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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/57

10:00 a.m., April 6, 1983

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

Executive Directors	Alternate Executive Directors
A. Alfidja	
	C. Taylor
	H. G. Schneider
B. de Maulde	A. Le Lorier
A. Donoso	M. Teijeiro
R. D. Erb	C. Dallara
M. Finaish	T. Alhaimus
A. H. Habib	
T. Hirao	T. Yamashita
R. K. Joyce	M. Casey
A. Kafka	
	G. Grosche
G. Lovato	C. P. Caranicas
	A. S. Jayawardena
Y. A. Nimatallah	J. E. Suraisry
J. J. Polak	T. de Vries
A. R. G. Prowse	K. G. Morrell
G. Salehkhou	
	E. I. M. Mtei
	E. Portas, Temporary
J. Tvedt	A. Lindø
Zhang Z.	Wang E.

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

Also Present

African Department: R. J. Bhatia, Deputy Director; O. B. Makalou, Deputy Director; E. L. Bornemann, F. d'A. Collings, A. B. Diao, A. C. Woodward. Asian Department: B. B. Aghevli, G. R. Kincaid. Central Banking Department: H. Mehran. European Department: S. Mitra, H. O. Schmitt. Exchange and Trade Relations Department: C. D. Finch, Director; W. A. Beveridge, Deputy Director; D. K. Palmer, Deputy Director; E. H. Brau, D. J. Donovan, M. Guitian, J. P. Lipsky, C. Puckahtikom, R. C. Williams. External Relations Department: D. M. Cheney. Fiscal Affairs Department: V. Tanzi, Director; M. Katz. IMF Institute: H. F. Avila. Legal Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy General Counsel; G. F. Rea, Deputy General Counsel. Middle Eastern Department: A. S. Shaalan, Director; Z. Iqbal. Research Department: W. C. Hood, Economic Counsellor and Director; A. D. Crockett, Deputy Director; J. Artus, M. D. Knight, A. Lanyi. Treasurer's Department: S. I. Fawzi. Western Hemisphere Department: E. Wiesner, Director. Bureau of Statistics: W. Dannemann, Director; A. C. Bouter, P. L. Joyce, R. V. Kennedy, J. B. McLenaghan, J. C. O'Connor. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: S. R. Abiad, J. R. N. Almeida, C. J. Batliwalla, S. El-Khouri, H.-S. Lee, I. R. Panday, P. D. Péroz. Assistants to Executive Directors: H. Alaoui-Abdallaoui, H. Arias, L. Barbone, J. Bulloch, T. A. Connors, G. Ercel, C. Flamant, I. Fridriksson, G. Gomel, J. M. Jones, M. J. Kooymans, P. Leeahtam, W. Moerke, V. K. S. Nair, Y. Okubo, J. K. Orleans-Lindsay, G. W. K. Pickering, M. Z. M. Qureshi, J. Reddy, C. A. Salinas, J. Schuijer, P. S. Tjokronegoro, J. C. Williams.

1. EIGHTH GENERAL REVIEW OF QUOTAS - GOVERNORS' RESOLUTION

The Managing Director expressed his satisfaction with the adoption by the Board of Governors of the Resolution on the increase in quotas (EBD/83/51, Rev. 1, Sup. 1, 4/1/83). A high proportion of votes had been cast, and the result had in fact been almost unanimous although, for technical reasons, it had not been possible to count several affirmative votes. Moreover, as Executive Directors had been informed, consents from members were already beginning to be received. He hoped that the process of consenting to quota increases would be as smooth and as prompt as the adoption of the Resolution had been.

2. EXTERNAL DEBT SERVICING PROBLEMS - FUND POLICIES

The Executive Directors considered a paper on Fund policies and external debt servicing problems (SM/83/45, 3/8/83). They also had before them a series of papers providing background information on external debt servicing problems (SM/83/46, 3/9/83), payments difficulties involving debt to commercial banks (SM/83/47, 3/9/83), data on international banking and external debt (SM/83/48, 3/8/83), and external debt and debt service of developing countries (SM/83/49, 3/8/83).

The Chairman proposed that the discussion should concentrate on the policy aspects dealt with in the main paper and on the conclusions set out in Section VI of that paper. Directors could decide at the end of the discussion how best to pursue any comments or questions that they might have on material included in any of the accompanying papers, which dealt in more detail with several aspects of external debt servicing difficulties.

Mr. Jayawardena noted that the issues and problems raised were multifaceted and should be approached accordingly. The Development Committee would shortly be considering, as the main item on its agenda, the problem of international indebtedness. It might be useful to hold a seminar discussion of the staff's paper on external debt to permit a free exchange of views. A set of policy recommendations, to be drawn up with the benefit of the views expressed by members of the Development Committee at their April meeting, could be discussed at a later date.

The Chairman responded that the types of subject normally discussed in seminars were not as intimately related to the Fund's day-to-day responsibilities as the external debt problems of member countries. The Executive Board would always be able to return to the matter after the Development Committee had taken it up.

Mr. Erb considered that the discussion should be a formal one even though it might at the present stage be only preliminary. It would be helpful to highlight some of the policy issues that would need to be discussed further.

Mr. Zhang suggested that, because of the pending Development Committee meeting, a possible compromise might be to discuss the general subject in a seminar and then to discuss the Fund's policies at a later meeting of the Executive Board.

Mr. Kafka commented that there seemed to be agreement that it would be premature to reach a conclusion at the present meeting. Many of the matters raised in the staff papers would have to be thought over more carefully. Difficult practical questions would have to be dealt with, and he proposed that the Fund should undertake a special consultation with private bankers as well as with bank controllers before any conclusions were reached.

Mr. Salehkhou said that, while Mr. Jayawardena had a valid point, he saw no reason for not having a full discussion in the Executive Board of the staff papers, leaving any conclusions to be drawn after the Development Committee had met.

The Chairman proposed that although conclusions on the complex issue of external debt would no doubt not be reached until there had been further discussions, the present discussion should be a formal one.

Mr. Jayawardena said that as long as the discussion of the staff papers was both full and frank, without any formal conclusions being reached, he would be satisfied.

The Chairman, in response to a question by Mr. Prowse, said that, as noted under Item 1(iii) of the Annotated Agenda for the April 28-29 meeting of the Development Committee, both SM/83/45 and SM/83/49--reproduced as DC/83-5 (3/14/83)--were to serve as background papers for the Committee's discussion, together with his summing up of the present debate on external debt.

The Executive Directors accepted the procedure proposed by the Chairman.

Mr. Erb made the following statement:

I. Issues Related to External Debt Surveillance

1. Data collection

We support the staff proposals to improve the collection of debt statistics. However, before I get into the details of these proposals, I think it is worth noting that better debt statistics are not substitutes but serve as complements to better economic and financial data on output, prices, wages, money, credit, government finances, and the balance of payments and other economic and and financial data that are necessary for evaluating the effectiveness with which countries are utilizing their external resources. In this connection, it is important for countries to provide more information on policy intentions.

In our judgment, the scope, quality, and timeliness of such data reporting by countries should per se be taken into account by lenders when assessing the borrowing potential of a country.

Thus, it is important for governments to make more effort and devote more resources to collecting and reporting economic and financial data. The Fund should facilitate the efforts of governments where possible, but the primary responsibility should be with governments. If a country reports limited economic data subject to delays and major revisions, more penetrating questions should be raised by lenders regarding the borrowing capacity of such countries.

We should not attribute too many of the current problems to poor debt data. For a number of problem countries there was considerable information on the large buildup of bank debt, and particularly bank debt of short maturity, well before these countries were unable to service their debts in a timely manner. Banks and others, including government entities that make credits available to countries, should be encouraged to make better use of available information and pay more attention to the behavior of economic and political developments, especially policy developments, that will influence current and future borrowing requirements. Overall judgments regarding a country's borrowing potential depend on more specific judgments concerning a large number of economic, political, and social factors within a country as well as judgments concerning the impact of external developments on the country. It is best to have those judgments reached independently by a large number of creditors rather than having them made on a centralized basis.

Addressing the more specific issues raised in SM/83/48, we support

(i) the further work proposed on data integration and consolidation;

(ii) the provision of technical assistance to members in the debt area; however, we also attach as much importance to technical assistance designed to improve general economic and financial data reporting;

(iii) the further collaboration with the Bank for International Settlements (BIS), the World Bank, and the Organization for Economic Cooperation and Development on debt data issues; and

(iv) the efforts to improve the timeliness of the data.

In regard to the work currently under way in connection with the Fund's project on international banking statistics, we agree that the best approach to follow in attempting to reduce data gaps on bank lending is to collect data by residence of banking office, which is the balance of payments concept currently embodied in the BIS quarterly system. This method, which is now being followed by the Bureau of Statistics for non-BIS reporting countries, will mesh better with the data being collected in the BIS quarterly series.

At the same time, the Fund may wish to point out to countries the advantages of collecting consolidated banking data. If the staff resource constraint allows, the Fund may want to provide technical assistance to those countries wishing to collect consolidated data as well as data on a residence basis.

2. Publication of data

We would favor publication of the debt data collected by the Fund in the International Financial Statistics (IFS),in IFS supplements, and perhaps at a later stage in a separate publication. We feel it is of utmost importance that data on debt and on other economic and financial variables be available in IFS in a timely fashion. As already indicated, creditors should be using these data when deciding on loans. Data gaps or long lags in reporting data by members to the Fund should be viewed critically by potential lenders.

While on the subject of publication and data availability, I note that 3 of 38 countries have decided not to cooperate with with the Fund on their international banking statistics projects. I would be interested in knowing which countries are not participating and the reasons for nonparticipation.

3. Analysis of data

I support the proposal that "forward-looking" or medium-term analyses should be included in the Article IV staff reports. As recognized in the paper, this is a difficult task. Although a variety of analytical tools should be developed for this purpose, the staff paper rightly recognizes that the appraisal of a country's external debt situation is complex and must involve substantial judgmental elements. I would underscore the statement in the staff paper that ultimately it is the efficiency of the use of foreign savings by the borrower that determines the sustainable scale of external financing and that the sustainable level of recourse to foreign savings differs widely among countries. This reinforces the importance we attach to the timely reporting and analysis of more general economic and financial data for each country.

The ability of a country to efficiently use foreign savings and thus borrow on a sustained basis depends in part on its ability to anticipate and respond to shifts in domestic and external economic and financial developments that may have a detrimental impact on its current and/or capital accounts. In our judgment, each country that engages in external borrowing should examine the implications of its domestic policies and external borrowing policies within a medium-term context. Indeed, it would seem that any institution lending to a country would find such an analysis provided by the government useful when making a lending decision. The absence or poor quality of such an analysis by a government might serve as a warning signal to potential lenders.

In this connection, the Fund staff can be of assistance in helping governments frame their medium-term analyses. This could be done within the context of the Fund's surveillance activities or through special technical assistance. The staff, however, should make its own appraisal of the country's medium-term analyses and supplement the country's analyses where necessary or appropriate.

