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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/58

3:00 p.m., April 6, 1983

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

Executive Directors	Alternate Executive Directors
	J. K. Orleans-Lindsay, Temporary
	C. Taylor
	G. Ercel, Temporary
	A. Le Lorier
A. Donoso	M. Teijeiro
	C. Dallara
M. Finaish	T. Alhaimus
	I. R. Panday, Temporary
T. Hirao	T. Yamashita
R. K. Joyce	
	J. R. N. Almeida, Temporary
	G. Grosche
G. Lovato	
R. N. Malhotra	A. S. Jayawardena
Y. A. Nimatallah	
J. J. Polak	
A. R. G. Prowse	K. G. Morrell
	A. A. Agah, Temporary
	E. I. M. Mtei
	J. L. Feito
J. Tvedt	A. Lindå
Zhang Z.	Wang E.

L. Van Houtven, Secretary
J. A. Kay, Assistant

Also Present

African Department: O. B. Makalou, Deputy Director; E. L. Bornemann, A. C. Woodward. Asian Department: P. Chabrier, G. R. Kincaid. Central Banking Department: P. N. Kaul, Director; H. Mehran. European Department: P. de Fontenay, S. Mitra. Exchange and Trade Relations Department: C. D. Finch, Director; S. Mookerjee, Deputy Director; D. K. Palmer, Deputy Director; E. H. Brau, D. J. Donovan, M. Guitian, S. Kanesa-Thasan, J. P. Lipsky, C. Puckahtikom, R. C. Williams. External Relations Department: H. P. G. Handy. Fiscal Affairs Department: M. Katz. IMF Institute: H. F. Avila. Legal Department: G. P. Nicoletopoulos, Director; 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; A. Lanyi, M. D. Knight. Treasurer's Department: S. I. Fawzi. 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, C. J. Batliwalla, J. Delgadillo, S. El-Khouri, L. Ionescu, H.-S. Lee, P. D. Péroz. Assistants to Executive Directors: E. M. Ainley, H. Alaoui-Abdallaoui, H. Arias, L. Barbone, J. Bulloch, T. A. Connors, I. Fridriksson, J. M. Jones, M. J. Kooymans, P. Leeahtam, V. K. S. Nair, Y. Okubo, G. W. K. Pickering, E. Portas, M. Z. M. Qureshi, J. Reddy, J. Schuijer, D. I. S. Shaw, J. C. Williams, Zhang X.

1. EXTERNAL DEBT SERVICING PROBLEMS - FUND POLICIES

The Executive Directors resumed from the previous session (EBM/83/57, 4/6/83) their consideration of 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).

Mr. Tvedt commented that there was probably agreement on the reasons for the external debt difficulties, although Directors might attach varying weights to the individual contributing factors. The Executive Board should concentrate on how the current difficulties could best be alleviated as well as on avoiding such problems in the future. The immediate problem for many countries had been a serious shortage of foreign financing. An imminent crisis had been averted because of the leadership provided by the Fund, and the Managing Director in particular. However, while a slight breathing space had been gained, Executive Directors should look beyond the immediate difficulties.

On the technical side, Mr. Tvedt explained, his authorities welcomed the proposal that the Fund should undertake a more thorough analysis of the members' debt situations as part of the Article IV consultations. The debt analyses should preferably be included in the staff report for Article IV consultations in view of the importance to be attached to debt servicing problems in the period ahead. Information about members' discussions with the Fund should not be made available to banks because of the speculative capital movements that might thus be provoked, and the possible aggravation of adjustment difficulties that the disclosures might entail. Moreover, members did provide information to the Fund on the understanding that it would remain confidential. Nevertheless, in accordance with established practice, the Fund ought to be accommodating in providing statistical information of a nonconfidential nature, as well as other information with the consent of the authorities concerned. He supported the efforts of the Fund to improve the availability of debt statistics in individual countries and to facilitate the satisfactory analysis and implementation of appropriate debt management policies. The technical assistance provided by the Fund was of the greatest importance. The Fund ought to expand the current debt statistics series in International Financial Statistics, and the suggestion that Supplements to IFS containing detailed debt information be published was worth further consideration.

