arrangement, Ms. Bush remarked. In view of Jamaica's past inconsistent performance and the guidelines on access limits, Jamaica could not look to the Fund for substantial financial assistance in the future. It would have to rely more on Fund advice and guidance and less on Fund financial support. As the medium-term projections made clear, a strong adjustment effort would have to be sustained for years to come. She supported the proposed decisions relating to the midterm review and requests for a waiver and modification of the performance criteria and to the exchange system.

Mr. Coumbis said that at EBM/84/89 and EBM/84/90 (6/8/84) Jamaica's adjustment program had been characterized as overambitious by many Directors who had expressed serious doubts about the possibility of its successful implementation. Indeed, to reduce the central government deficit from 15.2 percent of GDP in 1983/84 to 7.6 percent in 1984/85 and the current account deficit from 13 percent of GDP to 6.4 percent would be a herculean feat. Moreover, the authorities were expected to eliminate all domestic arrears, to reduce public sector employment, to maintain a flexible exchange rate and a strict monetary policy, and to liberalize trade. However, it had also been clear at the time of the previous discussion that the deterioration of Jamaica's economic situation, following the repeated failures of many adjustment efforts, was such that there had been no room for maneuver left to the authorities.

In EBS/84/233, the staff indicated that the adjustment effort thus far had been successful, Mr. Coumbis continued: "Important reforms have been made in the exchange and trade system; and the Jamaica dollar has been depreciated substantially.... Fiscal policy...has been strengthened, credit policies have been tightened, and domestic interest rates raised." Moreover, all quantitative performance criteria had been observed at the end of June and September 1984--with the exception of those related to external arrears, for which a waiver had been requested--and the program targets for the current account deficit, overall official capital flows, and the overall deficit of the Central Government had been met. However, some unfavorable developments indicated that the attainment of the objectives of the adjustment program would require continuing efforts and prompt, determined action by the authorities. For example, exports were currently expected to increase by 9 percent, rather than the initially projected 19 percent, because of uncertainties surrounding the bauxite/alumina industry. Similarly, travel receipts were expected to increase by 6 percent, instead of 19 percent as originally forecast. Nevertheless, the current account deficit was expected to remain on target because imports were expected to increase less than originally projected.

There were other areas of concern, Mr. Coumbis remarked. First, slippages in tax revenues were expected because of downward revisions in projected tourist expenditures, imports, and gasoline sales. Second, the deficits of public enterprises would require financing in excess of the program projections. Third, there was a considerable delay in the plan to reduce the central government payroll by 6,000 employees. Finally, the latest wage contracts in the bauxite sector and in the decentralized public sector provided for wage increases of about 20 percent for 1984/85 rather than the 15 percent suggested in the program.

Strong and immediate action was required to prevent those slippages before they created more serious problems and jeopardized the whole adjustment effort, Mr. Coumbis stated. The authorities were confident that they had the situation under control. There had been strong indications during the first months of the program that the authorities had been adjusting their policies decisively and quickly to changing economic conditions. For example, in response to increases in the liquidity of the commercial banks, the authorities had raised the cash reserve requirement from 10 percent to 14 percent and the liquidity assets ratio from 40 percent to 44 percent. In response to slippages in tax revenues, they had raised a number of fees and charges, including those for health services; in response to slippages in the financing of public enterprises, they had raised water rates by 69 percent, and they would increase domestic petroleum prices as soon as the exchange rate surpassed J$4.50 per U.S. dollar. In sum, substantial progress had been made in the past few months in many areas of the economy. He urged the authorities to continue their efforts for as long as required to conclude successfully their adjustment program. He agreed with the staff's appraisal and supported the proposed decisions.

Mr. Goos recalled that on the occasion of the approval of the stand-by arrangement for Jamaica his chair had expressed reservations about the country's weak adjustment record and about the outlook for closing the external financing gap. Since then the Jamaican authorities had considerably improved their adjustment record. By adopting restrictive financial policies and by introducing various corrective measures in response to certain slippages in performance, they had ensured that the program remained largely on track. That development was most welcome; the new exchange rate arrangements were particularly encouraging, and they should facilitate the achievement of the program's objectives.

Nevertheless, the authorities' enormous task in correcting the remaining imbalances was becoming even more difficult in light of the weakening in Jamaica's export sector, Mr. Goos continued. Under the circumstances, the country had no choice but to persevere in the adjustment effort, which should be strengthened further. The still fragile fiscal position was a matter of particular concern, as was the renewed emergence of external arrears, a development that suggested that his chair's initial reservation with regard to prospects for closing the external financing gap had been justified.

He could have supported the waiver of the performance criterion with respect to arrears for July-September 1984 on the basis of the earlier indication that the arrears would have been eliminated by November, Mr. Goos said. However, it appeared that Jamaica would probably remain in arrears even at the end of the program period. That was a matter of great concern. Although the intended exchange market intervention that could give rise to those arrears might serve a useful purpose, he found it difficult to approve the requested waiver for two reasons: the initial projections for official capital flows were expected to materialize fully, and, more important, the staff's analysis suggested that there was scope for remedial action, particularly with regard to interest rates. Higher interest rates, apart from their beneficial effects on domestic savings, could generate sufficient foreign capital inflows to eliminate the remaining external arrears. Furthermore, it could be argued that sufficiently high real interest rates would have a stabilizing effect on the exchange rate. In those circumstances, the need for intervention in the foreign exchange market would be greatly reduced, thereby enabling the Bank of Jamaica to use its reserves to eliminate the arrears. He invited the staff to indicate whether further tightening of credit policies aimed at increasing real interest rates might impose an unacceptable hardship on the country. His comments were not intended to be unduly critical; indeed, his authorities greatly appreciated the adjustment efforts undertaken thus far. His remarks on arrears and interest rates were intended to encourage the Jamaican authorities to persevere in those efforts, which would be in the best interest of the country's economic prospects.

Mr. Prowse stated that he supported the proposed decision and the requested waivers of three performance criteria. However, three waivers were a great many; he supported the requests in the particular circumstances in which those arrears had occurred in Jamaica's case. In that respect, although he had been reassured by Mr. Joyce's statement, he did not share the view of some Directors that the program had always been strong. Nevertheless, a great deal had been achieved and the program should be sustained despite the fact that performance thus far had been mixed. For example, inflation remained serious, the high level of unemployment--about 26 percent--underlined the need for diversification in the export sector, and external arrears were cause for concern. On the other hand, Jamaica had adhered to the program in the first six months except in relation to external arrears, for which there were mitigating circumstances. The fiscal targets had been met--which was reassuring--but not always as a result of strict adherence to the program measures and the implementation of adjustment policies. While credit had been tightened significantly, an appropriate relationship between the relative costs of money in domestic and external markets had not been established. The exchange rate regime had been somewhat flexible, although not to a sufficient degree until the new arrangements had been adopted. The authorities should be congratulated on their latest action, but the case for moving to a genuinely free float as rapidly as possible deserved careful consideration.

The urgency of managing the economy along the lines of the comprehensive and internally consistent approach to adjustment initially envisaged under the program should be stressed, Mr. Prowse considered. In that context, the implementation of ad hoc adjustment measures with conflicting effects that did not lead to the ultimate goals of the program was disturbing. For example, demand management under the program was to have been exercised through cuts in the public sector and a deceleration of credit expansion so as to reduce the central government deficit from an enormous 16.5 percent of GDP in 1983/84--as revised--to 7 percent in 1984/85. However, 7 percent of GDP remained high and could not be considered viable in the medium term. Furthermore, the success in meeting the target for the overall deficit, which had been J$14 million below the ceiling, had been achieved not so much through adjustment consistent with the program or through revenue generation as through fortuitous developments. There had been higher than expected nontax revenues and proceeds from the bauxite levy, including about J$32 million arising from final adjustments in the previous year's tax obligation of companies, which was a once-for-all benefit that could not be relied on for the future. The staff had correctly pointed out that the margin below the ceiling for the deficit had been small despite the higher revenue collections. Furthermore, proceeds from the bauxite levy would be much lower in the period ahead as the industry was expecting a further slowdown in view of the projected stagnation in the world bauxite and alumina markets. Projected bauxite earnings of about 50-60 cents a pound were not reassuring.