Although the "medium-term scenario" analysis of the Fund's World Economic Outlook may be helpful to countries in framing their forward looking analysis and helpful to the staff when evaluating a country's medium-term prospects, countries should not rely solely on the forecasting services of the Fund but also should draw on other forecasts. This would also protect the Fund from being criticized if the World Economic Outlook forecasts or scenarios turned out to be wrong. In this connection, however, countries should avoid selecting only forecasts that are more favorable to their prospects but rather should use forecasts for conducting scenarios or for carrying out sensitivity analyses of their medium-term prospects. In addition, explicit judgments should be made regarding the unknowns and uncertainties facing a country and the ways in which policies would respond to possible developments.

Regarding preparations for contingencies, the recent experience suggests that not enough attention has been paid to the reserve management policies of countries. Thus I support the proposal outlined on page 16 (SM/83/45) that Article IV reports will therefore pay attention to the level and structure of the asset side as well as the liability side of a country's external balance sheet.

Regarding the World Economic Outlook, continued efforts should be made to strengthen the medium-term analyses. In addition, if new information alters significantly the medium-term assumptions and scenarios provided in the most recent World Economic Outlook exercise, the staff should bring the modifications to the attention of the Board.

We can generally support the proposal that the staff provide the new Institute of International Finance with specific data if requested by a member and make available other nonconfidential information. However, we would like to note that the Institution of International Finance is a private institution in the very early stages of formulating the roles it will play. The Fund should not vest it with official character or otherwise show undue favoritism.

The staff proposes informal contacts between the Fund and national banking supervisory authorities. We are not sure what the staff has in mind here and would be interested in hearing more before commenting.

II. The Provision of External Financing and the Design of Adjustment Programs

As the staff paper points out, the Fund has always needed to ensure that a program's external targets are consistent with the available amounts of net external financing. We believe that this requirement--which is particularly important during periods of greater than normal uncertainty as in the present--should generally guide the Fund's analysis and efforts in this area. Whether the program involves a country that relies primarily on private market financing, on official financing, or on a combination of both private and official financing, it is important that the Fund be able to conclude that there is a reasonable degree of certainty that the program is viable from the point of view of the financing. There will inevitably, however, be uncertainties attached to the capital account just as there are uncertainties attached to developments in the current account. Thus we agree that it will be necessary to design programs in advance of absolute assurances that the ex ante financing gap is completely filled.

Given that uncertainties will exist on both the current and capital accounts under any program, it would seem desirable for the Fund to allocate the total or a significant proportion of its financial resources to building up a country's reserves. Such reserves could be used if current or capital account developments did not turn out as expected for reasons beyond the control of the government.

While the Fund must always have reasonable confidence concerning prospects for the financing of a program, the way the Fund goes about gaining that confidence will vary from case to case, and we do not believe there is any one proper or appropriate approach that fits all cases. Circumstances may vary greatly, and what is necessary in in one case may be unnecessary and even counterproductive in another.

In some cases where there is a potential need for an official or a private debt renegotiation, the Fund can and should play a useful role in laying out the facts and the uncertainties in an analytic manner, outlining the main elements of an adjustment effort and the implications of that effort for both the current and capital accounts. In doing so, the Fund can provide useful information for other creditors to take into account in reaching their own decisions and can help catalyze both the official and private financing necessary to realize the capital account developments that can support in a timely manner an orderly adjustment process.

In certain exceptional cases it has been both prudent and necessary to lay out these facts in a visible, frank way in order to help frame a path toward restoration of confidence. This has been done with remarkable care and in an admirable fashion, and has been an important element in laying the basis for the resolution of current difficulties and in helping us gain the confidence necessary to commit Fund resources in these cases.

A continued cautious and careful approach will be necessary in such cases as the adjustment process unfolds, keeping in view the need for close communication and cooperation among all parties, while at the same time looking toward more normal circumstances and relationships.

In general, we believe the Fund's role in dealing with both official and private creditors should be one principally characterized by explanation, when requested, of the envisioned adjustment effort and the implications of that effort--including the financing implications. This should help provide an adequate informational basis for others to then reach their own decisions, while avoiding unnecessarily rigid linkages that could put undue burdens or responsibilities on the Fund. This approach will also help avoid any appearance of an advocacy role for the Fund which could reduce the Fund's effectiveness.

We would agree that where a debt rescheduling may be involved, final and formal action on the part of the creditors need not precede Executive Board consideration although considerable advance consultation is desirable and reasonably firm understandings are necessary if the Fund is to have adequate confidence that the program is viable. In some cases, financing uncertainties may have an impact on the phasing of drawing under a program, and in that connection, special review clauses may be appropriate.

We believe that all parties have a responsibility for exchanging information in order to enhance the prospects for success of a program. The degree of initiative necessary on the part of the Fund will vary from case to case, and in some cases it may be appropriate for someone other than the Fund to initiate discussions and suggest actions. In this connection, we believe there is a greater role for the debtors to play in communicating their adjustment efforts and possible financing needs to creditors. The debtors should also play a greater role in the continuing efforts that are necessary to assure that financial commitments are made and fulfilled by commercial and official sources.

Where assumptions concerning debt rescheduling or donor assistance may be necessary in order for the Fund to gain a sense of what the effects of possible actions might have on the capital account, we believe that as working assumptions the Fund should use either terms obtained previously by the country or the average terms obtained by others recently. In addition, it may be necessary for the country involved to make informal soundings regarding the prospects of any special donor assistance. In this context, it is important for the Fund, in maintaining its neutral stance, to avoid the impression that the Fund in any way is prejudging the terms and conditions of the debt rescheduling or donor assistance. Therefore it should be made clear in the relevant documents that assumptions are being made as to a likely outcome and that these assumptions are not judgments as to the appropriate level of relief or assistance, which will be determined by the creditors and donors. It would also be useful to have a paragraph or two in the documents describing what adjustments to policy will be needed if less debt relief--or for that matter, less financing in other forms--than is assumed is forthcoming, and it would be desirable to know what the policy response might be if current or capital account developments turned out to be more favorable than expected. In such circumstances, it would be desirable to allow for a larger than planned increase in net reserves.

In regard to the setting of performance criteria when there are major uncertainties, we agree that they should only be set for that part of the program period where major variables will not be affected by the outcome of the debt relief, with the intention of setting new performance criteria when the uncertainties are reduced. However, since the Board is being asked to approve a program where there are major uncertainties, the staff, management, and the Executive Director concerned should be in the position of assuring the Board that there is agreement on the adjustment policies to be followed if the working assumptions concerning the filling of unfinanced gaps are not realized. Additionally, the disbursements under the program should be phased so that the great bulk of disbursements take place after most of the uncertainties have been resolved.

III. Design of Performance Criteria Relating to External Debt

We support the proposals concerning changes in the performance criteria relating to external debt. In addition to the points made in the conclusions of the staff paper I would suggest that

(i) it might be appropriate sometimes to set a subceiling on short-term debt as well as an overall ceiling including short-term debt;

(ii) although we support the proposal to exclude private sector debt from the ceilings, we think it important that the staff pay particular attention in programs to the types of problems associated with exchange rate guarantees for private sector debt (as discussed on page 35 of the staff paper). As the staff notes, other performance criteria can deal with these sorts of problems.

In concluding this section, we would like to stress that while performance criteria on external debt are a useful safeguard component of the framework of performance criteria, they are not a substitute for a staff evaluation of a country's debt policies nor a substitute for including such evaluations as a review clause. In our view, such evaluations are more useful for assessing the progress a country is making toward achieving a sustainable balance of payments position. During the course of a program, we think the member should keep the staff informed as to the maturity, terms, and type of external debt being assumed by the member even if these magnitudes are well within any debt ceiling.

Conclusion

As I indicated in my opening remarks, we view today's discussion as an opportunity for members of the Board to have a preliminary exchange of views on the range of complicated issues raised in the staff paper. On some of the subjects, for example, data collection, data publication, and medium-term analyses, we believe the Fund should continue to move in the directions cited in the staff paper. The subjects discussed under Section II on the provision of external financing and the design of adjustment programs will require continued monitoring and discussion in the coming months as the Fund's experience with different financial programs evolves.

Mr. Polak remarked that the Executive Board had not discussed the serious general problem of external debt for a long time, and he was glad that the present discussion would not be the last. As the Managing Director himself had mentioned in his speech at the University of Neuchâtel, Switzerland, on March 3, 1983, the eyes of the international financial community were turning increasingly toward the Fund as the central element in the search for a constructive solution to the current problems of international financing and indebtedness.

The mass of papers produced by the staff contained much useful material, Mr. Polak considered. He wished to emphasize the description of the work of the Bureau of Statistics on the collection of data on debt, which was important and which he supported strongly. The detailed description of the techniques of rescheduling and of the rescheduling arrangements for Fund members in the background paper (SM/83/46) was also helpful; he hoped that the material would be kept up to date, because access to information about the rescheduling arrangements for certain members would always be of assistance to the membership.

Nevertheless, Mr. Polak added, the major international debt problem that had to be faced, and that the Fund should discuss, had not been fully addressed, even in the main paper on Fund policies (SM/83/45), which appeared to be mostly descriptive. However, he fully supported the conclusions drawn in that paper with respect to the guideline on the performance criteria relating to external borrowing in Fund arrangements, and he was also in favor of making the debt service projections in accordance with the general description on pages 17-19 of SM/83/45. The importance claimed for that fairly routine analysis did seem to have been somewhat overstated. He also took exception to the economics underlying the sentence that began at the bottom of page 18, in which the staff stated that ultimately it was the efficient use of foreign savings that determined the sustainable scale of external financing. That statement overlooked entirely the general economic policies of countries, and was particularly shocking to him because it was the opposite of the ideas that he had published on the subject 40 years previously and that he had hoped might have acquired some credence.

It would be appropriate, Mr. Polak considered, to focus the discussion on the external debt problem for the next decade, based on the realization that the rate of borrowing during the preceding decade could not continue. In future, the outstanding stock of debt would be larger, real interest rates would be much higher and would never return to the negative levels of 1973-78, and the concentrated stock of savings that the oil producing countries had provided for two brief periods since 1973 would disappear. Consequently, the Fund in its relations with members would have to stress the need for a higher level of domestic saving if investment levels were to be maintained. In addition, the Fund should give thought to ways of creating new channels through which excess savings could flow from the industrial to the developing countries.

So far in 1983, Mr. Polak observed, the Fund had managed, by dint of considerable prodding, to maintain a reasonable increase in bank exposure, of the order of 7 or 8 per cent. But urging banks to extend credit, except perhaps as a one-time or perhaps two-time operation, could not be a long-term activity of the Fund. The system could not be based on an activity that might undermine the banks' own responsibility for the credit they extended. Therefore, he agreed with the view expressed by the staff in SM/83/45 that the Fund's initiative should remain limited to exceptional cases, and especially to those entailing risks to the international financial system. Among those risks, he recognized the drying up of credit for a whole region owing to the difficulties of a few countries in the region, a problem to which the staff had referred. The Fund should maintain its case-by-case approach. It could be more insistent that banks should not withdraw, rather than extend new credit; the withdrawal of credit by some banks meant that a larger burden would be imposed on other banks if the capital available to the debtor country was to be maintained. In his view, the Fund had gone almost to the limit of what was proper in criticizing banks for not complying with certain rules adopted by a majority for the extension of new credit.