Negotiations on loan arrangements with the Fund should normally take place prior to debt consolidation, Mr. Tvedt considered, partly in order to simplify the member's negotiations with its creditors and partly to enable the Fund to remain neutral. Nevertheless, exceptions could be made if necessary to ensure the proper functioning of the international monetary system and to preserve a country's debt servicing ability.

His authorities would support the continued use of performance criteria on external borrowing as a supplement to ceilings on the domestic credit supply in any arrangements between members and the Fund, Mr. Tvedt stated. They agreed with the proposed flexible formulation of such criteria in expectation of consolidation negotiations, and they had no objection to the proposed changes in the 1979 guideline.

Taking a slightly broader view, Mr. Tvedt noted that the problems of excess borrowing had been exacerbated by the world recession and the prevalence of extremely high interest rates. The staff had, for instance, revealed that the debt service burden of low-income countries had risen from 12 per cent in 1974 to 19 per cent in 1981, even though the share of official credits in the total had not declined. In other words, the increased debt service burden reflected a sharp fall in the growth of export revenues. Similarly, countries that had depended most heavily on short-term commercial credit had been the most seriously affected by high interest rates. Although adjustment programs were in place in many countries with serious debt problems, it was by no means certain that they would be successful; most of them depended for success on a rather healthy revival of world economic activity, something that was not yet apparent.

In the circumstances, Mr. Tvedt explained, his authorities found it essential that several industrial countries should reorient their policies toward cautious expansion. Naturally, they welcomed the flickering signs of recovery, but a firm policy of revival was needed if the world was to emerge from the present recession without further damage. Although a crisis had been avoided, many countries had stretched their adjustment efforts to the limit. He agreed with the staff assessment in the main paragraph on page 5 of SM/83/45 and emphasized that in the period ahead the Fund should attach high priority to promoting sound investment policies and the optimum allocation of financial resources for the stimulation of growth. Without such policies, the debt problems would remain for many years to come.

Mr. Prowse commented that the staff had correctly focused on a comparatively narrow range of issues, namely, those that the Fund was able to handle in its day-to-day work. However, some speakers, including Mr. Tvedt, had made it clear that there was a much broader framework to the whole discussion, to which it might be worth returning on another occasion.

In considering SM/83/45 and the supporting papers, Mr. Prowse went on, he would start from the principle that international transfers of capital were both desirable and beneficial; that countries did need to import capital; and that others were in a position to export it. In other words, the transfer of capital was mutually beneficial, a point that it was important to bear in mind at all times. While the present international monetary system did provide for capital flows, it was clear that there were problems; and there were two aspects that were of particular concern to the Fund--prevention and cure. First, there were problems of diagnosis and the detection of difficulties that would have to be tackled through

Article IV consultations and the Fund's surveillance functions. Second, there was a problem of overcoming the present difficulties, for instance, by rescheduling debt or approving stand-by arrangements. Although there was a great deal of overlap between the actions that would be required in handling the two aspects, it was often desirable to keep them apart.

The staff had been dealing basically with the prevention of future difficulties through a proper application of the Article IV consultation process, Mr. Prowse remarked, although Executive Directors would also have to address the performance criteria that were largely concerned with cure. Moreover, there was no reason to expect that the Article IV procedure, or indeed the rescheduling procedure itself, would resolve the problems of individual countries, unless the external environment was favorable to the growth of export income. In particular, the growth of trade protection was an alarming prospect, and the Fund should do whatever it could on every occasion to halt the progress, which some had called the economic arms race, of subsidies, protection, and restrictions. In brief, individual countries would have to make the most productive use possible of the capital that they borrowed; the productivity of capital flows was central to the servicing of debt.