The authorities' announced increases of various charges and fees, including those for motor vehicle licenses, health services, and rural water supplies, were welcome, but they would not be enough, Mr. Prowse remarked. Revenue prospects for the remainder of the year were not promising; the projections for tourist expenditures, car imports, and gasoline sales had already been revised downward. He therefore supported the staff's recommendations that current expenditures should be reduced where possible--for example, subsidies for imported basic foods--and that capital spending should be kept below program levels. Those recommendations were appropriate even in the face of the serious unemployment problem.

He agreed with the staff that it was urgent to make more than token reductions in central government staffing, Mr. Prowse went on. Mr. Joyce's indications of further progress in that area were encouraging. Overall, the performance of public entities had at best been mixed. Some measures had been taken to improve their financial position; even so, the staff projected that their financing needs in 1984/85 would be more than J$40 million above the program targets, which was a matter of serious concern. One reason for the overrun was the need to rebuild oil inventories that had been run down in the second quarter in order to ease pressure on the exchange rate, another example of an ad hoc measure that was contrary to the thrust of the program. It represented only temporary relief to a problem that demanded a more systemic resolution, namely, a more flexible exchange rate. Another reason for the overrun was the plan of the Jamaican Public Service Company to increase its investment program. He invited the staff to comment on that question in relation to the authorities' expressed determination to adhere to the program's goals concerning the needs of selected entities for financing and in relation to the fight against inflation.

In Table 8 of EBS/84/233, Mr. Prowse observed, the actual figure for credit to the "other public sector" was so far out of line with the programmed amount that it suggested the existence of substantial problems. The situation could lead to the undermining of the program, especially when seen against the significant excess use of net domestic credit by the Central Government, particularly credit from the banking system. Were more recent statistics on credit to the "other public sector" available?

The implementation of monetary and credit policies in general had not been consistent, Mr. Prowse considered, reflecting incomplete adherence to the program. The authorities did not appear to have been steadily mindful of the need to tighten credit. At times, they had moved vigorously to constrain the expansion of the money supply but through ad hoc solutions that tended to conflict with the ongoing objectives of the program. The transfer of part of the state petroleum company's deposits from commercial banks to the Bank of Jamaica was an example of such ad hoc adjustment. He welcomed the authorities' decision to raise the cash reserve requirement of banks from 10 percent to 14 percent of prescribed deposits and the liquid assets ratio from 40 percent to 44 percent and to calculate the ratio on a daily rather than weekly basis. Interest rates should also be increased, so as to encourage savings and to induce importers to avail themselves of foreign lines of credit, assuming that such lines of credit were available to them. The authorities had taken action in that regard, but it did not appear to be adequate. While positive real interest rates were not necessarily appropriate in all circumstances, they appeared to be justified in the present circumstances of Jamaica. As in other areas of policy, the emphasis should be on consistency with the overall objectives of the program.

The prospects for the external sector were somber, Mr. Prowse commented. Developments during the past six months reflected the fundamental problems of the economy, particularly its heavy dependence on the bauxite/alumina industry and on tourism. Sugar exports were not expected to pick up and the banana industry was also extremely weak. The only area of strength in trade was "nontraditional products"; they should be encouraged. The staff had indicated that net travel receipts had been lower than expected between April and August and that no improvement was expected in the remainder of 1984. However, had the staff taken fully into account the seasonal nature of tourist travel to the Caribbean? The need for export diversification was clear; in that respect the floating of the exchange rate would be helpful. The structural adjustment loan from the World Bank could also contribute to the diversification and strengthening of exports. Could the staff comment on prospects for assistance from the International Finance Corporation, which could help to rehabilitate the private export sector. The importance of exchange rate developments needed to be underlined. The case for moving more directly to a free float might be stronger than the staff had indicated. Finally, although he could support the proposed decisions and the request for a waiver, the progress achieved by the time of the next review would need to be carefully scrutinized.

Mr. Nimatallah remarked that the Jamaican authorities were making determined efforts to implement the adjustment program supported by the stand-by arrangement approved by the Fund in June 1984. Demand management policies had been strengthened, the trade system had been liberalized, and the exchange rate had recently been allowed to float. The deficits in the fiscal and external accounts had been reduced, as planned, and the program was generally on track. All those developments were encouraging. However, difficult problems persisted and the medium-term outlook was not reassuring. Growth was weak, inflation was high, the budget deficit was large, and export earnings were significantly below projected levels. The foreign exchange position was likely to remain precarious, given the heavy debt service burden and the worsening prospects for bauxite exports.

Continued firm measures would, therefore, be needed to achieve the program's objectives, Mr. Nimatallah continued, and to lay the basis for future growth. The point applied with particular force to the public finances, which had been a major source of weakness in the past. Although much had been done to strengthen the fiscal position, areas of potential concern remained. Tax revenues had fallen short of their target, partly because of delays in implementing certain revenue measures. He hoped that those measures would be adopted, particularly if the Government expected slippages in tax revenues in the coming months. He welcomed the intention to pass on government assets to the private sector, which should bring in needed revenue in the short term; but more important, it would demonstrate the Government's commitment to a greater role for the private sector over the medium to long term.

The higher than expected rate of inflation and the rise in interest costs could make it difficult to keep government spending within the agreed limits, Mr. Nimatallah noted. He supported the authorities' move to streamline the civil service and encouraged them to continue their efforts to improve the financial performance and management of the public enterprises. Although that task was not easy, those enterprises were a continuing drain on the Government's limited resources. The recent adjustments in public utility tariffs were an important step in the right direction.

If the fiscal deficit and bank borrowing by the public sector could be reduced, monetary policy would be able to operate more effectively, Mr. Nimatallah suggested. The present restrictive stance of monetary and credit policies should be maintained in order to bring down inflation and to strengthen the net foreign reserve position. He hoped that the authorities would try to improve the allocation of credit to productive sectors within the agreed ceilings. It was disappointing that recent wage settlements had been somewhat higher than expected when the program had been designed. Moderate wage settlements were essential to achieve the program's objective, and the authorities should take every opportunity to use moral suasion to prevent excess settlements in the private sector.

He welcomed the recent decision to float the Jamaica dollar and to establish a forward foreign exchange market, Mr. Nimatallah commented. That action should benefit the adjustment strategy, provided, of course, that the exchange rate was supported by other policies to enhance Jamaica's competitive position. Jamaica had made useful progress toward restructuring its debts and normalizing relations with its creditors. It was also vital for Jamaica's creditworthiness that every effort was made to eliminate arrears to all creditors on schedule. It was, therefore, disappointing that Jamaica had not yet settled its arrears to the OPEC Fund, despite earlier undertakings to do so. He urged the authorities to settle those arrears without delay; he invited the staff or Mr. Joyce to provide assurances in that respect.

Jamaica faced a long, difficult process of restructuring the economy, Mr. Nimatallah said. The process would require determination and careful planning. More specifically, it would require measures to promote growth and export diversification in the private sector, and a well-designed public investment program to attract foreign capital. Jamaica could certainly benefit from further collaboration between the Fund and the Bank in devising such a strategy. He hoped that the Fund and the Bank would respond to the authorities to see how best they could assist in the next stage of Jamaica's recovery.

Mr. de Groote remarked that Jamaica's performance under the present stand-by arrangement gave rise to serious concerns about the chances of improving the underlying payments and imbalances. There appeared to be a number of features common to unsuccessful programs, such as delayed implementation of policies, especially in the fiscal area, incomplete execution of agreed measures, particularly with regard to the exchange market, and, third, the adoption of temporary measures to ensure formal rather than substantive compliance with the performance criteria. He supported Mr. Prowse's observations on the particular examples of areas where the actions taken were not fundamentally correct. The situation was particularly worrisome because Jamaica had already incurred overdue payments and the medium-term outlook for the balance of payments could, at best, be termed weak.