Clearly, there was a need for better supervision of bank lending by national authorities, Mr. Polak continued. The discrepancy between the supervision exercised by banks over domestic lending and over international lending was striking, for no apparent good reason. A tightening up of supervisory activities--but not of course of international lending--was required. Perhaps banks could be counted on to be more restrained in their decisions on international lending, as the Managing Director had suggested in his speech at Neuchâtel, although he himself was less certain that they had learned their lesson, as they had in the 1920s, especially as they had not so far really suffered any losses.

The Fund had an important role to play in trying to prevent the disruption of credit flows, Mr. Polak remarked, and he would have liked to find more precise ideas in the staff paper. The Managing Director had mentioned that recent events had demonstrated the desirability of the Fund issuing more explicit warnings where external financing problems seemed likely to emerge. The question that remained was how member countries could be induced to approach the Fund earlier. As a practical matter, it might well be that the establishment of the Institute of International Finance and the development by the Fund of closer contacts with banks had given the commercial lenders considerably more knowledge of the views of the Fund or at least of its staff members. Those views related to two different issues that had not been fully analyzed by the staff. What was a reasonable flow of borrowing for a given country? And when should a country be judged to have exceeded that reasonable flow and have become overextended? It was still unclear what the banks would do in the event of overextension; past practice had apparently been to organize one last jumbo loan in an attempt to prevent or postpone a crisis. Up to mid-August 1982, the view that anything was better than to let a crisis develop could have been defended. Since then, after so many crises, opinions might have changed; perhaps it was better in some circumstances to take steps--including allowing certain views to penetrate into the banking system--that could lead to an early crisis rather than allow a bad situation to continue to develop. It could probably be said in retrospect that some Fund members had been helped by a crisis occurring at a time when their indebtedness had not become totally unmanageable.

Three matters that he had mentioned during the recent World Economic Outlook exercise, and that he had looked forward to discussing at the present meeting, had not been dealt with in the staff paper on external debt, Mr. Polak went on. First, there was the need for the Fund to consider seriously--and perhaps discuss with the banks--the interrelationship between flows into and out of countries. There were a number of interconnections. One was between new capital inflows and the possibility for a country to meet its agreed capital outflows. Another was the link between rates of interest on similar outflows and the possibility of a country meeting repayment targets. And another, which went beyond the interests of banks, was the relationship between the amount of principal and interest paid by a country to banks and the amount paid to others, essentially for imports; high payments to banks, which led to a shriveling up of world trade, were of no benefit to the system.

Second, Mr. Polak stated his strong wish that the staff take another careful look at its estimate that current account deficits of the non-oil developing countries on the order of $100 billion would again be possible in the near future--1986 being the year mentioned.

The third matter of importance was the renegotiation fees and higher spreads that followed the rearrangement of debt to the banks, Mr. Polak observed. He had already asked the staff to examine the situation, which had been the subject of press coverage in the United States and had been taken up in a parliamentary committee in the United Kingdom. The staff had made the innocuous statement on page 11 of SM/83/45 that little published information was available on those fees and charges, although the background paper seemed to include detailed information, which, of course, might not be published.

As a final observation, Mr. Polak considered that it was too early to claim that the Fund--despite the valiant efforts that it, and especially the Managing Director, had made--had saved the system. Many risks remained that could not be ignored. He had read the Managing Director's Neuchâtel speech with great care, and fully agreed that it was necessary not to be swayed by pessimism or lured by magic solutions. But it seemed to him that thoughtful people should consider fallback solutions in case, for any of the many possible reasons, the arrangements to which the Fund was currently giving its support did not work out as was hoped. Private persons, like Professor Peter Kennen and Felix Rohatyn, had put forward ideas, which he did not like. He had also seen in the press a reference to an apparently interesting proposal by staff members of the U.S. National Security Council aimed, if he understood it correctly, at making debt service some kind of function of export recovery, thereby establishing a link between the speed at which debts could be repaid and the pace at which the world economy would resume its expansion. He would not ask the Fund staff to prepare a proposal, but it would be proper for the Executive Board to be kept fully informed on the subject, and indeed to discuss it informally.

Mr. Lovato said that he would have preferred to discuss shorter and more analytical staff papers, despite the helpfulness of the information that had been prepared.

He agreed with the staff's view of the origins of the 1982 debt crisis, Mr. Lovato continued, although he tended to give more emphasis to causes beyond the control of countries. Simultaneous liquidity problems in so many countries during such a short period characterized a systemic crisis, or one in which many countries had to face unexpected difficulties beyond those that might be justified by their underlying economic situation. The staff was correct to point out that unwise investments might have been made in many cases, or that the profile of returns on projects financed with foreign savings might have been inadequate. However, it had to be recognized that even the most prudent project manager would not have anticipated the level of real interest rates, in dollar terms, that had prevailed in the past three years if account was taken of the dramatic deceleration of raw material prices.

The unprecedented extent of the crisis had severely strained the institutional mechanisms that had been devised over the course of the years to deal with the liquidity problems of debtor countries, Mr. Lovato went on. The staff had shown that, although the Paris Club had been an appropriate framework within which to respond to many cases of stress, the seriousness of the problems, and particularly the medium-term solutions that were called for, were in all likelihood making that framework increasingly inadequate. A consolidation period of 12 to 18 months would be insufficient in many instances to provide a suitable framework for medium-term adjustments. The staff had correctly noted that repeated applications to the Paris Club for debt restructuring eventually resulted in a de facto medium-term restructuring; however, it should probably be recognized that that piecemeal approach was not the most efficient way to tackle basically unsustainable medium-term situations. The principle according to which previously rescheduled debt could not subsequently be rescheduled might also severely limit debt relief associated with a Paris Club agreement.

Thus, the Fund should take the initiative in finding ways to make use of the existing room for improvement in the arrangements for rescheduling, Mr. Lovato added. One characteristic that should remain intact, however, was the linkage between rescheduling agreements and the implementation of consistent adjustment measures. Furthermore, the Fund might be of help by signaling to creditor countries those cases in which no viable medium-term solution could possibly be found without substantial debt relief, in the form of either debt cancellation or consolidation.

Referring to the mechanisms employed in the rescheduling of commercial debt, where the situation was much less settled and where important problems remained, Mr. Lovato observed that it would have been helpful to have more analysis by the staff of how the arrangements were likely to modify the future debt burden of the interested countries. The reschedulings had in fact been made on terms that could fairly be described as onerous. Unless international interest rates declined significantly, those rescheduling agreements might just shift problems forward while draining the cash flow of countries as a consequence of large spreads over the London interbank offered rate (LIBOR) and of high rescheduling fees. Various proposals had been made in the past few months, aimed at finding a global solution to the commercial debt problem, but it might be premature and inappropriate to consider them at the present time. In addition, he recognized the objections raised by the Chairman, during the discussion in the Committee of the Whole on the Development Committee, to a public pronouncement by the Fund on the issue. However, debtor countries could not maintain their cash flow at a level sufficient for the repayment of debt if rescheduling conditions were too burdensome.

On the Fund's role and the specific proposals advanced by the staff to improve its operations, Mr. Lovato observed that it seemed clear that the institution had played a crucial part in the course of the past year in preventing the banking system from precipitating a crisis. It would have been practically impossible to obtain the increase in net exposure by the banks that was needed to support adjustment programs if the Fund had not exercised the full weight of its moral suasion. The Fund's action had put its prestige on the line, exposing the institution to strong criticism if the adjustment programs involved did not work out. In the future, the Fund would have to maintain a very cautious attitude. It might, however, try to be more positive in its relationship with national supervisory authorities. Coordination of supervisory practices, and an improvement of the Basle agreement, would be a worthwhile achievement. On the whole, he accepted the judgment that the Fund should try to maintain a neutral role during the debt negotiation process.

He could also agree, Mr. Lovato went on, that the present practices concerning the release of information on Article IV consultation reports should be maintained. In some instances, the Fund could act on behalf of a country, by making a more detailed and convincing presentation of economic prospects, but only at the explicit request of the country concerned, in the interest of preserving confidentiality. Of course, it would be appropriate to maintain present practice with respect to the utilization of IFS data; it might be a good idea to include more information on debt issues, even though there might then be some duplication of information already published by the World Bank.

The desirability of a stepped-up technical assistance effort was irrefutable, Mr. Lovato remarked, and the reorientation of the work of the Central Banking Department in that respect was commendable. Also to be encouraged was the presentation of medium-term scenarios, which had proved very useful wherever they had been drawn up. While such scenarios might tend to heighten pessimism, they would probably become an indispensable tool, particularly in connection with the use of Fund resources.

On the proposals for supplementing the 1979 guideline on external borrowing, Mr. Lovato expressed agreement with the idea that external borrowing should be considered not only in its credit-creating function, but also in an intertemporal context. Thus, it made sense to include all the relevant maturities in performance criteria and he could support the proposed extension of maturities falling within the ceiling to 15 years, as long as proper allowance was made for loans from multilateral institutions. At the same time, he agreed that it would be necessary in many instances to control short-term nontrade-related borrowing, which was at least partly responsible for the deterioration of the external debt problem. On that and on other problems, the staff had shown a flexible attitude, and it should continue to do so.

As for the procedure to be followed when an *ex ante* financial gap was envisaged under a program, Mr. Lovato considered that there was a substantial risk of running into the " chicken-and-egg" problem. If the

Paris Club wanted a country to have an arrangement with the Fund, which in turn required as a precondition an agreement with the Paris Club, the chances were that negotiations would be protracted. The problem would obviously have to be looked at on a case-by-case basis; however, he would find acceptable a method incorporating reasonable assumptions about the outcome of negotiations with the Paris Club or other similar entities, provided that there were necessary safeguards in case the outcome differed from what was expected. In that way, the Fund could best fulfill its role as a provider of backing for an adjustment program without causing undue and costly delays.

Mr. Kafka remarked that he welcomed in principle the proposals set out in the conclusions of SM/83/45 for making information on debt more generally available, but it was clear from the background papers that a staggering burden of additional work would fall both on governmental institutions and more particularly on the private sector. It was by no means certain that the purpose to be served--desirable as it might seem to all--would not require the introduction of a leak-proof system of exchange transactions reporting, which would be extremely burdensome even if it did not lead to universal exchange control. Before any such project was launched, the views of banks and of other businesses would have to be obtained to determine whether or not the new burdens would be too costly. The publication of additional debt statistics that could be prepared without excessively strenuous new efforts would be generally welcome, either in a supplement to IFS or in a further expanded IFS.