There was one particularly difficult issue that the Fund had not tackled but that would be interesting to discuss at some appropriate time, namely, the question of what constituted a viable current account deficit and, consequently, what would constitute a viable level of borrowing overseas, Mr. Prowse considered. He wondered whether it would ever be possible in the Fund to reach agreement on benchmarks for factors related to debt rescheduling costs and the period over which debt rescheduling might take place. Was there, for instance, some benchmark beyond which debt payments should not be allowed to rise, expressed as a percentage of export income? He had read that 60 per cent might be the upper limit for tolerable debt servicing ratios, while still allowing some economic growth to continue in the country concerned. Such broader questions were implicit in the narrower topic that the staff had addressed.

Dealing specifically with the papers before the Executive Board, Mr. Prowse stated that he was in sympathy with the staff views. He also supported a continuation of the course that the Fund had followed and that the Managing Director had promoted, a course that emphasized flexibility and dealing with problems on a case-by-case basis. It was satisfactory that the Fund, particularly through the efforts of the Managing Director, had contributed so substantially to preventing the development of some threatening situations. The staff papers were reassuring for what they revealed about the extent of the Fund's knowledge and the actions that had been taken, and would be taken in the future. He would be disturbed if there were suggestions that some of the information that the staff suggested should be sought might not be provided on the grounds that it was too costly. It was impossible to compare the actual costs of providing Fund data with the dangers of not knowing the true situations of member countries. Some of the problems that had arisen during 1982 had certainly emerged from a lack of information on the part of national authorities about their country's indebtedness; any financial costs involved in rectifying such a situation would surely be minimal compared with the risks of ignorance.

One conclusion to be drawn from the Fund's recent course of action, Mr. Prowse believed, was that the information transferred by the Fund to other institutions and banks, and indeed the suggestions made by the Fund, should be very circumscribed.

Taking up the issues proposed for consideration by the staff in Section IV of SM/83/45, Mr. Prowse stated that he could agree that the Fund should make a forward-looking analysis of the external debt situation of member countries as a regular part of Article IV consultations with all countries and not merely those engaged in "significant external borrowing operations." The problem of deciding which countries were in fact engaged in "significant external borrowing operations" could perhaps be resolved by agreeing that Article IV consultations should as a matter of course regularly consider a member's external debt situation. So doing would reinforce the evenhandedness and symmetry of the Article IV consultation process. The proposed analyses ought also to help in assessing the implications of financing large deficits and, if the information was used in a properly discreet and circumscribed manner, to assist in the efficient operation of the international banking system.

Some speakers had apparently suggested that the forward-looking analyses should be qualitative rather than quantitative, Mr. Prowse observed. The evidence of recent years suggested that qualitative comment was not very effective; he would not like to see the proposed quantitative analysis replaced by qualitative commentary, at least for a trial period. It was also important that the forward-looking analyses should not be a predictive exercise but rather an analytical tool for strengthening the judgments that had to be made. He was glad that the staff would be prepared to hold a discussion on the methodology of the analyses with the authorities of the countries concerned, provided of course that there was a standard format for all Article IV consultations. On a point of detail, he wondered whether the analyses would involve targeting the current account, as the staff seemed to imply on page 17 of SM/83/45. If the staff had that in mind, its approach should be related to the questions he had raised earlier: whether there was in fact a general benchmark for indebtedness, or whether each country would have to be looked at on an individual basis. At some stage, Executive Directors would have to decide whether the figures to emerge from the forward-looking analyses should be permitted to become prescriptive.

His authorities could agree with the staff suggestions for providing more information about external debt to commercial lenders, Mr. Prowse stated. The provision of any information should take place through ad hoc arrangements approved by the member concerned and, with appropriate safeguards, through the Institute of International Finance. It would certainly be desirable for the Fund to provide more information to commercial lenders without compromising relations with member countries in debt and without the Fund becoming a de facto credit rating agency. In those circumstances it would not be wise or practical for the Fund to assume any direct responsibility for guiding commercial banks in their general international lending, except from time to time to indicate the amount of parallel financing that would be required in conjunction with a Fund-supported adjustment program, as the Fund had done recently. Other matters really came within the province of national supervisory authorities, and it would be better for the Fund to continue in a consultative role with debtor members, rather than for it to try to influence commercial banks directly. While the matter was a delicate one, management and staff had handled it successfully hitherto.