A sizable financing gap remained for the rest of the decade, Mr. de Groote continued, equivalent to almost 6 percent of GDP. Thus, if the adjustment effort was not strengthened considerably, Jamaica could easily become seriously overdue in payments to the Fund, a situation that was particularly regrettable because expectations about the Jamaican program had been high and the country had paid a substantial political price for its launching. His concern was somewhat reduced in light of the information in EBS/84/233, Supplement 1; it was encouraging that a floating exchange rate was emerging and that a forward market was being organized, particularly given the potential monetary losses by the Bank of Jamaica on uncovered forward positions that would not be accommodated within the credit ceilings. Nevertheless, the economic role of the forward market remained unclear. The staff indicated that receipts of certain current transactions could not be sold forward. However, the list of such receipts included almost all exchange proceeds from the Jamaican economy, such as receipts from hotels, in-bond shops, and car rental companies. How could the forward market promote the financing of exports if the exchange proceeds of exports could not be used on that market?

In the fiscal area, considerable further action was required to tighten expenditure control, Mr. de Groote added, and to reduce the pressure of government demand on interest rates. Thus, although progress had been achieved, significantly greater efforts would be needed to bring Jamaica to a sustainable balance of payments position. The situation should be closely monitored and reviewed at regular intervals.

Mr. Chatah observed that Jamaica had continued to pursue economic adjustment during the past year. The policy measures taken within the framework of the current stand-by arrangement, particularly in the areas of demand management, prices, and trade liberalization, appeared to have paid off, and the program had generally been kept on track. Nevertheless, the situation remained difficult and achievement of the program objectives was contingent on a sustained adjustment effort. Furthermore, in light of the extensive use of Fund resources by Jamaica in recent years and the need to restore the country's creditworthiness, which would be crucial to the medium-term balance of payments viability, it was particularly important to avoid slippages in the present program and to adopt additional measures when needed to achieve the program's objectives.

Worrisome developments in the fiscal area were the slippage in tax revenues and the prospects of a further shortfall in the period ahead, Mr. Chatah continued. It was encouraging, therefore, that the authorities had recently adopted additional revenue measures, primarily with regard to fees and charges, which should compensate, at least partially, for the likely shortfall. However, the authorities' view that slippages in revenue would be offset in part by the higher than projected rate of inflation raised a number of questions. As the staff noted, Jamaica's tax system was relatively inelastic with respect to inflation. More important, while higher inflation might produce some increase in revenue, more adjustment would be required to counter the higher inflationary pressures because expenditures were also likely to increase with inflation. As a matter of principle, reliance on inflation to raise revenue did not constitute sound adjustment policy.

He agreed with the staff that the revenue outlook argued strongly for a reduction in spending, Mr. Chatah said, particularly in current outlays. The planned reduction in the central government payroll should, if fully implemented, produce significant savings for the public sector. Tight monetary and credit policies were also fundamental to the achievement of program objectives. Inflation remained high and was projected to be higher than the program targets. Recent wage increases also pointed to the need for maintaining a tighter monetary policy if a wage-price spiral was to be avoided. Moreover, the reluctance of importers to use foreign lines of credit was another indication that a tightening of policy was called for. It was encouraging that the authorities appeared to share that view and that they had recently taken a significant step toward credit tightening by raising the cash reserve requirement and the savings and discount rates.

The current account balance was expected to remain on target, Mr. Chatah noted. However, in light of the many uncertainties surrounding export revenues and capital flows, it was essential that the external sector should be closely monitored in order to respond promptly to any unfavorable developments, which, given the size of the external imbalance and the limited room for maneuver, might put the whole program in jeopardy. Recent changes in the exchange system were particularly significant in that respect. The increased flexibility of the exchange rate and the creation of the forward market should add an element of dynamism to balance of payments adjustment and contribute to more favorable capital flows.

The medium-term outlook, was clearly unfavorable, Mr. Chatah observed. Export prospects were uncertain; per capita income would probably remain stagnant for the remainder of the decade; the financing gap would remain large for a relatively long period; and the debt service ratio would, under favorable assumptions, remain close to 30 percent at the end of the decade. It was, therefore, all the more important not only that the program targets should be achieved but that adjustment should be continued and strengthened beyond the program period. On the accumulation of new arrears, he supported the view expressed by Mr. Nimatallah regarding Jamaica's obligations to the OPEC Fund.

He understood that the waiver with regard to external arrears arose from the commitment expressed in the memorandum of understanding that no new arrears would be incurred during 1984/85 irrespective of whether the ceiling on total outstanding arrears was met or not, Mr. Chatah remarked. If that interpretation was correct, the staff's statement that Jamaica had been in nominal compliance with the ceiling on outstanding public sector arrears might not be absolutely correct. Perhaps it would be more accurate to say that Jamaica had been in full compliance with that particular criterion but in noncompliance with the provision on new arrears. The point was worth raising because the reference to nominal compliance could cause unnecessary confusion, particularly in light of the Executive Board's discussion of performance criteria at EBM/84/80 and EBM/84/81 (5/23/84), which had included the question of nominal compliance. He invited the staff to clarify the issue.

The staff representative from the Western Hemisphere Department recalled that the staff had referred to two revenue-raising measures in EBS/84/233, namely, through possible divestment of certain government properties and through increased motor vehicle taxation as a result of the issuance of license plates. The question of divestment had been raised in the course of previous program reviews with Jamaica, and it was an issue of concern to donor countries. It appeared unlikely that there would be significant divestment of enterprises in 1985. A new official had recently been put in charge of the divestment program, which was being reviewed to see which assets could profitably be sold. It was expected, therefore, that the implementation of the divestment program would be somewhat delayed. Similarly, the latest information available to the staff indicated that additional revenue from the issuance of motor vehicle license plates was unlikely to be received in fiscal year 1984/85. The staff had suggested to the authorities that additional revenue could be raised by replacing the quantitative restrictions on imports--which were being eliminated--with tariffs. It appeared that the authorities would consider that possibility.

With respect to monetary developments, the staff representative continued, one factor in the large increase in credit to the "other public sector" had been the replenishment by the Bank of Jamaica of the Export Development Fund; that action had not been specifically identified as a credit transaction in the program. Another major element had been the use of domestic credit by the Bauxite Trading Corporation (BATCO), a state entity. The authorities had utilized foreign exchange resources received by BATCO from a prepayment for exports to Venezuela in order to finance oil purchases in April-July 1984. As a result, BATCO had run down its deposits in that period. It was expected that the transaction would be reversed before the end of the program period on the assumption that the state oil company would receive short-term credit for oil sales. However, the action represented an ad hoc solution that was difficult to accept as consistent with the program's objectives.

Although the public entities accounted for transactions that were larger than the entire government budget, the staff representative observed, monitoring and control of those entities were extremely weak. The Jamaica Public Service Company (JPSCO) had been planning higher investment than programmed, mainly because of poor coordination in implementing the program. When the authorities had become aware of those plans, the JPSCO investment program had been cut back for 1985 as a whole. The staff expected that the use of credit by the public entities would be well within the program targets because the authorities planned to utilize short-term foreign financing, which was not constrained by the program ceilings. The oil credits that he had mentioned represented one example;

the sale and lease-back of aircraft by the state airline was another. Again, such ad hoc responses suggested that demand management policies were not fully in line with the program targets.

The staff and the authorities differed somewhat on the need for action to raise interest rates, the staff representative said. The authorities argued that interest rates--in particular the treasury bill rate--in Jamaica were market-determined at present, that there were no restrictions on the lending rates of the banks, and that there were no constraints, other than a minimum, on deposit rates. They suggested, furthermore, that the minimum savings rate of 13 percent should be seen in light of the fact that savings deposits were tax free and that the lending rates of banks, when fees and commissions were included, were probably in excess of 25 percent, and were therefore close to positive in real terms. They also argued that controlling the quantity of credit, as was being done under the program, could put pressure on interest rates, causing them to rise and obviating the need to take specific action to raise rates. A study undertaken with the help of World Bank consultants would determine whether there were features of the Jamaican money and credit markets that made interest rates unusually sticky.