As for the three proposals designed to strengthen the external debt surveillance content of the Article IV consultation process, Mr. Kafka continued, no exception could be taken to the suggestion that more information be supplied, subject again to the avoidance of excessive reporting burdens. One aspect of the proposal was to provide more detail in consultation reports on movements in usable external short-term assets in relation to short-term liabilities; he had no doubts about accepting that specific idea because it should not create an undue burden.

The second proposal, for the use of a technical scenario analysis as the basis for discussing the medium-term debt outlook, was also attractive in theory but of more doubtful value in practice, Mr. Kafka considered. He was not convinced that the scenarios in the World Economic Outlook papers, interesting as they had been, had contributed much to illuminating, or to improving, the world economic outlook. Each quantified scenario, even if frequently revised as the staff recognized it would have to be, would become gospel pending revisions. If the scenario was too optimistic, the Fund would assume an intolerable burden of responsibility for the response of banks, other lenders, and central banks; too pessimistic a scenario would place the intolerable burden on the Fund of spoiling member countries' access to markets. It might be much more practical and helpful to deal with the medium-term outlook in more qualitative and qualified terms. In any case, he had great doubts about the advisability of the Fund exchanging views on "creditworthiness analysis" with any nonofficial entity; even with official entities, it should be done only with great caution and discretion.

Third, Article IV consultation reports, including reports on recent economic developments, should obviously not be released in their present form outside official channels, Mr. Kafka added. He had personally always favored the experimental publication for sale of reports on recent economic developments, once the confidential and judgmental material in them was no longer current. But he had doubts about the appropriateness of the Fund offering nonconfidential information on special terms either to the Institute of International Finance or to members for the benefit of the Institute. The countries in his constituency had, he understood, been in favor of the Institute, but the Fund should not be seen as driving banks unwillingly to join it. Moreover, whatever the Fund did for the benefit of the Institute, it should do for the benefit of any financial intermediary, if necessary for a fee.

In making nonconfidential information available, Mr. Kafka remarked, it would be necessary to reach a clear understanding on the meaning of "nonconfidential," and of "information" as distinct from judgment. The meaning of the last sentence of the first full paragraph on page 44 (SM/83/45) was not clear to him. Presumably, data or judgments provided by the Fund to members and their fiscal agencies would find their way to national banking supervisory authorities, if the fiscal agent so decided; otherwise, it was not the Fund's business to forward them.

As for the second set of issues identified by the staff in paragraph 2 of Section VI, arising from the relationship between adjustment efforts and Fund-supported programs, Mr. Kafka went on, the Fund--and in particular the Managing Director--had in recent months taken on a totally unprecedented but highly successful function that had saved the international financial community from grave peril. The Managing Director should be encouraged to continue his essential role.

The third set of issues identified by the staff concerned experience with performance criteria relating to external debt, Mr. Kafka noted. The prospective medium-term debt servicing profile of a member should be described, as he had already indicated, without a quantified scenario. In addition, he saw no need for the Fund to include in its purview debt going beyond 12 years; the impact of loans with an initial maturity of from 12 to 15 years was of negligible interest. Furthermore, the inclusion of short-term debt would be acceptable only on condition that excessively costly reporting problems were avoided.

As a general observation, Mr. Kafka remarked, the Fund should try to protect the confidentiality of its documents--and even of its deliberations--better than it had done in the past. The Fund would also have to exercise extreme discretion in the formulation of its judgments and forecasts in case they became publicly available; otherwise, its prophecies might prejudice market perceptions of members' economies. Care should also be taken to avoid giving the impression in consultation reports that the Fund was attempting to allow perceptions of members' external debt situations to affect market perceptions, even for countries without programs. Obviously, the Fund would have to weigh carefully its responsibilities to individual members and to the international financial community; but it would not be easy to formulate rules for the procedures to be followed.

Finally, Mr. Kafka stated, although he did not expect Fund-supported programs to fail, he did see a need, not so much for preparing fallback positions as for thinking about the possibility of a future systemic crisis--even if present programs worked--and about ways to solve it. Bridging credit problems had been efficiently resolved in 1982 by ad hoc solutions. It might be safer for the world if the Fund took upon itself the task of developing a bridging credit facility of its own.

Mr. Joyce observed that the three broad issues before the Executive Board were, first, how to minimize the possibility of countries encountering severe debt servicing problems; second, how to cope efficiently and effectively with debt servicing problems and crises if they emerged; and, third, how to restore a country's medium-term ability to meet its debt service commitments through a viable economic and financial adjustment program.

On the first issue, Mr. Joyce continued, it was clearly better to prevent the emergence of debt servicing problems, and the Fund could be of great help in counseling countries with respect to the size, nature, and maturity of their borrowings. The Fund could also help to alert the international community to developments in the international financial situation that might presage problems for the system as a whole. For that purpose, the Fund had three main tools: its surveillance activities; its ability to provide information, analysis, and technical assistance; and, by no means least, its leadership potential.

The Executive Board had agreed at a recent meeting (EBM/83/55, 3/28/83) that the Fund's surveillance activities should be strengthened, Mr. Joyce recalled. It was the Article IV consultations with members, and the related discussions in the Executive Board, that not only provided the country concerned with the views and suggestions of others, but alerted other governments to emerging problems. It had been agreed that those consultations should be more timely; they would allow the Fund staff to raise potential problems with the authorities, both of countries having programs with the Fund and of others as well. In that connection, he agreed with the staff that surveillance could be improved if it was based on forward-looking analyses of the structure and profile of debt service, even though the analyses would be sensitive to the assumptions made. The provision of forward-looking technical analyses and the discussion of their results could help some countries to forestall the emergence of severe debt servicing problems.

Although he recognized the important role of quantitative limits on external borrowing in Fund programs, Mr. Joyce added, he would be opposed to developing quantified guidelines for medium-term debt, at least as a basis for Article IV consultations. Information on indebtedness and the quality of the information varied widely between countries. Moreover, there could be wide divergences of view as to what constituted a sustainable position in the medium term. For both reasons, the risks of drawing misleading conclusions from seemingly precise figures were substantial. Increased emphasis on qualitative discussions both of external debt management prospects and of domestic debt management policies was needed. In the end, it was not the magnitude of the debt per se but the sustainability of countries' external debt situations that counted, and that was a matter for judgment. Obviously, a careful distinction had to be made between the various types of debt, and whether it originated with the banking system or the nonbank sector.

Another question was the extent to which the Fund's analysis of indebtedness should be made public, or at any rate included in Fund reports, Mr. Joyce continued. He shared many of the concerns expressed by Mr. Kafka. The discussions with the member country needed to be full and frank, but he was less convinced of the desirability of great explicitness in the Fund reports themselves. If a member appeared to be running into particular difficulties relating to the size of debt and to its handling, and if the authorities disagreed with the Fund's conclusions, it would be up to management in the first place to take the matter up with the country. Only afterwards should consideration be given to making some reference to the situation in staff reports, and even then he would urge discretion; discussions between the staff and the member on forecasts of debt or on policy prescriptions should not be reflected in reports on recent economic developments, and it might be necessary to think carefully before including such references in Article IV consultation reports. While it was important for the Executive Board to consider such matters, the delicacy of some situations might call for a verbal report rather than a written one, if only because of the security problems faced not only by the Fund but by other institutions.

The Fund could potentially play a major role in averting the development of debt service crises through its relations with the commercial banks, Mr. Joyce added. To the extent that lack of information could contribute to excessively sharp swings in the willingness of lenders to make funds available, particularly to developing countries, it was in the Fund's interest, and often in the country's as well, that information be made as fully available as possible to the financial community. The new Institute of International Finance was a welcome development, and the Fund should cooperate as far as possible with the Institute in the collection and analysis of data. But he agreed with the staff that such cooperation had to be constrained by the need to maintain the necessary confidentiality in the Fund's relations with members.

The Fund had an important part to play, through its technical assistance program, in helping to equip countries to improve the information they collected as well as to manage their debt more effectively, Mr. Joyce observed. Through that effort, the quality of coverage and the reliability of data on international debt would also be improved.

On the second issue of how the Fund could help to meet debt servicing crises if and when they emerged, Mr. Joyce recalled that the subject had been touched upon in the staff paper on the adequacy of existing arrangements to deal with major strains in the international financing system (EBS/82/194, 10/22/82) which had been discussed by the Executive Board on November 19, 1982 (EBM/82/150 and EBM/82/151). Traditionally, the Fund had not had a leading part in debt rescheduling exercises, but it was assuming a growing role in facilitating discussions between debtor countries and creditors. More important, as the staff had pointed out, the existence of Fund programs was increasingly becoming a prerequisite for official multilateral debt renegotiations with the Paris Club, for commercial bank reschedulings, and indeed for the possibility of increased bank exposure. For the Fund to continue to play a role, it had to have adequate resources. The Interim Committee's February recommendations were thus of great importance, and the Executive Board's discussion of the Fund's liquidity scheduled for April 8 was of particular relevance.

The Fund must continue to remain generally neutral in debt renegotiation discussions, Mr. Joyce considered. It might be appropriate on occasion, especially if requested to do so by the debtor country, for the staff to explain to creditors the nature and implications of adjustment efforts being carried out by the member. Moreover, in working out Fund programs, assumptions had to be made about the availability of additional financing. But, other than in exceptional circumstances, the Fund's role in renegotiations should not go much further.

As for exceptional circumstances, and the new role that the Fund and its management had come to play over the past year, Mr. Joyce joined others in commending the Managing Director for his timely and appropriate actions in response to the threats to the system posed by the emergence of severe debt servicing difficulties in some major countries. If the liquidity problem in particular had not been dealt with quickly, the consequences for the countries concerned and for the international financial system might have been serious. It was probably not appropriate to attempt at the present time to formalize any general policy criteria for dealing with exceptional situations, and the Fund should continue its present case-by-case approach. The Fund's active leadership role should be confined to cases of critical liquidity difficulties or of developments in a country that threatened the stability of the system as a whole.

There was the question as to how long such initiatives by the Fund could be effective, especially as far as commercial banks were concerned, Mr. Joyce remarked. The Fund's credibility might be at risk if it engaged in an active role on too wide a front. If the Fund was to sustain its credibility, it would be crucial for programs to be judged realistic and hence viewed as credible by lenders; otherwise the institution's ability to exert moral suasion would be seriously weakened. Although balance of payments projections necessarily entailed elements of judgment, it was also important that Fund projections be viewed as realistic and that the adjustment programs being put in place under the aegis of the Fund be seen as capable of leading to a sustainable position over the medium term. Only in that way could the Fund continue to be an honest broker in mustering the support of the donors and of the commercial banks to ease the transition of countries to a more viable position.