On the question of adjustment programs, Mr. Prowse stated that the staff intention to design programs to deal with ex ante financing gaps was acceptable. While the description of negotiations with Mexico, Brazil, and Argentina was reassuring, the Fund should certainly protect itself in those cases where it approved arrangements with countries while negotiations for other external financing had still to be concluded. The suggestions on pages 26, 27, and 28 of SM/83/45 for the design of performance criteria seemed satisfactory. Where the Fund had to make assumptions about the terms of debt rescheduling or arrangements for additional commercial lending, it was desirable that those assumptions should be as realistic as possible. Naturally, as far as possible, all the necessary information should be available at the time that the Fund approved an arrangement, not merely at the time of the ensuing midyear review. He would not like to see any tendency to leave the negotiations of the parallel commercial portion of the package to the midyear review.

Taking up specific points connected with rescheduling, Mr. Prowse noted that in recent reports on the topic to the Executive Board, the staff had not mentioned the cost of rescheduling. He had found it difficult to gain information on that matter. While some of the information might be said to be commercially confidential, what he had learned was not at all reassuring. A U.K. parliamentary committee appeared to have used the word "greed" in relation to debt rescheduling exercises, meaning that commercial banks had come to treat rescheduling as a profitable activity rather than as a necessary one. If it were possible, the Executive Board ought to be informed of the costs of rescheduling, which clearly could add very substantially to the overall debt servicing problem.

He joined Mr. Mtei in suggesting that the Fund might consider reviewing schedules of repayments of Fund obligations for countries that had extreme difficulty in approaching commercial markets, Mr. Prowse mentioned. There would certainly be cases in which it might be more desirable to defer repayment rather than to force a country to borrow at prohibitive rates in the commercial market in order to repay a portion of its debt to the Fund.

On other matters, Mr. Prowse stated that he would support the suggestion for determining debt limits on a disbursement rather than on a contractual basis. As to the inclusion of private debt in country ceilings, like the staff he considered that there would certainly be cases where such a procedure would be desirable. On the other hand, he wondered whether nonbanks' private debt would ever be so large as to be worth including when private debt was under discussion. To detect all short-term debt might be difficult; but, in principle, it was certainly important that short-term borrowing should be included in performance criteria targets whenever appropriate, except where trade financing was involved.

Commenting on the staff suggestions for amending the 1979 guideline on borrowing, Mr. Prowse mentioned that he was not clear how the staff would measure new commitments "that might be entered into" by the member in the medium-term period following the expiration of an arrangement. The term "might be entered into" seemed particularly speculative; he would prefer to see a reference to "programmed new commitments" or "planned new commitments."

Regarding the suggestion to raise the upper limit of the maturity of loans included in the debt calculations, Mr. Prowse stated that he saw no reason to limit the maturity of the loans included. On the other hand, if the limit were raised from 12 to 15 years, the higher figure would certainly cover almost all the credits, including the most favorable trade credits, which might have an impact on a country's decision making and effective pattern of borrowing. Including almost all credits in the debt ceiling might encourage a country to forgo some of them. On the other hand, as he had found the 10-year or 12-year ceiling satisfactory, he would like to hear from the staff any further arguments it wished to put forward regarding the appropriate maturity of debt for inclusion within performance limits. He understood that the proposal was to exclude restructuring and refinancing loans associated with multilateral governmental or commercial bank rescheduling. While the proposal seemed correct, a country might voluntarily wish to refinance during periods of falling interest rates in order to reduce the debt burden. He wondered whether such borrowing for refinancing purposes should not be included in the ceiling. His own view was that, as it would not add to the total burden of debt, it should be excluded. He would welcome staff comment on his proposal.