The staff had been most concerned about the damaging effect of arrears, the staff representative commented; therefore, the schedule of arrears reduction under the program was ambitious. Arrears of the Bank of Jamaica were to be reduced by US$190 million by the end of December 1984, and private sector arrears were to be reduced by US$56 million between April 1984 and March 1985. It now appeared likely that US$10 million of the US$190 million of public sector arrears would not be eliminated by December; otherwise, the authorities would be left with virtually no liquid reserves at that time. Those arrears would, however, be eliminated by March 1985. In that context, the delay could not be considered subversive of the original design of the program. The staff did not have information on whether arrears to the OPEC Fund were included in the US$10 million of delayed arrears.

In revising its estimates of tourist receipts, the staff had taken account of the seasonality of tourism, the staff representative remarked. However, projections in that area were subject to a particularly wide margin of error because not only did the number of tourists have to be estimated but also the average number of days that they would spend in Jamaica and the amount of their daily expenditures. Thus, a change in any one of the variables could make a significant difference to the total. There were some indications that the current winter season might be better than expected several months earlier; tourism receipts could, therefore, turn out close to the original program projections.

With regard to export diversification, a World Bank mission was currently in Jamaica reviewing the program supported by the Bank's structural adjustment loan, the staff representative continued. In the division of responsibilities between the Fund and the Bank, the Bank was taking the lead with respect to the state enterprises as well as export diversification. The Bank had been providing support for the Export Development Fund and had been seeking to improve the workings of the agricultural marketing organizations to ensure that they passed on the effects of devaluation to producers.

The sharp limits on the foreign exchange receipts that could be sold in the forward market suggested that that market was likely to play a restricted economic role, the staff representative from the Western Hemisphere Department stated. Furthermore, the ability of banks to cover themselves in the spot market was constrained by a limit of US$30 million. The main economic impact of the forward market in such circumstances would be to give a broad indication of future rates and thus perhaps exercise a settling influence on market expectations, which could encourage the private sector to utilize foreign credits. However, the staff believed that the spot market would be much more significant. Finally, the staff agreed with the observation that Jamaica had been in full compliance with the ceiling on total outstanding arrears and in noncompliance with the provision on new arrears.

Mr. de Groote remarked that the comments by the staff representative from the Western Hemisphere Department suggested that the creation of a forward exchange market should not be represented as an important achievement. Furthermore, the limitations on that market suggested that it might even give the wrong signal with regard to future exchange rate developments if, for example, the market was responding to financial transactions rather than to developments in the export sector. The receipts that could be sold forward appeared to be limited mainly to those from nontraditional exports.

The staff representative from the Western Hemisphere Department agreed that receipts from nontraditional exports constituted the main source of funds for the forward market and that even those receipts were restricted because some of them were obligated to the Export Development Fund. It should also be borne in mind, however, that capital movements in Jamaica were not free, so that the only sources of demand in the forward market were holders of valid import documents. Thus, the new system represented a forward facility for importers and exporters, rather than a true forward market. However, the limit of US$30 million for banks to cover themselves in the spot market for forward transactions might not be as restrictive as it appeared; letters of credit for private trade financing had an average life of about two months, so that the US$30 million limit might finance more than US$150 million of imports in a year. Thus, despite its limitations, the forward market might cover a significant volume of transactions.

Mr. Joyce observed that Directors had emphasized the need for continued strong, effective action by the Jamaican authorities, particularly in the fiscal and monetary areas. His Jamaican authorities fully accepted that point and were well aware of the importance of the success of the program for Jamaica's future. They had every intention of making the program work. Directors had also recognized the magnitude of the task facing Jamaica. The program was ambitious and, while a few Directors believed that the pace and degree of adjustment might have been intensified, there was a question as to how much adjustment a country in Jamaica's position could be expected to undertake in practical terms. In that respect, most Directors had acknowledged that the authorities had made significant efforts to comply with the objectives of the program.

It was true that some of the measures that had been taken could be considered ad hoc, or not necessarily what the authorities would have chosen under other circumstances, Mr. Joyce continued. However, given the complexity of the program and the limited room for maneuver, a resort to short-term solutions was, to some extent, inevitable. The authorities were aware of the disadvantages of such an approach and sought to avoid ad hoc responses but it was not always possible to do so and might not always be possible in the future. For example, when foreign financing did not materialize as expected, emergency measures had to be taken as temporary solutions. The authorities recognized the need for further adjustment in order to provide a wider safety margin within the program; he hoped that their efforts in that respect would prove more successful in the future than they had thus far.

His Jamaican authorities intended to take measures to counteract the projected shortfall in revenues, Mr. Joyce stated, but it would probably not be possible to do much to strengthen the projected weakness of revenues in the third quarter of the current fiscal year. The measures would be similar to those that had been taken in September and October 1984, namely, increased fees and charges. The authorities also hoped the planned divestment of public enterprises would proceed as quickly as possible, but, in view of the economic uncertainties surrounding Jamaica, it was proving more difficult than expected to find willing buyers for some of the entities. On the expenditure side, where there had been some success to date, better control over spending by the public enterprises would ensure further success in the future. The staff had suggested that there was a possibility of an overrun of J$40 million in spending by selected public enterprises unless counteracting measures were taken. Since the staff's discussions with the authorities, a decision had been taken not to rebuild oil inventories, water rates had been increased by 69 percent, and the Government had been given what it believed to be a firm commitment by the Jamaica Public Service Company to keep its investment program within limits. On the other hand, more recent developments suggested that those measures might not be sufficient to reduce the overrun; in the end, the staff's projections might, therefore, turn out to be correct.

The authorities agreed that there was a need for continued wage restraint, Mr. Joyce went on. Recent statistics, which were not necessarily comprehensive, indicated that wage settlements in the private sector were averaging about 15 percent, rather than the 20 percent settlement in the bauxite industry. The authorities were determined to keep public sector wage increases to no more than 15 percent, a goal that they believed to be achievable in view of increasing concerns among workers about the prospect of layoffs, although wage settlements of even 20 percent were substantially below the anticipated rate of inflation, which was about 25 percent. As the staff representative from the Western Hemisphere Department had pointed out, the Jamaican authorities believed that interest rates were being determined by the market and that the issue of further increases in rates should be tackled through control of the money supply. Having removed interest rate ceilings, they believed that the rates should remain free to settle at whatever level the market found appropriate.

While it was true that the staff had been encouraging Jamaica for some time to move to a floating exchange rate system, Mr. Joyce observed, the most recent changes in the exchange system had been made at the initiative of the Jamaican authorities. Although the forward market was restrained, it was primarily designed to facilitate the financing of imports and exports, and in that respect it might prove significant. More time would be needed to come to a firm judgment on that issue.

The program under the structural adjustment loan of the World Bank aimed at increasing exports, deregulating the economy, strengthening the performance of the industrial and agricultural sectors, improving the administration of public agencies, and reducing petroleum imports, Mr. Joyce noted. The proceeds of the loan would be used to finance essential imports of raw materials, intermediate goods, nonluxury consumer goods, capital equipment, and spare parts.

The waiver with respect to external arrears had been requested because of the delays that had occurred in the disbursement of some external loans, notably loans from the World Bank and the Austen Blades Group, Mr. Joyce said. The latter loan was still delayed, although it was hoped that an agreement would be signed with the company in the following week and that disbursement would occur immediately thereafter. In those circumstances, there would be a major improvement in the arrears position, and his authorities expected that they could meet the arrears target for the end of 1984. With regard to arrears to the OPEC Fund, he would convey to his Jamaican authorities the concerns of the Directors who had raised the issue. His authorities regretted that those repayments, like certain other repayments, had not been made on time for the reasons that he had described. They hoped to be in a position to deal with all arrears speedily in the near future.

Mr. Nimatallah stated that, while he appreciated the points made by Mr. Joyce with respect to arrears, the explanation was not wholly satisfactory to him. He was confident, however, that Mr. Joyce would urge his Jamaican authorities to settle their obligations to the OPEC Fund as soon as possible.