Two separate points remained with respect to the Fund's dealings with the commercial banks, Mr. Joyce commented. First, what should the Fund do if already agreed programs had to be revised and if there was a call for additional funds? Second, where should the Fund draw the line in deciding which member countries should be the object of special attention? His tendency would be to err on the side of caution in lengthening the list. Moreover, it was important to keep the Executive Board fully informed not only of progress being made under existing programs but also of any plans by the Fund to play an active role in marshaling additional resources or in embarking on discussions with commercial banks.

As for the role of the Bank for International Settlements (BIS), Mr. Joyce went on, he understood the reluctance of the BIS to become unduly engaged in the process of emergency financing, but it seemed to him that the experience of some countries during the past few months showed that the nature of the liquidity crunch required emergency assistance in the form of bridge financing. He hoped that the central banks of the industrial countries would continue to support the international effort to avert crises, particularly where there was a threat to the system, and that they would urge the BIS to place its resources at the disposal of the international community.

He recognized that concerns had been expressed about the danger of undue influence being brought to bear on some commercial banks to increase their exposure in particular countries or in particular regions, Mr. Joyce observed. He also recognized that much of the pressure did not come direct from the Fund or from governments but from within the banking sector, especially from major or lead banks. He saw no easy way out of those difficulties in the immediate future; but the Managing Director might want to consider inviting the senior national regulatory authorities in key lending countries to exchange views informally with him and with the senior staff of the Fund on how to reconcile the effort to marshal continued commercial bank financing with the natural concern of national authorities that individual banks not exceed prudential levels of exposure.

With regard to the third issue of how to improve the financial viability of Fund adjustment programs, Mr. Joyce said that he agreed with the staff's proposals for modifying the 1979 guideline on performance criteria for external borrowing. In particular, he supported the proposal to extend the range of maturities covered by the guideline to include 12- to 15-year loans as well as nontrade-related short-term borrowing, particularly by the public nonfinancial sector. The categories of borrowing excluded from coverage, other than concessional finance, ought to be severely restricted to minimize the potential for abuse. Net short-term external liabilities of the banking system should also be included in the ceilings whenever there was reason to query the authorities' ability or willingness to restrain the growth of the banking system's external borrowing by means of other criteria. The authorities would thereby be given an added incentive to strengthen indirect control over the banking system's external borrowing capacity. However, he recognized that the lack of good quality data on such borrowing both by the private nonbank sector and by the banking sector might pose a problem in evaluating borrowing performance, and that international capital markets might often provide an adequate check on the growth of borrowing by those sectors.

As to whether external borrowing ceilings should be set on contracted or disbursed amounts, Mr. Joyce said that, like the staff, he tended to prefer ceilings on disbursed debt. Nevertheless, he wondered whether the staff felt that disbursement ceilings would provide an adequate incentive to restrain the contracting of new debt.

Mr. Schneider said that the Fund obviously had to improve its data on external debt before it could provide more meaningful advice to member countries than hitherto. Therefore, he fully accepted the need to improve external debt statistics and to make them more readily available. The Fund should seek to cooperate closely with other international institutions in improving the availability of information on debt. But care should be exercised to avoid work duplication or competition between institutions. Member countries should be invited to make more use of the technical assistance offered by the Central Banking Department to improve the availability and quality of data. In a number of countries, the authorities had not been aware of the magnitude of the foreign debt of their public and private sectors. Adequate data were all the more important when members envisaged using Fund resources or when their debt situation had an important bearing on adjustment policies. In those cases, Article IV consultations should focus on the external debt situation as well as on the medium-term outlook and the policies required to maintain a sustainable debt service burden.

The present policy of cooperation with commercial lenders was appropriate as long as the Fund stood ready to assist members in providing adequate information to banks, Mr. Schneider considered. However, it was not fully clear to him how the contacts between the Fund and national banking supervisory authorities were to be handled. What information could be provided in addition to that already obtained from member countries during Article IV consultations or in dealing with requests for use of Fund resources? Was it the Fund's intention to make an assessment of the creditworthiness of member countries?

As for cooperation between the Fund and debtor as well as creditor countries, Mr. Schneider went on, the general thrust of the staff's conclusions was acceptable to him. The Fund's recent initiatives to ensure the availability of sufficient financial flows in support of the adjustment efforts of the members concerned had been timely and fully appropriate. It seemed important to him that a coordinated approach should be followed by the Fund, creditor groups, and debtors alike to achieve successful adjustment. While a case-by-case approach might at present still be the preferable course of action, the Fund should take care to preserve the principle of uniformity of treatment of member countries. If other members encountered exceptional difficulties because of the lack of funds in financial markets, the Fund might have to devise general guidelines to ensure that all members were treated similarly, taking account of the precise circumstances.

Among the Fund's roles was that of evaluating an ex ante financing gap and thus the mix of adjustment and financing that was feasible for a country, Mr. Schneider observed. It might be useful to develop alternative scenarios with different mixes to obtain a better view of the trade-off between adjustment and financing. The authorities would thereby have an indication of the additional adjustment efforts that might be needed if certain anticipated capital flows did not materialize, and the Fund could help to avoid the impression that it was predetermining the terms and conditions of debt rescheduling.

Accordingly, Mr. Schneider noted, it would be appropriate to formulate quantitative performance criteria only for that part of the program period during which major variables would not be affected by the outcome of the debt relief exercise. Whenever possible, and especially when a member's debt situation was serious, the Fund should try to resolve uncertainties before arrangements with the member became effective in order to avoid a review of the necessary adjustment effort.

He could support most of the staff's suggestions relating to the 1979 guideline on external borrowing, Mr. Schneider noted. He agreed that countries should limit their external borrowing to ensure an acceptable debt service burden. His only doubt was on the usefulness of increasing the upper maturity limit from 12 to 15 years for that purpose; certain categories of loans, including those from multilateral institutions, would have to be excluded. A simpler approach might be to limit all external borrowing by the government or guarantees by the government, irrespective of maturity, while providing for the general exclusion of the categories mentioned by the staff.

While all the proposals put forward by the staff might help to ensure that debtor countries pursued appropriate policies, thereby eliminating the present strains in the world financial system, they would not be entirely sufficient to achieve that goal. The recommended actions would have to be supplemented by appropriate policies on the part of industrial countries that would permit developing countries to gain sufficient export earnings to discharge their debt obligations. Those policies should not only aim at the removal--instead of the increase--of trade barriers; they should also ensure maximum use of the existing growth potential.

Mr. Salehkhou said that he was in broad agreement with the thrust of the staff analysis and could go along with many of the suggestions made in the main paper. However, the important ramifications of the issue, which the Development Committee was expected to deal with extensively, warranted the decision to consider the present discussion a preliminary one that would not lead to any final conclusions.

Although the action taken so far had permitted debtors and creditors to cope with the major crisis of the summer of 1982, Mr. Salehkhou continued, improved prospects depended, inter alia, on sustained economic growth in all industrial countries. That growth should be coupled with the major revision of trade policies in the developed world, aimed at a significant reduction of prevailing protectionist measures in all their various forms. Furthermore, the external debt crisis had led to a severe curtailment of net capital inflows to debtor countries and to the imposition in those countries of strong austerity and demand management programs that undoubtedly had an adverse impact on their long-term development efforts and on the prospects for a healthy recovery of the world economy.

With respect to the recent experience with external debt rescheduling, Mr. Salehkhou noted, although the principle of equal treatment among all creditors was important, due consideration should be given to ensuring that all debtor countries were also treated equally. The latter was obviously a difficult goal to achieve because the economic situation and prospects of members differed widely. But relatively more comparable rescheduling terms might be obtained, particularly for modestly indebted countries that were not in a fair negotiating position.

The Fund had recently played a decisive role in the debt rescheduling process, Mr. Salehkhou remarked. Although it was appropriate to preserve its neutrality, the Fund had room to play a more direct role in ensuring a judicious distribution of the restructuring burden between lenders and borrowers. While it was the usual practice for banks to insist upon rescheduling on no less than market terms, the Fund could help to avert situations in which banks dictated those terms, particularly as debt restructuring was usually accompanied by fresh resources from the Fund under financial programs designed in part to ensure the repayment of external debt. However, he shared the staff's view that no attempt should be made to formalize the role of the Fund in debt rescheduling exercises or to establish precise policies and guidelines in that respect.

As for external debt surveillance by the Fund, Mr. Salehkhou went on, welcome efforts had been made to improve the coverage and timeliness of foreign debt statistics and to enhance cooperation between the Fund and other international organizations, such as the World Bank, the OECD, and the BIS. He was also pleased with the projected inclusion in reports for Article IV consultations and analyses of requests for the use of Fund resources of a forward-looking evaluation of members' external debt situations. The focus of such analyses on the sustainability of members' present and prospective external borrowing, and on their debt servicing capacity, would help them to design more cautious financial policies and would serve as an alert system for both the Fund and its member countries. However, he sympathized with Mr. Kafka, who had expressed concern in that respect, particularly relating to the use of medium-term scenarios in forward-looking analyses.

The publication by the Fund of more information on external debt might help to avoid the kind of situation that had developed in recent years, Mr. Salehkhou considered, although the expansion of commercial bank credit to Third World countries could hardly be attributed to the lack of reliable information. In that connection, a cause-and-effect study to determine the responsibility of the international banking network for the borrowing of developing countries might be helpful; it could serve as an effective instrument in preventing the recurrence of similar crises. However, the Fund should make sure that no collected data or information would be disseminated without the express authorization of the member concerned. Cooperation between members and the Fund depended greatly on the Fund's attitude toward its responsibility for preserving the confidentiality of the information provided. In that connection, he would prefer the presentation of external debt developments to be confined to staff reports for Article IV consultations, and not to be included in reports on recent economic developments. Although he understood the rationale for cooperation by the Fund with banks and other creditors in general, he also believed that member countries should continue to decide on the type of information they wished to see disclosed.

As for the design of adjustment programs with ex ante financing gaps, recent experience had shown that the management and staff had taken a reasonable approach, Mr. Salehkhou concluded. However, he had some doubts about the proposal to formulate performance criteria for only a part of the program period, and about the provision for extensive program reviews after the conclusion of rescheduling negotiations, particularly if such reviews resulted in the requirement for additional measures on the part of the member. The Fund and the member would thereby be put in the position of having to conform to the terms offered by the creditors, rather than the other way round.

Mr. Grosche noted that, although he would focus on those issues of the main paper on which the staff expected the Executive Board to provide guidance, his authorities had not yet reached definite answers to all the questions.

Referring briefly to the sources of debt servicing difficulties, Mr. Grosche said, that no one would deny the significance of unfavorable circumstances since the late 1970s. But as the staff had pointed out clearly on page 3 of SM/83/45, those difficulties also reflected inadequate domestic economic management in many of the countries concerned. His authorities wished to emphasize even more strongly than in the past that in many instances the inadequacy of domestic policies had been the main root of the problem. Trying to avoid adjustment to external factors by boosting monetary expansion and external borrowing had led almost inevitably to balance of payments problems and, in conjunction with unrealistic exchange rate policies, had stimulated capital flight. In addition, inappropriate external debt management had led to a bunching of debt in several cases.