Mr. Joyce inquired whether Mr. Prowse intended to exclude only those cases where refinancing would represent an improvement in a country's debt position. After all, some of the problems that the Fund had been facing recently had arisen because countries had refinanced by borrowing short term in order to pay off long-term debt and then finding themselves in difficulties. That was a point that ought surely to be watched quite closely.

Mr. Prowse explained that he would certainly not wish to encourage countries to borrow short term in order to pay off part of their long-term debt. Precisely for that reason, it would be important for the Fund to keep track of any short-term indebtedness incurred by member countries.

Mr. Jayawardena stated that he was grateful that the present discussion was described as preliminary; it would enable Executive Directors to cover the issues before the same matter was taken up by the Development Committee. The debt problems of the developing countries had become very complex, and their solution required a multipronged approach. He hoped that the discussions in the Executive Board and the Development Committee would indicate the lines along which the staff could develop a more comprehensive analysis preliminary to the Fund adopting a range of initiatives in the debt field.

Among the causes of the current debt problems was the worldwide recession, which had lasted far longer than anticipated, Mr. Jayawardena continued. The recession had caused a dramatic reversal of terms of trade for most developing countries. At the outset, observers had believed that the recycling of certain funds by commercial banks would help to prevent a total disruption of the economies of the developing countries. Past Annual Reports of the Fund were full of declarations to the effect that the recycling process was working well, and that the deficit nations were being adequately financed. Inevitably, the outcome had been an unprecedented explosion of debt. The position had perhaps been aggravated by the easy availability of external finance and frequently negative real rates of interest. However, if interest rates had been negative in the early stages of the recession, they had later risen to record levels following the adoption of disinflationary domestic policies in the industrial countries, together with narrow concepts of sovereign risk and the well-known cyclical behavior of profit-maximizing commercial banks, accompanied by the substantial contraction of official development assistance.

To say that the current debt problem also reflected inadequate domestic economic management in many of the countries concerned did not appear helpful, Mr. Jayawardena commented. That interpretation appeared to be the starting point for the major part of SM/83/45, a point that led him to a discussion of what should be considered the most important policy issues. Naturally, the debate on what would have constituted adequate domestic economic management in the circumstances could continue endlessly. Even if a general agreement were reached on what could have been considered adequate, it was by no means clear that if all the less developed countries had acted by the same rules during the past five years, the current recession, or the explosive debt situation would have been avoided. Moreover, while there might have been a few countries in which the easy availability of finance might have induced some deferment of the necessary gradual adjustment to new circumstances, it would be dangerous to generalize for all developing countries. The Fund's endorsement of the recycling process necessarily implied that the developing countries should not have had to undertake a drastic deflationary process that would have been universally harmful. The logic of the recycling process had been that adequate financial support for the developing countries had to be found while they undertook adjustment to new circumstances in an orderly manner. Such a process was bound to lead to an accumulation of debt. Naturally, if there had been no recession-induced deterioration in the terms of trade and no decline in official development assistance, and if the Fund had had adequate resources for meeting the needs of the less developed countries, their debt situation would have been much more comfortable than it actually was.

There could be no doubt that the situation required responses at many different levels, Mr. Jayawardena considered. He was therefore rather disturbed by the fact that the discussion of policy issues on pages 33-43 of SM/83/45, and the conclusions thereafter, appeared to focus narrowly on the limited objective of reducing the access of developing countries to the Fund and to other external financial resources. The approach seemed contradictory to the staff's own diagnosis, which seemed to show that external resource flows to less developed countries had declined sharply in recent times, and that there was a need to maintain such flows in the future if the less developed countries were to be saved from a deflationary spiral, which would in turn seriously dampen the prospects of global economic recovery.

Taking up the policy issues set out for comment by the staff in Section VI of SM/83/45, Mr. Jayawardena remarked that, while he agreed that disbursed debt was a more appropriate parameter than contracted debt in monitoring performance in relation to domestic economic management, experience so far had shown that the use of the contracted debt approach had worked well. The staff should continue to use it. As to the debt to be supervised by the Fund, the ceiling should be limited to public and publicly-guaranteed debt, which was by and large the predominant part of external debt. While there might be a case for monitoring private debt in a few countries where it loomed large, it would be difficult to generalize its application without creating the problems described by Mr. Kafka.