The Chairman commented that the program being undertaken by the Jamaican authorities had no margin for laxity; indeed, the requests for waivers were a manifestation of the absence of such a margin. Fiscal and external conditions were developing in a way that was more unfavorable than assumed at the outset of the program; thus, further measures would be needed to keep the program on track and to permit all the performance criteria to be observed. Directors had expressed concern about the excessive recourse to ad hoc measures in lieu of more fundamental, comprehensive adjustment. They had also expressed considerable concern about the buildup of new arrears in excess of the program's objectives. In that respect, it was absolutely clear that the decision being proposed should not be interpreted as a relaxation of the fundamental objectives of the program. On the contrary, it underscored the need for the authorities to implement policies to attain those objectives, particularly in the monetary, fiscal, and exchange rate areas. Only in that way would the elimination of arrears be achieved. Developments in those areas and the implementation of policies would be monitored closely before the next review in light of Directors' comments. It could not be overemphasized that flexibility in the management of the exchange rate system was particularly crucial to the buildup of reserves in the Bank of Jamaica.

The Executive Board then took the following decisions:

Review Under Stand-By Arrangement and Waiver of Performance Criteria

1. Jamaica has consulted with the Fund in accordance with paragraph 4(d) of the stand-by arrangement for Jamaica (EBS/84/101, Sup. 3, 6/13/84) and paragraph 32 of the letter dated April 25, 1984 from the Governor of the Bank of Jamaica and Prime Minister and Minister of Finance and Planning, in order to review the progress made in implementing the policies affecting demand management and the exchange system and to reach understandings with the Fund regarding the circumstances in which purchases under the arrangement can be resumed and to modify the performance criteria specified in paragraph 4 of the arrangement.

2. The letters of October 22, 1984 and December 1, 1984 from the Governor of the Bank of Jamaica and the supplement to the technical memorandum of understanding dated April 25, 1984 attached thereto shall be annexed to the stand-by arrangement for Jamaica, and the letter of April 25, 1984 and the technical memorandum of understanding annexed thereto shall be read as supplemented and modified by the letters of October 22, 1984 and December 1, 1984 and the supplement to the technical memorandum of understanding dated April 25, 1984 attached thereto. Accordingly, the limit on net domestic assets of the Bank of Jamaica, the target for the net international reserves of the Bank of Jamaica, and external payments arrears on public sector obligations, including any new arrears, as indicated in paragraphs 4 and 5 of the technical memorandum of understanding annexed to the letter dated April 25, 1984, shall be amended as indicated in the supplement to the technical memorandum of understanding dated April 25, 1984 attached to the letter of December 1, 1984.

3. Paragraph 4 of the stand-by arrangement shall be amended by inserting a new subparagraph (d) between existing subparagraphs (c) and (d) as follows:

(d) if the limits on the forward position of the Bank of Jamaica or any subsidiary indicated in paragraph 4 of the supplement to the technical memorandum of understanding dated April 25, 1984 attached to the letter of December 1, 1984 are not observed, or

The existing subparagraphs (d) and (e) of paragraph 4 of the arrangement shall be subparagraphs (e) and (f), respectively.

4. Jamaica has requested a waiver of the observance of the performance criteria in paragraphs 4(c) and (f) of the arrangement relating to (1) new external payments arrears referred to in paragraph 5 of the technical memorandum of understanding annexed to the letter dated April 25, 1984, (2) temporary imposition of an exchange restriction, which has subsequently been abolished, and (3) introduction of a multiple currency practice resulting from the auction system as described in EBS/84/233, Supplement 1.

5. The Fund waives observance of the performance criteria mentioned above.

6. Jamaica may proceed to make purchases under the stand-by arrangement as long as it does not maintain a multiple currency practice unapproved by the Fund under Article VIII, Section 3.

Decision No. 7871-(84/181), adopted
December 12, 1984

Exchange System

Jamaica maintains an exchange restriction arising from arrears on payments and transfers for current international transactions and a multiple currency practice resulting from the auction system as described in EBS/84/101 and EBS/84/233, Supplement 1. In view of the circumstances of Jamaica, the Fund grants approval of these practices, until March 31, 1985 or the completion of the next Article IV consultation, whichever is earlier.

Decision No. 7872-(84/181), adopted
December 12, 1984

3. ADMINISTRATIVE EXPENSES IN FY 1985 - MIDYEAR REVIEW; AND BUDGETARY OUTLOOK FOR FY 1986

The Executive Directors considered a memorandum from the Managing Director on the midyear review of administrative expenses in financial year (FY) 1985 and the budgetary outlook for FY 1986 within the framework of a three year projection of expenses, FY 1986-88 (EBAP/84/260, 12/5/84).

Mr. Kafka stated that he welcomed the new presentation of the budgetary outlook. Since he agreed generally with the program presented in EBAP/84/260 he would limit his remarks to areas where he had doubts. While more effective and enhanced international surveillance was undoubtedly desirable, it was pointless to talk about firmer surveillance until there was an answer to the problem of how to deal with the present asymmetry in surveillance, whereby only borrowers from the Fund were effectively subject to its surveillance although they were rarely the countries whose policies had major repercussions on the rest of the world. He strongly supported the in-depth examination of the future role of the SDR and further consideration of a possible SDR allocation: it would be preferable to have a minority of members override the majority of supporters of the SDR again rather than to allow the SDR to slip quietly into desuetude.

With regard to the analysis of the workings of the international monetary system, Mr. Kafka continued, it was odd that the Fund was relegated to supporting the work of the Deputies of the Group of Ten and of other concerned organizations rather than coming forward with its own studies. There might be valid reasons why such studies should not be done by the Fund staff--although he was not sure what they might be--but the studies could at least be sponsored by the Fund, perhaps through the use of academic consultants. The program of work with member countries continued, necessarily, to be ambitious. He was not convinced that the proposed increase in staff, including the staff contingency fund, was sufficiently large for the Fund's needs. He reiterated the suggestion that he had made on previous occasions that there should be greater recruitment at senior levels so that the Fund could quickly obtain an increase in potential mission leaders as well as new ideas from people who had experience at senior levels in their own countries.

The telephone system continued to be a matter of concern, Mr. Kafka remarked. Was Rolm now fulfilling all its contractual responsibilities, and had the company been held accountable for past violations, if any, of its contract? Had the consultant on whose advice Rolm had been chosen been held accountable for any negligence in performing his responsibilities? He understood from consultants who had been called in at a later stage that the problems with the Rolm system had been, or should have been, well known to the first consultant on whose advice the system had been chosen.

In future budgets, Mr. Kafka concluded, provision should be made for the establishment of a program evaluation department that would be independent of the staff concerned with the formulation of programs supported by the Fund, roughly similar to the Operations Evaluation Department of the World Bank. The idea, which he had put forward on previous occasions, was gradually gaining support; it remained important.

Mr. Fujino remarked that management's efforts to prepare the budgetary outlook for FY 1986 within the framework of tentative three-year projections were particularly welcome. While such projections were inevitably surrounded by many uncertainties, they provided a useful medium-term perspective and the practice should be continued. The highlights of the work program for FY 1986 described clearly and concisely the main areas of Fund activities, and the tables provided illustrative summaries of the important statistics. However, in Table 4, it was not easy to make year-to-year comparisons. There were major differences in categories of expenditure depending on whether, for example, the Annual Meetings were being held in Washington, whether an election of Executive Directors took place, and the like. Furthermore, no distinction was made between ordinary administrative expenditures and capital expenditures; the latter should be considered separately.

The efficiency with which work was undertaken and the merit system were important basic considerations in personnel expenditures, Mr. Fujino continued. He expected that the Joint Committee on Staff Remuneration would put forward appropriate proposals that would be fully reflected in future budgets. Efforts should be made to minimize "other personnel expenses," for example, by reducing part-time employment or similar measures. A large increase in travel expenses was projected for FY 1986, including the inevitable expense of holding the Annual Meetings outside Washington. All member governments were trying hard to contain increases in travel expenses by various internal measures; perhaps the Fund should study the possibility of using business class fares whenever circumstances warranted. In view of the relatively large share of expenditure on data processing services, the efficiency with which the computer facilities were used deserved continuous attention. Part of the cost of systems development could possibly be recovered by charging outside users for access to nonconfidential information.