Therefore, he attached great importance to the first set of issues dealt with in the conclusions of SM/83/45 relating to the implementation of external debt surveillance, Mr. Grosche observed. To obtain better information on external debt, he shared the staff's view that it would be necessary to continue to cooperate closely with the World Bank. In addition, he welcomed the work under way to improve the Fund's own information base; several proposals for improving data collection on external debt were discussed in the useful background paper on the topic (SM/83/48), but his authorities had not yet reached conclusions on all of their implications. For instance, like Mr. Schneider, he believed that in collaborating with other institutions on the collection of statistical data, the Fund should closely examine the possibility of conflicts of interest and duplication of effort.

As for the proposed major strengthening of the external debt surveillance content of Article IV consultations, Mr. Grosche added, several aspects of the matter had been considered in detail during the recent review of the implementation of surveillance (EBM/83/54 and EBM/83/55, 3/28/83). Again, he fully supported the staff's analysis and recommendations in SM/83/45.

The present policy of not releasing staff documents containing confidential information to private lenders had been appropriate and should be continued, Mr. Grosche stated. The staff's proposal to assist members in collecting information for the Institute of International Finance seemed acceptable. The decision to provide data to the member banks via the Institute or to any other potential creditor would still be in the hands of the country concerned. He agreed with the staff that the Fund should make publicly available the detailed series on which published statistics in IFS were based, provided that a breakdown of the figures would not release confidential information. He took it that "publicly available" meant that not only the Institute would receive the information.

However, he was reluctant to go along with the staff's proposal to exchange views with the Institute on the most appropriate way to undertake creditworthiness analysis, Mr. Grosche said. First, although he might have been able to accept the proposal if it had been only a matter of designing a method for the purpose, it would be difficult to develop a method that could be uniformly applied. Thus, case-by-case studies would continue to be appropriate, but assistance by the Fund in each individual case would involve it too closely with the Institute's business. Second, there was a risk of the Fund being seen as sharing responsibility for the Institute's decisions, if not legally, at least morally. Finally, many potential creditors that were not members of the Institute might suffer a competitive disadvantage.

On the question of cooperation between the Fund and national banking supervisory authorities, Mr. Grosche noted, he would welcome further clarification by the staff of one point. In referring on page 20 to the willingness of the Fund to collaborate with supervisory authorities in their endeavors to increase the supervisory role in country-risk matters, the staff had not fully explained the contribution that it intended to make. Appropriate ways of supervising country lending by commercial banks had been studied for years by international committees, particularly by the Cooke Committee. There had been broad agreement in that Committee--shared by his authorities--that the evaluation of country risk should lie generally in the hands of commercial banks. Banking supervisory authorities should only make sure that the banks' methods of assessing and controlling country risk were appropriate.

The recent aggravation of external debt servicing difficulties of a number of member countries had induced his Government and the governments of other countries to reconsider the role of banking supervisory authorities in country-risk matters, Mr. Grosche added. While final decisions had not yet been reached, it was unlikely that his own authorities would intensify their supervisory role, for example, by imposing direct credit controls. Such controls would be at odds with Germany's philosophical preference for noninterference with commercial judgments. On the whole, it seemed to him that cooperation between the Fund and the authorities concerned could probably only be undertaken after the authorities had decided how to handle country-risk matters.

On the relationship between adequate external financing and adjustment efforts in the context of Fund-supported programs, Mr. Grosche continued, most features of official multilateral debt negotiations had been well established and should be continued, as the staff had noted. His authorities were well aware of the helpful role that the Fund had played in donor meetings, designed to provide additional exceptional assistance in those cases where the provision of official and commercial debt relief had not been sufficient to support the implementation of a viable adjustment program. As for commercial bank rescheduling, he welcomed pragmatic cooperation between the Fund and commercial banks in those exceptional cases where the orderly functioning of the international financial system was affected. In that respect, his authorities reiterated their view that the Fund's resources should be committed only if sufficient financial flows from other sources were made available. Otherwise, it would be obvious from the outset that the Fund program would not work successfully. Whenever Fund action had been necessary to ensure adequate financial flows to complement Fund resources, difficult decisions had had to be made concerning the extent and the nature of the Fund's involvement. Therefore, he agreed with the staff that formalizing general policy criteria governing the precise role of the Fund in such sensitive situations had not proved appropriate. The case-by-case approach in exceptional circumstances would be preferable.

As for the possible role of domestic bank regulatory authorities, Mr. Grosche added, the attention of the Bundesbank had been attracted in particular to the staff's reference on page 23 of SM/83/45 to the positive attitude of a number of domestic bank regulatory authorities to increasing the exposure of banks vis-à-vis debtor countries having programs with the Fund. Due to the restraints imposed by Germany's economic philosophy, its central bank did not interfere with the lending decisions of private banks.

He fully supported the staff's suggestions relating to the 1979 guideline on external borrowing, Mr. Grosche remarked. He wished only to emphasize one point. Recent developments in international financial markets had demonstrated that the potential problems associated with short-term debt had become a major cause of concern. It was therefore essential that debt management policies embodied in Fund programs should prevent an excessive buildup of short-term debt. At a minimum, the coverage of the external borrowing ceilings should include short-term debt. He realized that implementing a performance criterion for short-term debt would not be easy. But the staff should try hard to overcome the institutional difficulties step by step, in collaboration with the countries concerned. Furthermore, there seemed to be merit in including short-term debt in the assessment of a country's debt burden and its sustainable debt servicing capacity.

Mr. de Maulde said that he would support the regular updating of the information provided in the staff papers. In particular, the descriptive notes on country cases and the analysis of various components of external debt--export and financial credits--were most useful. But the issues under discussion could not be resolved conclusively because of the various complex matters involved, notably, the Fund's relations with commercial banks and the handling of confidential data.

Referring first to the implementation of external debt surveillance, Mr. de Maulde mentioned the feeling outside the Fund, and particularly within the financial community, that one centralized source of information on external indebtedness would have avoided the emergence of serious debt problems. There was indeed merit in having within the institution a reasonably comprehensive set of data. However, it was obvious that better information on external debt could only facilitate, and not replace, the difficult judgments involved in international lending. Risk evaluation was at the core of all lending activities, and no mechanistic approach based on a set of ratios, however sophisticated they might be, was practicable. He was not at all opposed to progress and enlightenment, and welcomed the efforts undertaken by the Fund and its member countries; the point was that taking figures at more than their face value could only generate confusion among the various participants in international monetary activities.

He strongly supported close cooperation between the Fund and the World Bank, and the general objective of improving the availability of debt information within the Fund, Mr. de Maulde said. However, he was unable to go along with the suggestions made in the staff paper on data on international banking and external debt (SM/83/48) for two reasons. First, that particular staff paper was complex and required additional study; second, the issues that it dealt with, particularly relating to publication, seemed far too sensitive to be considered in general terms. Careful attention would have to be given to the degree of detail in the data that would be compatible with confidentiality or equality of treatment of member countries. Therefore, he recommended that any action taken should be decided on the basis of concrete and specific proposals. The suggestions put forward on pages 12 and 13 of SM/83/48 with regard to IFS debt data, as well as the issue of the exchange of confidential information between international organizations, which was mentioned on page 11, would need further careful examination.

He felt much more comfortable about expanding the technical assistance provided by the Fund in the external debt field, Mr. de Maulde remarked. He had noted from Section III, Part II, of SM/83/46 on the adequacy of information that the ad hoc surveys conducted from time to time in a number of member countries suffered from a major drawback: they were not associated with a strengthening of the monitoring mechanism that was indispensable if statistics collected initially at great cost were to be kept up to date. The aim of the Fund's technical assistance was to establish permanent sources of reliable data, which was the right approach. For member countries to find technical assistance desirable, they would have to be sufficiently confident in its purpose and, inter alia, in the Fund's ability to preserve the confidentiality of the data gathered. In that respect, he had difficulties accepting the conclusion in Section VI of the main staff paper (SM/83/45) that the Fund would be ready to help members collect information that they might wish to place at the disposal of the Institute of International Finance, and to make nonconfidential information available to the Institute.

He was in agreement with the suitably qualified presentation of the procedure for strengthening the external debt surveillance content of the Article IV consultation process, Mr. de Maulde commented. It was certainly necessary to make explicit the assumptions--notably financial but also economic--behind the medium-term debt outlook that would be prepared; the sensitivity to any alterations in those assumptions, such as a variation in the terms of trade, should be acknowledged in each case. The staff had adequately characterized medium-term debt scenarios as an analytical tool and not as an exercise in prediction. Because all potential readers of reports on recent economic developments might not interpret the results of such exercises so cautiously, it might be appropriate to present them only in the staff report itself, in the hope that the document would be protected against undesirable leakages.

As for informal contacts between the Fund and national banking supervisory authorities, Mr. de Maulde remarked, Executive Directors should continue to be fully informed in the most convenient way of the sequence of events leading to such contacts as well as of their content.

On the relationship between the various forms of balance of payments assistance and the implementation of adjustment efforts in the context of Fund programs, Mr. de Maulde referred first to official debt reschedulings, for instance, those by the Paris Club. The staff had characterized those reschedulings as being designed to deal with a bunching of debt service payments that gave rise to temporary liquidity problems, noting that in the recent past there had been only a few cases where bunching was the main source of the difficulties (SM/83/46). A superficial reader might therefore conclude that official debt renegotiation schemes were inadequate at present. That would be an inaccurate conclusion. The payment of both principal and interest on medium-term and long-term loans was rescheduled, usually in proportions of 85 to 90 per cent of the total, or even more when account was taken of the spreading out of down payments. It was true that the most common consolidation period was 12 months, which meshed with the length of Fund stand-by programs, but several successive annual reschedulings had in fact been agreed; the goodwill clause exemplified that possibility. In other words, there were no constraints on the possibility of rescheduling a very substantial proportion of debt service payments over a significant period of time. The framework for official multilateral debt renegotiations therefore allowed creditors as well as the debtor country to cope with other difficulties than the mere bunching of maturities, including such problems as cyclical variations in export receipts or the adjustment needed to correct temporary disequilibria. In extreme cases, rescheduling might even give rise to a bunching problem in the future; but as the Sudanese case had shown, an adequate solution could be found. Furthermore, there were no reasons for ruling out the possibility of a further lengthening of the rescheduling arrangements by the Paris Club.

It was noted on page 12 of SM/83/46 that multilateral commercial bank rescheduling negotiations had been initiated and/or agreed within six months prior to the date of official rescheduling in all cases but four since 1979, Mr. de Maulde commented. It should be borne in mind that the rescheduling process was lengthy. Negotiations with banks could take at best a month and at worst years; the starting point was of little significance. The opposite was true of official rescheduling meetings, to the extent that agreement was usually reached on the day of the meeting. When parallel negotiations were conducted, the official one was concluded well in advance of the one with banks. Moreover, an agreement with the banks seldom influenced the decision of the official creditors, whereas official negotiations usually determined the outcome of private ones.