He had no objection to the proposed explicit discussion of the rationale underlying new debt provided for in the performance criterion relating to foreign borrowing, Mr. Jayawardena observed. However, great care should be exercised in basing such an analysis on an assessment of the debt service capacity of a country in the medium term. Like Mr. Erb, Mr. Kafka, Mr. Joyce, and others, he had grave doubts about the proposal to prepare a medium-term macroeconomic forecast of the debt situation of countries for incorporation in staff reports. In view of the Fund's not altogether happy record in such exercises, it might be inadvisable to become involved in such a speculative undertaking, especially when the analysis could become controversial and open doors to oversimplistic interpretation by the market. If the Fund were to make a wrong forecast, which was bound to have wide publicity, the impact on the economy in the short term could be disastrous, and the resulting damage difficult to rectify. It was virtually impossible to keep such forecasts confidential. Hence, it would be more than sufficient if the Fund were to give a summary of the authorities' own medium-term forecasts without comment.

He saw no need to extend the upper maturity limit for nonconcessional borrowing in the performance criteria from the present range of 10-12 years to a range of 10-15 years, Mr. Jayawardena stated. In view of the possibility of manipulating borrowing to cover any given period, extending the range to 10-15 years would hardly be relevant. Moreover, the staff had shown that when countries had agreed to such external debt ceilings, there had been a marked reduction in the external financing of a nonconcessional nature. There was no evidence to show that past Fund policy had been ineffective, and he saw no reason to change it. As to short-term debt, he agreed that an excessive buildup could increase an economy's vulnerability to adverse external developments. However, there had been few recent instances of an excessive buildup of short-term debt, and those that had occurred were limited to countries with relatively sophisticated financial structures and liberal access to international markets. The main problem in developing countries was the opposite: many countries had little or no access to financial markets, thereby severely constraining their policy options. Hence, the proposal to include short-term debt in the Fund's ceiling appeared to be an attempt to generalize what seemed to be a relatively minor problem. Moreover, there were many conceptual difficulties in arriving at a realistic figure of short-term debt. He would not be surprised if many less developed countries found themselves unable to obtain even routine trade-related debt that they needed under such a ceiling.

He could not agree that the use of exclusions from the coverage of debt ceilings had tended to undermine the basic objective of Fund guidelines, Mr. Jayawardena stated. The exclusions gave a degree of flexibility that was essential, and should not be easily sacrificed.

Commenting on the analysis provided by the staff of the recent debt rescheduling experience, Mr. Jayawardena observed that the staff had clearly shown that the market had considered the debt problem only as a short-term, annual, affair. The high rescheduling fees and the widening spreads had imposed additional hardships on already debt-ridden countries. In fact, nonmarket factors appeared to have had the greatest influence on the additional charges. Although the staff had said that the widening of spreads was related to the track record of a given country, Table 1 on page 10 (SM/83/45) showed that there was no correlation between the spreads imposed and the arrears. The evidence certainly raised the question of whether the Fund should try to achieve a moderation of charges with a view to softening the debt burden on countries, a point strongly argued by Mr. Salehkhou. What was certainly clear was that countries' debt burdens should be eased by taking a longer-term objective than was currently the general procedure. In particular, the Fund and the World Bank should try to induce commercial banks to take a medium-term view. Naturally, if they were to do so, the Fund and the World Bank themselves would have to adopt a medium-term view, and not lapse into short-term arrangements with short-term policy objectives. In formulating adjustment programs, the Fund should be mindful not only of a country's obligations to its creditors but also its obligations to its own people. What was urgently needed was a global strategy on external debt, like that called for by such bodies as the Brandt Commission and the recent summit of nonaligned nations. The Fund should pay heed to the call, and see whether a solution along those lines was at all feasible.