In paragraph 45 of the Managing Director's memorandum it was pointed out that the work load of the staff had been extraordinarily heavy, as indicated by the massive amounts of unpaid overtime and lost leave entitlements, Mr. Fujino noted. The situation was serious and further efforts should be made to deal with it; it would also be necessary to review the work load of each department from time to time to ensure even greater efficiency in overall manpower use in the Fund without, to the extent possible, leading to a net increase in staff. Efforts to relieve the pressure on the staff could include ideas such as that in paragraph 47(a). However, there might be a risk that sending a smaller mission simply to assess the willingness of authorities to enter into serious negotiations could increase, rather than reduce, the pressure on the staff. If surveillance was to be implemented effectively with smaller missions, it would be important to concentrate mission work on certain strategic aspects of an economy, not necessarily always on the overall economic performance. Papers and reports should also be as brief as possible, covering only the essential issues.

He was not convinced that sufficient flexibility would be maintained if a formal ceiling was set on the number of expert man-years provided by the Fund through technical assistance, Mr. Fujino said. However, the suggestion in paragraph 47(b) to increase the share of the cost borne by the recipient country should be studied further, bearing in mind, however, the neutral character of the experts provided by the Fund. With regard to the programs of the IMF Institute, the meaning of paragraph 47(c) was not clear, particularly the suggestion that sponsoring countries should "bear some of the costs, e.g., the cost of transportation of participants." Was that proposal intended to apply only to courses held outside Washington at the request of a member or would it apply to all courses? Furthermore, *it was important to bear in mind the principle of "scrap and build"; in* other words, if a new course was to be established, existing courses should be reviewed with that principle in mind so as to avoid unnecessary expansion of the Institute. The same principle applied to, for example, to the creation of resident representative posts.

Mr. Nimatallah commented that the medium-term projections provided a welcome perspective on trends in administrative spending. He looked forward to the implementation of capital budgeting and accounting. He understood that capital expenditures could thereby be approved without having to be brought back to the Executive Board each year, which could help to avoid repetitious discussion of projects not fully implemented within a given fiscal year; for example, the renovation of the Concordia/Bond apartment complex, for which further approval was being sought at the present meeting, could have been included in a capital budget.

In FY 1985, an additional $350,000 was to be spent on supplies and equipment, partly as a result of higher than expected rental costs for copying machines and other equipment, Mr. Nimatallah noted. Why did the Fund rent rather than buy? And why should rental contracts increase in price a few months after their approval, particularly at a time of low inflation in the United States? The "miscellaneous" expense category was normally supposed to include amounts that were either too small to warrant separate categorization or nonrecurring items. However, expenditure in that category was increasing over the years. For auditing purposes, miscellaneous expenditures should not be more than 1 percent of total expenditures. It appeared that two recurring items had been included in the category, namely, the costs of investment and custody fees for the Staff Retirement Plan and the cost of interest-bearing salary advances. Perhaps such items should be classified separately or under "other personnel expenses."

Revenues received by the Fund were deducted from gross expenditures under each category to show an amount of net expenditure by each department, Mr. Nimatallah observed. However, it might be better from an auditing point of view to have all revenues received included in one pool rather than classified by individual departments. For example, his authorities had sought to send their contribution to the Arab-language version of Finance and Development, but it had been difficult to know to whom the money should be sent. They had finally been informed that it should be sent to the magazine rather than to a central revenue pool, say, in the Treasurer's Department. The confusion had led to a considerable delay. It was noted in EBAP/84/260 that management would have to request authorization later in the financial year for intercategory transfers. However, in other organizations, flexibility was given to the chief executive at the beginning of the financial year when the budget was approved. He was willing to support such an approach in the Fund.

Commenting on the work program for FY 1986, Mr. Nimatallah inquired about the criteria according to which decisions were made about the number of people from Executive Directors' offices and from the staff who traveled to Annual Meetings outside Washington. At the 1985 Annual Meetings in Seoul, it was possible that the Interim and Development Committees might wish to continue the process of "global discussions." If so, Executive Directors might need to take at least one more Advisor or Assistant to Seoul than had been approved for the Annual Meetings in Toronto in 1982. In the effort to minimize expenditures, it might be useful if the staff could look into the possibility of reducing compensation for Governors attending Annual Meetings. He had made a number of suggestions in that respect to the Secretary.

The Fund should continue to work closely with the G-10 Deputies on improving the functioning of the international monetary system, Mr. Nimatallah remarked. He welcomed the proposed studies on the evolution of financial markets in selected Asian countries and on various aspects of Islamic banking principles in the Middle East. The Fund should also examine the problem of persistently high rates of inflation in countries with indexation systems and explore the implications for the Fund's usual policy prescriptions. The underlying causes of the economic and financial deterioration in Africa could also be examined by the Fund, although not necessarily in depth.

He hoped that the Fund would continue its technical assistance to members, Mr. Nimatallah stated, particularly in the central banking and fiscal fields. His authorities had found such assistance most valuable. With regard to training courses, he appreciated the replacement of Arabic interpretation with full-fledged courses in Arabic; that approach would enhance the good relations between the Fund and the Arab world.

The new telephone system had not worked well and had been relatively expensive for the Fund, Mr. Nimatallah went on. The establishment of a new central telephone processing unit in the Fund should help reduce the cost of operating the system and make it more efficient. He supported the efforts to make further improvements in security. The unfortunate episode of a theft from his office revealed the weaknesses of the present system. In fact, the offender had turned out to be a member of the security staff, a fact that he had discovered only by accident. The theft had never been dealt with, no report had been made to him, and no action had been taken to improve the situation. He was not confident, therefore, that security was sufficiently strong to deal with the potentially more serious threats facing international institutions in the world. The Fund should establish its own security unit, which ought not to cost more than the present arrangement. The question should be studied promptly and, if feasible, implemented as soon as possible.

Management and staff should be congratulated on the efficiency with which they had met the challenge of recent years and the pressures of the increased work load, Mr. Nimatallah considered. While there might be need for additional staff in some areas, management should continue to make sure that all members of the staff were utilized effectively. The pressure on the staff in the period ahead might be less than in recent years as a result of the overall improvement in the world economy. He agreed with the suggestion that smaller missions should be sent whenever possible. He was not convinced, however, that there was a need for a formal ceiling on the number of experts provided by the Fund through technical assistance in a given year; members' requests fluctuated over time, and the Fund should be flexible in responding to their needs. Nor was he convinced that all members could afford to bear more of the cost of technical assistance; perhaps the Fund could ask some members to pay more if they could afford to, but no member should be discouraged from availing itself of the Fund's technical assistance. The courses provided by the IMF Institute were immensely valuable; therefore, there should not be a limit set on the number of tracks of courses provided by the Institute. Of course, the Institute had to be flexible in responding to the changing needs of members. He agreed that sponsoring countries could be asked to bear the transportation costs of participants whenever possible.

The staff should explore every way to reduce the flow of unnecessary papers to Executive Directors, Mr. Nimatallah said. While he did not have a definitive list of such papers in mind, at least three could be eliminated: the daily reports of foreign exchange markets, the daily list of documents distributed, and the notice of the agenda for afternoon Board meetings that were a continuation of morning meetings. He supported the suggestion that the staff should provide cost estimates when Executive Directors proposed new projects. Finally, the figures in Table 5 indicating approximate unit costs of significant items in the budget deserved explanation. Several of the examples appeared extraordinarily high, for example, the average cost of translating a 30-page paper and the average cost of a staff mission. He invited the staff to comment.