He agreed with the staff that the Fund should pursue its neutral stance in negotiations with private creditors, Mr. de Maulde added. A case-by-case approach had led in the recent past to a more direct coordinating role for the institution, whose leadership had proved effective in helping to design an overall financing plan for the members concerned. But he shared the staff's view that it would not be appropriate to formalize policy criteria; the Fund should pursue a pragmatic and flexible approach, in close consultation with all parties. Executive Directors should of course continue to be kept fully informed of all developments in that sensitive area.

As for the design of Fund programs with ex ante financing gaps, Mr. de Maulde went on, the suggested approach described on pages 26 and 27 of SM/83/45 was appropriate, on two conditions. First, official creditors and donors should be presented with alternative scenarios whenever possible, and in any case, the assumptions made on the terms and conditions of rescheduling should be treated as working assumptions only. Second, forecasts made with respect to the elimination of payments arrears should be confined to cash payments and/or to the undertaking of negotiations in good faith to reschedule them. The approval by the Executive Board of quantitative performance criteria with respect to the rescheduling of arrears for Uganda should be considered an anomalous case.

Flexibility and pragmatism should govern the choice of quantitative performance criteria with respect to foreign borrowing, Mr. de Maulde observed. There was no merit in applying performance criteria to disbursed debt if the Fund was unable to project and monitor the chosen aggregate with sufficient accuracy. That was also true with respect to the inclusion of bank liabilities under a borrowing ceiling. While performance criteria on external borrowing might be a necessary safeguard, they had in retrospect been somewhat superfluous, because lenders had already been extremely reluctant to grant further credit to the country concerned. A certain degree of restraint would be warranted in using such criteria, especially as the actual outcome of many programs had been influenced far more by so-called supply factors than by the behavior of the country itself, as noted in SM/83/46.

Some members of the Executive Board were very much in favor of generalizing the use of short-term borrowing ceilings, Mr. de Maulde commented. He had certain doubts about the practice: it was not always easy to distinguish between commercial credits related to raw material imports, and purely financial credits. Furthermore, what mattered most was not so much short-term borrowing as the development of the net stock of short-term debt. Given the variety of institutional arrangements in member countries, as well as the complex effects of refinancing that type of debt, the use of review clauses might be a more satisfactory solution than quantitative criteria.

To conclude, Mr. de Maulde suggested that if the wealth of information in the staff papers had been available in the summer and fall of 1982, the Managing Director's leadership might have been less effective. It was sometimes said that the military was always prepared to fight the previous war. It was legitimate and useful to study the lessons of past experience, but he would advocate strongly that the Fund avoid overtheorizing and overinstitutionalizing to remain able to deal flexibly with the problems of the future.

Mr. Mtei noted that the problems that many countries faced in servicing their external debts had intensified over the past year or so, and the number of countries approaching official creditors and commercial banks for relief in the form of debt rescheduling had sharply increased. The discussion of Fund policies relating to external debt servicing problems was therefore timely. The Fund had been active in many rescheduling exercises as a source of information, as a coordinator, and on some occasions as a catalyst in getting creditors to maintain their exposure in countries that had embarked on the implementation of Fund-supported programs. The Fund's efforts had proved useful and deserved continued support.

But the evolution of Fund policies to deal with the external debt servicing problem was more than just a matter of debt rescheduling exercises, Mr. Mtei considered. As he saw it, the problem was yet another manifestation of the larger issue of the balance of payments difficulties facing many developing countries in the wake of the slowdown in growth or even of the decline in their export earnings, the increase in the cost of their imports, and the high rates of interest in international capital markets. True, in many developing countries, problems of a local nature had to be tackled by means of appropriate policies. The relief gained from debt renegotiations might be short-lived, if the basic causes of the problem were not dealt with. The important surveillance role of the Fund should be strengthened to provide a meaningful dialogue with members on the policy mix that would ensure more stable conditions in the world economy and enable developing countries to design economic and financial policies consistent with the primary objective of economic growth in the context of a sustainable balance of payments position.

It should also be borne in mind that the debt servicing problems of many low-income countries reflected structural imbalances in their economies, Mr. Mtei noted. The situation called for more than short-term financing, which was better suited to alleviating temporary strains on the balance of payments. Against that background, it was perhaps necessary for the Fund to ask itself to what extent policy measures directed in the main at dealing with temporary balance of payments deficits could be relied upon to provide solutions to the structural problems of low-income countries. Many of those countries had limited access to market finance and had come to rely more heavily on Fund credit. It was therefore important, in his view, to design Fund-supported adjustment programs that looked more toward the longer-term need to strengthen the economic base of low-income countries. In that way, those countries would be in a better position not only to benefit from future improvements in the world economy but also to withstand adverse world economic developments.

Even though consideration should be given to the possibility of meeting the longer-term adjustment needs of low-income countries, Mr. Mtei added, there was also a need for the Fund to deal with the debt problems of those countries in a manner suited to their special circumstances. The Fund had already demonstrated flexibility by taking a leading role in respect of the debt renegotiations of some members with commercial banks. Perhaps that flexibility could be extended to a re-examination of the term structure of repurchases following the use of Fund resources. He recalled that the staff had indicated, in a departmental memorandum (DM/83/9), that the maturity of Fund credit in 1971-80 had averaged 5 years compared with an average of 9.2 years for medium-term public debt. He asked whether an extension of the repurchase period would not help to ease the debt burden of low-income countries. Moreover, the Fund could exercise greater flexibility, under the provisions of Article V, Section 7(g), in rescheduling repurchases of members faced with hardship. In the absence of such flexibility, small countries were being forced to seek expensive loans in the market for the purpose of meeting repurchase obligations to the Fund, an action that in his view exacerbated their already very strained financial situation.

Referring to the question of debt surveillance within the context of Article IV consultations, Mr. Mtei recalled that he had already expressed support in principle for a more comprehensive analysis of debt in staff reports. However, he wished to reiterate his chair's concern about the potential for the misuse of information on debt, particularly as the type of appraisal envisaged by the staff would inevitably involve substantial value judgments. For that reason, he would prefer reports on recent economic developments to be limited to the presentation of factual information on a country's external debt; if any analysis or forecasts were to be made, they should be confined to the staff report, perhaps as an appendix.

Intercountry comparative assessments that would require uniformity in methodology and in presentation would raise a number of important issues, Mr. Mtei commented. First, it was not clear to him what would be compared and what the meaning of the comparison would be. Second, he wondered whether the approach might not encourage the spurious ranking of countries on some sort of debt scale. If so, what were the implications?

One of the interesting developments that had emerged out of the debt renegotiations of the recent past, Mr. Mtei observed, was the central role that creditors had ascribed to the Fund by requiring debtor countries to agree on upper credit tranche programs as a condition for rescheduling. In its functions in that respect, it was crucial that the Fund should seek to ensure similarity of treatment for all members seeking debt relief. The Fund should also continue to stress the need for commercial banks to maintain, or perhaps increase where warranted, their exposure to countries undertaking adjustment programs supported by the Fund. That point should be impressed upon official creditors as well. The issue was important because Fund-supported programs might incorporate a financing gap on the assumption that it would be filled by debt relief and new inflows of external resources; if those were not forthcoming, a program could be rendered inoperative or the authorities might be forced to take more stringent adjustment measures to satisfy the performance criteria. Such measures might not be easy to take, particularly for the poorer countries where the income level was already less than adequate to maintain a minimum standard of living and where the choice was often between low growth or no growth at all. Under those circumstances, the practical approach would be for the Fund to exhibit flexibility if a member was doing all that was reasonable to promote adjustment in its economy, taking due account of the constraints that were beyond its control.

Finally, Mr. Mtei welcomed the cooperation between the Fund and World Bank staff, not only with respect to improving the collection of statistics but also from an analytical point of view. The experience of the Bank as a development institution could shed some light on the role of external financing in the development process. He could also endorse in principle informal cooperation between the Fund and national banking supervisory authorities. However, he was not sure what the staff had in mind in expressing willingness to collaborate with those authorities in their endeavors to increase the supervisory role in country risk matters. He could only repeat that the confidential relationship between the Fund and the member should not be compromised.

Mr. Taylor said that although he too assumed that the Executive Board would have other opportunities to discuss the basic issues relating to external debt and the Fund's policies, he could begin by expressing broad agreement with the conclusions in Section VI of SM/83/45. It was important for the Fund to improve, and be seen to improve, the treatment of external debt, both in its surveillance activities and in the construction and monitoring of programs. While the institution clearly had an important role to play in coping with the major debt problems that had recently come to the fore, better Fund surveillance could help to ensure that any future debt crises were signaled at an early enough stage to offer some chance of forestalling them.

Referring to the implementation of surveillance, Mr. Taylor considered that global debt developments should be surveyed regularly, and with the same frequency as the world economic outlook. External debt issues might be dealt with annually, in a companion paper to the review of international capital markets; the paper might cover such questions as the evolution of official and commercial debt, including the Fund's involvement, as well as current problems and their implications for Fund policy. The discussion should take place within the general context of the World Economic Outlook exercise although possibly in a separate session of the Executive Board, after which it might be helpful if a suitably edited version of the paper could be published.

As a number of participants in the IMF Conference on International Money, Credit, and the SDR (March 24-25, 1983) had remarked, lack of information had been one important factor in the emergence of debt problems in the past few years, Mr. Taylor recalled. Therefore, the Fund should do what it could to improve the availability of debt information. That implied, among other things, the fullest possible cooperation between the Fund and other international agencies, such as the World Bank and the BIS, in the compilation of statistics. In that respect, he welcomed the efforts of the Bureau of Statistics to fill data gaps and put together a comprehensive and timely statistical picture of external debt by country. The Fund seemed eminently well placed to undertake such an exercise. At the same time, it would obviously be sensible not to duplicate work already done elsewhere. The preferable approach would be the pragmatic one adopted by the staff, under which existing data systems would be utilized as far as possible, and a dialogue built up with other agencies in the process.

As an example, Mr. Taylor mentioned that the well-recognized expertise of the BIS in the area of international banking statistics suggested that the staff would wish to discuss with the BIS any proposals it might make for reporting such data to ensure consistent treatment. The Fund might consider passing to the BIS, for inclusion in its statistics, banking data that had been collected by the Fund from countries not forming part of the present BIS reporting system. While the BIS should continue to have the primary responsibility for collecting and publicizing international banking statistics, the Fund certainly had an important part to play in reconciling the BIS data with debt data reported by members and with data collected by the World Bank. Provided that it was reconcilable with data published by the BIS, certain types of data on the positions of individual countries vis-à-vis international banks might usefully be included in the country pages of IFS.

He sympathized with those Directors who had expressed some reservations about the extent to which the Fund could go in providing information that had been made available to it on confidential terms, Mr. Taylor continued. But it had to be recognized that it was in the interests not only of the membership in general, but of the debtor countries in particular, to make authoritative and timely data on external debt, as well as on broader economic matters, publicly available. Therefore, he encouraged member countries to participate actively with the Fund in the timely provision of data, which the Fund should be permitted to publish in a proper and orderly way, with enough aggregation to preserve confidentiality for individual borrowing and lending entities.