The policy proposals contained in SM/83/45 barely scratched the surface of the international debt problem facing the less developed countries, a problem that had important repercussions for the orderly functioning of the international financial system, Mr. Jayawardena maintained. There were a number of fundamental issues that required attention if the Fund was to tackle the problem in a comprehensive manner. First, the diagnosis of the causes of the problem should be comprehensive. Second, any suggested solutions should address the causes of the problem and not the outward manifestations. The staff policy approach seemed to be excessively concerned with cutting off access of many less developed countries to external sources of finance. Such an approach would be appropriate only if the sole cause of the current debt crisis was an indiscriminate use of commercial borrowing by less developed countries in order to avoid or postpone the necessary domestic adjustments. That position was hardly tenable. The staff clearly admitted that exogenous factors were the main causes of the current problems. In those circumstances, he was surprised that so little comment had been made on how to deal with factors that had such serious repercussions.

The matters under discussion at the present meeting were on the agenda for the Development Committee when it met at the end of April 1983, Mr. Jayawardena remarked. They were matters that should be approached on a broad front; they required international consensus; and they were serious enough to deserve tackling in a spirit of international cooperation, recognizing the interdependence of nations. The Fund ought not to adopt a restrictive approach. It was the duty of the Executive Directors to come to terms with the international debt problem. He therefore hoped that the staff would take all those factors into account and, in light of the present discussion and the deliberations of the Development Committee--and possibly later Executive Board discussions--produce a more comprehensive set of proposals to enable the Executive Board to take more relevant action.

Although the proximate cause of the serious debt crisis might be characterized as a crisis of confidence, Mr. Jayawardena went on, the underlying cause was clearly the long drawn out worldwide recession, with the attendant adverse consequences on world trade and the transfer of resources. Hence, it was necessary to re-examine the current hypotheses used for the World Economic Outlook and to formulate a program for global economic recovery. For instance, a judicious stimulation of those economies that had gained some command over inflation might now be necessary if world trade and economic growth were to turn around, something that was essential if borrowers of the recent past were to service their debt. The recent emergency rescue operations initiated by the Managing Director and the Fund might prove ephemeral unless the trade and growth prospects of those countries were alleviated by an improvement in the world outlook.

The great worry was that the continuing dismal world outlook for many major industrial countries was pushing the authorities in those countries to adopt greater restraints of trade and nearly autarkic policies, Mr. Jayawardena considered. The only way in which the problem could be solved would be by persuading large groups of countries to agree to seek political solutions based on an economic rationale, not by small groups of countries working in separate enclaves. Certainly, the Fund alone could not undertake that task; but the Fund and the World Bank, as the leading financial institutions of the world, could take the initiative in preparing the groundwork, after which the nations of an interdependent world could come together and assess the possibility of a common program of action, leading, he hoped, toward a greater harmonization of policies. He did not underestimate the difficulty of the exercise, but it was time that the Executive Board and the staff at least started thinking along the lines he had outlined.

Another important aspect that deserved consideration by the Executive Board was the nature of the international banking system, Mr. Jayawardena observed. Executive Directors should ask themselves whether the traditional model of commercial bank/central bank relationships still held true. In recent times, there had been a tremendous growth in international banking entirely outside the supervisory influence of national authorities. The staff report revealed not only the growth of a vast system, but also the great lack of information on the nature and activities of the banks in relation to countries, of the countries in relation to banks, and of the central banking and supervisory authorities in relation to banks in their own countries.

There also appeared to be a lack of demarcation of mutual responsibilities, a lack of meaningful global information, and a lack of reasoned studies of their operations, Mr. Jayawardena commented. The history of banking clearly showed that, in the early stages, overexuberant and overcompetitive behavior by commercial banks had also threatened their own stability. Moreover, their profit-maximizing behavior had often been contrary to the goals of national economic policy. Thus, central banks had evolved as supervisory institutions, restoring order and confidence to the financial system. He wondered how relevant the central bank/commercial bank model was to the modern world. Was there a need to restore close national supervision of international banks? How should the parents of banking conglomerates monitor the operations of their subsidiaries? What should be their obligations to each other? What would prudent capital/lending ratios be in the modern world? What form of burden sharing would be appropriate if loans became difficult to recover?