Mr. Grosche stated that most of the deviations from the budget approved for FY 1985 were clearly explained and justifiable. However, the large overruns for communications and miscellaneous items were worrisome. Overruns of more than 10 percent were indeed substantial and ought to be avoided. In the communications area, the overruns resulted in part from the need to improve and expand the central telephone processing unit. The new telephone system, apart from its unsatisfactory service, apparently required significantly larger expenditures than projected only a couple of months earlier, clearly indicating a bad investment decision. How much of the additional $880,000 for communications services were to be spent on the new system? The overruns would be largely offset by reduced spending on building occupancy because of the delays in the renovation of the Concordia/Bond apartment complex, but the situation remained unsatisfactory because an additional burden would thereby be placed on the next financial year's budget.

He generally supported the work program outlined for FY 1986, Mr. Grosche continued, but too much effort should not be put into an in-depth examination of the future role of the SDR, particularly its role in improving the quality of international reserves. Such studies should not be considered priorities. The wording of paragraph 28 was disturbing. It was suggested that "assuming continued recovery of the world economy, there is an expectation that the number of countries making use of Fund resources will not grow significantly beyond the present level." However, if the recovery continued and adjustment was pursued, the number of countries having recourse to Fund financing should fall, not rise. Paragraph 28 might be misinterpreted as suggesting that the Fund stood ready to accept the phenomenon of prolonged use of Fund resources. Such use should be avoided. At the end of the same paragraph, the possibility of a few additional countries joining the Fund was mentioned; which particular countries were included in that category? It was suggested that a case could be made for a substantial increase in the number of resident representative posts. In recent years, those posts had increased substantially; the Fund should proceed carefully in that respect and consider shifting posts from countries less in need to others where a resident representative could serve a useful purpose.

In sum, while he could support most of the activities in the work program, Mr. Grosche went on, there was not sufficient information to make a judgment about the appropriateness of the proposed steep increase of 11 percent in expenditures, an amount that did not include a salary increase or the cost of computing services. In view of the lack of specific information, he had serious doubts whether such a growth rate was necessary. The holding of the Annual Meetings in Seoul, the provision of an Arabic course at the IMF Institute, improvements in security, and the need for additional space were special factors adding to overall expenditures, but they did not fully explain the proposed increase. The staff should make serious efforts to reduce spending increases or, at least, to give detailed explanations for additional expenditures considered inevitable. The cost of computing activities was a matter of particular concern; he looked forward to the paper on that subject to be discussed in January, which ought to explain why it would be necessary to withdraw from the joint facility with the World Bank. The separation appeared to be contrary to the spirit of closer Fund-Bank collaboration. The staff should also reconsider the proposed increase in the number of employees. Although the pressures of work were great, the Fund should try to remain a relatively small, efficient organization. Executive Directors should pause before asking for yet another paper or yet another study, and the Executive Board would have to set priorities. While it was encouraging that the proposed increase in employees for FY 1986 was smaller than envisaged for FY 1985, the number might have been even smaller, perhaps closer to that envisaged for FY 1987 in Table 3.

The three-year projections of expenses, albeit tentative, were welcome, Mr. Grosche remarked, because they would help to control expenditures more effectively, particularly on programs that extended over several years. He was not sure, however, how much additional effort should be invested in such an exercise to make it fully workable. He would listen to the comments of other Executive Directors before coming to a conclusion in that respect. As to the questions raised in paragraph 47, he could endorse the suggestions in subparagraphs (a), (b), and (g). He could not answer the questions in subparagraphs (d), (e), and (f) because it was not clear which specific items were being referred to. Perhaps the staff could provide a list of reports, publications, and in-house support services that would enable Directors to decide which were unnecessary.

Mr. Zecchini said that EBAP/84/260 provided a good base to review administrative expenses in FY 1985 and to consider FY 1986 in a longer-term perspective. The tentative three-year projections of expenses represented an important development in the periodic discussions of the budget because they added another methodological benchmark by which to assess budget performance and planning. Continued use of a longer-term framework should help to achieve better results in managing the structure and dynamics of the Fund's expenditures.

It was difficult to draw firm conclusions about the degree of cost effectiveness in expense management from the overall picture of revised estimates for FY 1985, Mr. Zecchini continued. Although total expenditures had been reduced, the largest reduction involved "building occupancy" and was explained by the delay in the implementation of scheduled renovation works. The second largest reduction was the result of a transfer of $720,000 from "data processing services." At the same time, there had been a sizable rise in expenditures on "communications," partly because of problems encountered in improving the central telephone processing unit and consequent delays in terminating the joint services with the World Bank. The other large increase in expenses was accounted for mainly by studies of staff remuneration and related matters. Thus, the simultaneous occurrences of transfers of funds from one category to another, delays in implementation, and cost overruns made it impossible to find the right answer to the basic question in the budget discussion. Should those deviations from the approved budget expenses be attributed to less than accurate forecasts, to inadequate control over costs, or to unforeseeable and uncontrollable external circumstances? Although the net balance of all deviations amounted to less than 1 percent of total expenditures, it would be useful if the staff could provide specific details on the relative importance of each of the factors that he had mentioned.

As a result of the deviations, Mr. Zecchini observed, the share of "personnel services" in overall expenditures was expected to rise slightly to almost two thirds of the total. Such a share was understandable, given that the services supplied by the Fund were relatively labor intensive. Even so, improvements aimed at minimizing costs were possible and should be sought. For example, the average cost of translating a 30-page paper was $11,000, an excessive amount. A point might be reached where the number of translations would have to be reduced or where the Fund would have to seek outside firms that could perform the work to the same standards and at lower cost. Similarly, it was surprising that the average cost of an IMF Institute course per participant per week had reached $2,500 and that the average cost of a research paper was $47,000. It was evident that Executive Directors did not have precise criteria that could help them to judge whether a given unit cost was above or below the appropriate level. Therefore, he attached a great deal of importance to time-trend analysis because it would provide a much firmer basis for Directors' judgments. On the occasion of the next expenditure review, the staff should present a more detailed picture of annual unit costs, which should cover at least a five-year period ending in the financial year under consideration. Explanations should be given of the methods followed in calculating those unit costs.

Most expenses in the administrative budget for FY 1986 should be devoted to operations and relations with member countries and special services to them, Mr. Zecchini said. Such an approach was dictated by the increasing emphasis that the Executive Board had decided to place on economic policy surveillance even beyond the period of use of Fund resources. The preparation of the World Economic Outlook report was a related activity. It should be expanded in scope, with special attention paid to the interdependence of policies. Furthermore, additional work would be needed on an in-depth examination of the future role of the SDR. It would also be necessary to provide greater technical assistance to countries, including advanced countries, in specific fields such as fiscal policy. In that respect, it was worth stressing that there was no better way to influence a country's economic policies than through the transfer of knowledge.

With regard to general support services, Mr. Zecchini remarked, a major effort in two areas--electronic data processing (EDP) and office automation--was called for. He attached great importance to the development of adequate EDP facilities both for the staff and for Executive Directors' offices. The transition to IBM-compatible equipment was taking more time than anticipated. Furthermore, some Executive Directors had recently shown interest in being able to access directly the Fund's data base and the computing facilities through terminals placed in their offices. He had not yet received satisfactory answers to either issue, and he hoped that it would be possible to receive a positive response either at the present meeting or in the near future. Improvements were also necessary in office automation. For example, it was disturbing that the secretarial staff in his office had to stand in line to use the only word processor available; obviously, work delays resulted. The Fund had to think about ways to improve the efficiency with which work was produced. Specifically, Executive Directors' offices should be allowed to have access to a second word processor whenever they requested it.

He agreed that many uncertainties surrounded the assumptions and the results of the three-year projections of expenditures, Mr. Zecchini stated. Nevertheless, they provided a valuable opportunity to evaluate the Fund's expenditure commitments and to spot anomalies. For example, why were travel expenses in FY 1986-88 projected to increase at an annual rate that was consistently higher than the corresponding rate of increase of total expenditures? Perhaps the only reason was underestimation of other expenditure items. However, there might be additional reasons; it would, therefore, be helpful to have information presented in a multiyear format that would enable Directors to focus on specific items. Moreover, in view of the uncertainties attached to the three-year projections, it would be useful to include in the estimates the probable variation of expenditure outcomes. Those ranges should be calculated through sensitivity analysis with respect to various assumptions and by taking into account provisions for certain contingencies.