The Fund should also continue to provide technical assistance to members to enable them to improve their debt monitoring procedures, Mr. Taylor went on. Thus, he joined others in welcoming the expansion of the role played by the Central Banking Department. In parallel, Article IV surveillance should focus more closely on the level and the composition of debt. It might be argued that the existence of adequate procedures in that connection, including those for tabulating and paying off debt arrears, should be a precondition for a staff recommendation that debt arrears be approved under Article VIII.

Alongside increased attention to debt matters, Mr. Taylor added, there should be a strengthening of coverage of related items, such as the composition of reserves, and other issues, such as the scope for encouraging nondebt capital inflows. For instance, an attempt might be made in the staff reports to assess not only the size but the quality of reserve assets. He welcomed the proposal to include in staff reports a more systematic assessment of debt policies in the framework of illustrative technical projections of the major magnitudes such as debt service and related items. In fact, the staff had already embarked successfully on that approach in a number of staff reports, and he had been surprised at the reservations expressed by some Directors on the question. The task was after all a proper one for an international organization, and was no more than a systematization of the thought processes of anyone who was seriously concerned with the assessment of a country's external financing problems. Nevertheless, if the framework in question was to be useful, it had to be properly designed and interpreted with the right degree of detachment. It would be important to spell out clearly all the key assumptions governing the projections, and some indication of their sensitivity to differences in the major assumptions would be essential. He would welcome more thorough use of the research capacity of the Fund in that type of work, if possible.

Concerning cooperation with commercial lenders, Mr. Taylor continued, he had thought that it might be useful to explore the scope for increasing the flow of information from the Fund without undue loss of confidentiality. For example, it was worth considering public announcements when the Fund had concluded an Article IV consultation with a member, so that the financial community and other interested parties were made aware of where a member stood in its relationship with the Fund, rather than discovering the information indirectly from outside sources. Consideration might even be given to publishing formal decisions concluding Article IV consultations.

The banks had taken a welcome initiative in setting up the Institute of International Finance, Mr. Taylor considered. The Institute might prove to be a particularly useful means of monitoring the banks' involvement in country lending, and of short-term debt positions in particular. Thus, he hoped that the Fund would have positive relations with the Institute, although he recognized that it would have to avoid any appearance of favoring any particular outside institution. It was absolutely essential that the Fund's independence or its position of trust with member governments not be prejudiced. Nevertheless, within those constraints, there should be scope for a productive exchange of information and for consultations between the Fund and the Institute.

Further contacts between the Fund and national supervisory authorities would be useful, Mr. Taylor stated, although they should be made in an informal rather than in a formal way. Like others, he would be interested in a further explanation from the staff of what it had in mind in referring to collaboration between the Fund and supervisory authorities.

As for the relationship between the Fund and other providers of balance of payments assistance, and with particular reference to the question of multilateral debt renegotiations, Mr. Taylor noted that the methods of approach adopted had in general been reasonably successful, and their main features should continue broadly unchanged. A large element of flexibility, both in the overall approach and in the detailed terms of settlements, would continue to be appropriate, not only because of the persistence of debt problems, but owing to the diversity of circumstances confronting individual countries. It was clear that the distinction between debt rescheduling and the provision of development finance should be observed.

When a country had been granted debt relief by the Paris Club, Mr. Taylor went on, one immediate source of pressure on its balance of payments was temporarily eased. It was crucial for the best use to be made of that breathing space, and for the opportunity to be taken to implement and introduce a viable adjustment program. It was during that period of ease that the Fund had a critical role to play. He recognized that the interdependence of official debt relief and the finalization of a Fund program could pose what had been described as a "chicken-and-egg" problem. There might be no single best way of dealing with that problem, which was probably unavoidable. He would only emphasize that his authorities would continue to do all they could to facilitate cooperation with the Fund during official debt renegotiations. At the same time, official creditors must be allowed to retain their independence in the negotiations. Therefore, he welcomed the explicit acknowledgment by the staff, on page 27 of SM/83/45, that the Fund should not by its actions effectively predetermine the outcome of official debt negotiations.

He entirely accepted that the Fund should be reasonably assured that adequate finance would be forthcoming before it went ahead with a program, Mr. Taylor commented. But that did not necessarily mean that all the financing had to be in place before a Fund program was approved by the Executive Board. In a number of cases, especially where speed was essential to maintain confidence and the momentum of adjustment, it might be preferable for the Executive Board to approve a program before the creditors had met. Approval of programs in those cases could be subject to the attachment--to the arrangement with the Fund--of understandings about further adjustment efforts, or to a mandatory early review to meet the contingency that external assistance might not be forthcoming on the expected scale. Consequently, the staff in negotiating a program would sometimes have to be prepared to discuss contingency measures with the authorities; even if formal agreement could not always be reached, there could be an understanding about possible further specific measures that might be undertaken if the projections based on the staff's working assumptions did not fully materialize. The exercise might be difficult and time-consuming, but might sometimes be worthwhile. Except in very special circumstances, the Fund should avoid presenting the Paris Club creditors with a single inflexible figure for the external financing gap; a range of figures would elicit a more cooperative response from the creditors.

The staff's conclusions on the Fund's role in commercial bank debt rescheduling were in sum eminently sensible, Mr. Taylor considered. The Fund had been a valuable catalyst in certain exceptional cases. But it was not appropriate to attempt to formalize any general policy approaches for dealing with such exceptional situations; a case-by-case approach, in full consultation with all the parties involved, should prove to be the wisest course.

As for performance criteria relating to external debt, Mr. Taylor said that he could accept the suggestion that in most cases, ceilings should probably apply to disbursements rather than commitments. Nevertheless, where multiyear programs were envisaged, it might be appropriate from the outset for the Fund to reach understandings with members that, beyond the first year of the program, they should not engage in commitments to borrow further, above certain indicative levels, without prior consultation with the staff. He could support the staff's general approach to the coverage of borrowers in various sectors of the economy. And he strongly supported the staff suggestion that the rationale underlying the amount of new debt provided for under the performance criteria should be discussed explicitly in the presentation of programs in staff papers, and that the economy's medium-term debt servicing capacity should be assessed.

Although it was a well-established practice to have an upper maturity limit in the performance criterion on external debt, Mr. Taylor added, he was not convinced of the need for any such limit, which by necessity had to be somewhat arbitrary, especially as loans tended to be classified by final maturity date. Moreover, there was a danger of encouraging maturity distortions to avoid ceilings that had been imposed. For loans with floating rates, the result could be a serious worsening of the debt service burden during the program period, and a more difficult adjustment path.

He welcomed the proposal to include short-term debt of less than one year within the performance criteria for foreign borrowing as a fairly standard procedure, Mr. Taylor observed. Yet it would seem sensible to allow for some flexibility in setting ceilings for short-term debt in the light of individual member's circumstances. Care would need to be taken to avoid setting those ceilings in such a way as to encourage debtors to take on more short-term debt to avoid breaching medium-term or longer-term ceilings. Even if a member's short-term debt appeared on the face of it to be a rather minimal problem, it might be worthwhile for the staff to draw attention to its existence; the nature and size of such debt could have crucial significance if there were pressing foreign exchange restraints. In some cases, it might be better to deal with the problem of performance criteria on external borrowing by seeking to limit total public sector borrowing, rather than to impose ceilings on external borrowing in circumstances where monitoring was difficult. In recent programs, there had been a number of instances of subceilings on short-term borrowing by the public sector within an overall quantitative restriction on external borrowing. He hoped that such limits would not be too uncommon a feature of Fund programs in appropriate circumstances.

Finally, Mr. Taylor observed that bilateral payments accounts and countertrade agreements could be a means of evading the performance criteria on external debt. To cope with that problem, it might be helpful in appropriate cases if letters of intent were to define more precisely the likely extent of such accounts and agreements during the life of the program. Any subsequent additional recourse to such arrangements should be regarded as an intensification of payments restrictions.

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/83/56 (3/30/83) and EBM/83/57 (4/6/83).

3. CENTRAL AFRICAN REPUBLIC - 1982 ARTICLE IV CONSULTATION - POSTPONEMENT

Notwithstanding the period of three months specified in Procedure II of the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, the Executive Board agrees to postpone its consideration of the 1982 Article IV consultation with the Central African Republic until not later than April 22, 1983. (EBD/83/96, 3/29/83)

Decision No. 7377-(83/57), adopted
March 31, 1983

4. IVORY COAST - 1982 ARTICLE IV CONSULTATION - POSTPONEMENT

Notwithstanding the period of three months specified in Procedure II of the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, the Executive Board agrees to postpone its consideration of the 1982 Article IV consultation with Ivory Coast until not later than May 31, 1983. (EBD/83/98, 3/31/83)

Decision No. 7378-(83/57), adopted
April 4, 1983

5. EIGHTH GENERAL REVIEW OF QUOTAS - INCREASES IN QUOTAS - GOVERNORS' VOTE

The Executive Board approves the report of the Secretary (EBD/83/51, Rev. 1, Sup. 1, 4/1/83) on the canvass of votes of the Governors on Resolution No. 38-1, effective March 31, 1983, with respect to increases in quotas of Fund members - Eighth General Review, approved by the Executive Board (EBM/83/39, 2/25/83) for submission to the Board of Governors. The Governors' vote on the Resolution is recorded as follows:

Total affirmative votes	640,517
Total negative votes	0
Total votes cast	640,517
Abstention recorded	0
Other replies	0
Total replies	640,517
Votes of members that did not reply	6,581
Total votes of members	647,098

Decision No. 7379-(83/57), adopted
April 1, 1983

6. RELEASE OF INFORMATION - AD HOC REQUESTS FOR REPORTS ON RECENT ECONOMIC DEVELOPMENTS - CHANGES IN PROCEDURE

The Executive Board approves the proposal set forth in EBD/83/94 (3/29/83).

Adopted April 1, 1983

7. ASSISTANT TO EXECUTIVE DIRECTOR

The Executive Board approves the appointment set forth in EBAP/83/92 (3/29/83).

Adopted March 31, 1983

8. APPROVAL OF MINUTES

a. The minutes of Executive Board Meetings 82/133 through 82/137 are approved. (EBD/83/90, 3/25/83)

Adopted March 31, 1983

b. The minutes of Executive Board Meetings 82/138 through 82/143 are approved. (EBD/83/92, 3/28/83)

Adopted April 1, 1983

9. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/83/90 (3/30/83), EBAP/83/93 (3/31/83), EBAP/83/95 (4/1/83), EBAP/83/97 (4/4/83), and EBAP/83/98 (4/5/83) and by an Advisor to Executive Director as set forth in EBAP/83/98 (4/5/83) is approved.

APPROVED: August 30, 1983

ALAN WRIGHT
Acting Secretary