Among the specific points raised in paragraph 47, Mr. Zecchini observed, he supported the idea of sending smaller missions to a country to assess the authorities' intentions about negotiations, provided that the result was not a proliferation of repetitive missions. He also favored the suggestion to have cost estimates made by the staff of proposals for new activities or projects. However, he could not support the idea of a formal ceiling on the number of expert man-years that the Fund could provide to members or that a larger share of the cost of an expert should be borne by the recipient country. Such proposals ran counter to the promotion of technical assistance, which should be supported for the reasons that he had referred to earlier, although a periodic review of the results of missions by experts was acceptable. Similarly, he did not favor at the moment the idea that the sponsoring country should bear part of the cost of participation in an IMF Institute course. Nevertheless, greater consideration should be given to devising more efficient use of training programs by participants; he would welcome a discussion in the Executive Board of that issue and of appropriate solutions. A much broader assessment of the effectiveness of IMF Institute courses in relation to their objectives was necessary before the Executive Board could reach a conclusion on the appropriateness of placing a limit on the number of tracks of courses. The staff should, therefore, submit a paper to the Board on the subject and on the activities of the departments involved in technical assistance.

With regard to the points in subparagraphs (d), (e), and (f), Mr. Zecchini concluded, specific proposals to eliminate or reduce the frequency of some documents circulated to Executive Directors might be useful. The staff could assist in that regard by presenting a list of the various documents grouped according to broad subject areas. Within each group the staff should specify the frequency of circulation of each paper and the distinctive function that it performed.

Mr. Prowse commented that the budget process as it had developed over the years was generally satisfactory and the introduction of three-year projections of expenditures was particularly welcome. However, it would be helpful if papers for budget reviews contained less descriptive material, which could be covered adequately in tables, and more explanatory material, such as reasons for departures from budget assessments and new developments. He supported the suggestion by Mr. Zecchini that papers for the midyear review of expenses should contain data on historical trends, an idea that his chair had put forward on previous occasions.

The work program had been discussed and broadly endorsed by the Executive Board as recently as EBM/84/162 (11/7/84), Mr. Prowse recalled. During that discussion there had been a general feeling that the program might strain the Fund's resources and that priorities should, therefore, be set more firmly in recognition of the fact that it might not be possible for the staff or the Executive Board to undertake all the work on schedule. In that respect, three of the proposed papers were particularly welcome. The paper on the analytic framework underlying Fund programs would be most important and had been long sought. That paper would permit a continuation of the somewhat inconclusive discussion of upper credit tranche arrangements and some issues related to conditionality (EBM/84/174 and EBM/84/175, 12/5/84). A more rigorous and comprehensive analysis of experience with adjustment policies was desirable. Similarly, he looked forward to consideration of the global effects of Fund programs and the impact of individual programs on economic growth. The third paper, on the Fund's approach to centrally planned economies, would no doubt include consideration of the appropriateness of programs and the formulation of performance criteria in such economies.

In the area of special services to member countries, Mr. Prowse continued, his chair continued to support the activities of the IMF Institute and placed high value on its work as well as on the contribution that the Bureau of Statistics made to members. However, the increase in technical expert man-years had been 30 percent since 1979, compared with a 16 percent increase in staff; the projections indicated that growth in the provision of technical experts would continue at a rate of about 6 percent a year, a much higher rate than was forecast for the growth of staff. There was also an indication that there might be a need for several additional resident representatives and advisors. It appeared the objectives of and the criteria for provision of technical assistance might warrant review. For example, the suggestion that the greater demand for central banking experts reflected in part the increasing complexity of research functions carried out by central banks was an interesting proposition, but increasingly complex research did not necessarily lead to more effective monetary policy. There was also an increase in demand for experts by advanced countries seeking assistance in the fiscal area, which raised the question of whether technical assistance should necessarily be provided readily to all members. The Executive Board, with guidance from management, should consider setting priorities in that respect.

He agreed fully with the remarks by Mr. Zecchini with respect to electronic data processing and office automation, Mr. Prowse stated. His office had one word processor and it had proved a most valuable contribution to efficiency; however, only one secretary could use it at a given time. Thus, expenditure on additional office equipment for Executive Directors should be given high priority.

Developments in FY 1985 thus far had been satisfactory, Mr. Prowse considered, given that overall expenditures had remained broadly within the budget and that the deviations were primarily attributable to exogenous or unforeseeable factors. However, there appeared to have been an extraordinary increase in medical benefit claims. To what extent was that development the result of larger claims or of lower contributions? The increase in overtime and in lost leave entitlements was also noteworthy. The overexpenditure on communications was significant--to what extent did it reflect improvements to the central telephone processing unit or a higher than anticipated volume of long distance telephone calls? He invited the staff to comment on the increase in "miscellaneous" expenditures particularly for investment and custody fees for the Staff Retirement Plan.

While the staff had correctly emphasized that the three-year projections were tentative, Mr. Prowse went on, it should be noted that the assumptions included no real increase in salaries, annual growth in the volume of travel of only 1 percent, and relatively slow growth in the number of staff. Nevertheless, travel expenditures were projected to increase by 15 percent between FY 1986 and FY 1988; he shared, therefore, Mr. Fujino's concern that ways should be sought to economize on travel. Similarly, expenditures on building occupancy remained a matter of concern.

He had no particular suggestion to make concerning ways to relieve the pressure on staff involved in operations with members, Mr. Prowse remarked, although he did not believe that smaller "advance" missions would contribute to the process. There would be a risk that discussion would become more protracted and that the authorities would wait until the main mission arrived to engage in serious negotiations. Perhaps individual members could contribute by early presentation of statistical material. He did not favor setting formal ceilings on the amount of technical assistance available to members nor increasing the proportion of costs to be borne by members, although, as he had noted earlier, a review of the objectives and the definition of the scope of technical assistance would be timely. Perhaps the Executive Board could consider laying down guidelines on how the Fund should respond to requests for such assistance.

The IMF Institute should be promoted and strengthened, Mr. Prowse said. The proposal to increase the share of costs borne by members might force developing country members to make less use of the Institute. It might also result in industrial country members deciding that they could use their staff development and training funds elsewhere. The Fund should not attempt to draw distinctions among members so that some paid and others did not. Although the costs of running the Institute's courses were high, the most appropriate solution would be to review ways in which those costs might be minimized. In the absence of such a review, and given the limited information before Directors, his chair could not support proposals to increase the contribution by members.

It would be useful to have a list of all documents circulated, so that Directors could decide which were no longer needed, Mr. Prowse went on. He agreed with Mr. Nimatallah that the daily report on foreign exchange markets could be eliminated. Perhaps the departmental memorandum series could be placed on a request basis rather than circulated as broadly as it appeared to be at present. He supported the suggestion that the budgetary implications of new proposals should be assessed when proposals were put forward.

The present arrangements for authorizing intercategory transfers of appropriations had evolved over several years and after considerable discussion, Mr. Prowse noted. He did not favor a departure from those arrangements, by which transfers of appropriations were approved at the time of the midyear budget reviews. Finally, he looked forward to the forthcoming staff paper on the treatment of capital expenditure. The subject would be particularly important for the budget in FY 1985 and FY 1986 because of the high capital expenditures proposed for those years. As he had stated on previous occasions, the Fund should consider amortizing outlays rather than accounting for them on a cash basis.

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

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/84/180 (12/10/84) and EBM/84/181 (12/12/84):

4. SOUTH AFRICA - TECHNICAL ASSISTANCE

In response to a request by the South African authorities for technical assistance, the Executive Board approves the proposal set forth in EBD/84/309 (12/4/84).

Adopted December 10, 1984

5. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 84/81, 84/82, and 84/83 are approved. (EBD/84/308, 12/4/84)

Adopted December 10, 1984

6. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/84/268 (12/10/84) and by an Advisor to Executive Director as set forth in EBAP/84/267 (12/7/84) is approved.

APPROVED: September 23, 1985

JOSEPH W. LANG, JR.
Acting Secretary