In passing, if interest was payment for risk and uncertainty, he wondered why interest should be so sacrosanct in debt rescheduling, Mr. Jayawardena stated. He would also like to ask whether there should not be some form of national or international supervision of the expanding network of international banks. It might be, for instance, that the Fund was not the most suitable institution to undertake that task, in view of its responsibility for ensuring orderly international financial relations. All those questions cried out for an answer and, while the proposals set out by the staff--asking countries to supply more information--were laudable in themselves, they could only be described as inadequate. He did not underestimate the importance of the provision of prompt data and the immense amount of work that the staff put into gathering them.

Perhaps the data presented might galvanize the Executive Directors into looking at the problem in a wider perspective. He did not see any very hopeful prospect of either formal or informal collaboration between the Fund and the commercial banks. The proper relationship should be between the Fund and the national central banks, leaving the supervisory role to the national central banks in relation not only to the domestic but also to the international operations of commercial banks. Like Mr. Polak, he did not believe that the international banks had learned their lessons from the recent crisis. Mr. Polak's remedy of allowing crises to brew so that the lessons would be learned the hard way was a harsh remedy. What was needed was an initiative by the Fund to formalize the necessary supervisory relationships in international banking.

The Fund ought to examine the efficiency of the international recycling process, which had grown up under the aegis of banks that appeared to have been quite loan-happy in total darkness, Mr. Jayawardena observed. It had become evident that the banks had assumed an increasing role in international trade and capital flows, while the role of the Fund had tended to decline. He wondered whether such a development was desirable. While the Fund's involvement would have entailed some meaningful measures of domestic adjustment, commercial bank involvement had evidently lessened the need for such changes. If so, it was surely not beside the point to remark that the reduced role of the Fund as a catalyst in recent times had probably been a contributory factor to the current debt problems. Was the reduction in the role of the Fund due to the inadequacy of its resources? Or was it because the Fund's view of appropriate domestic economic policies had been found increasingly difficult for countries to accept and implement? In the circumstances, he was bound to ask whether the Fund's conditionality was appropriate. All those questions were ones that Executive Directors were bound to ask in examining the larger dimensions of the debt problem; it therefore followed that a review of those issues would help in understanding the problem.

The staff had recognized the dimensions of the problem and had admitted that debt servicing had reached critical proportions, Mr. Jayawardena remarked. The staff had also correctly identified the sources of the present debt servicing difficulties, most of which stemmed from exogenous factors, often beyond the control of the debtor countries. The staff had gone on to point out that for countries most affected by debt servicing difficulties, it was the reduction in the supply of funds that had triggered the debt crisis. For all that, it was evident that the Executive Directors were not facing a situation of isolated individual difficulties brought about by imprudent financial management; they were witnessing the total of diverse international factors that had converged to bring about the present difficult situation. An appropriate response could therefore not lie merely in dealing with each individual country on an ad hoc basis; it must encompass appropriate action on all fronts.

Such a comprehensive policy, Mr. Jayawardena went on, should cover the provision of financing for development, adequate balance of payments financing, the design of programs to restructure the productive potential of country economies, the adoption of a global recovery program, including the assured maintenance of minimum growth in developing countries, and measures to promote greater international trade. Such a package approach would necessarily require as an essential ingredient a restructuring of the debt burden of developing countries within a multilateral framework and debt relief initiatives. In brief, the response would have to be global in character, and it would have to involve vigorous action and cooperation on the part of lenders, borrowers, multilateral institutions, official agencies, and institutions, to the mutual benefit of all who had a stake in the orderly functioning of the international monetary system.

On a separate issue, Mr. Jayawardena mentioned, in many places in the staff papers there were references to India, which might leave the incorrect impression that India was one of the countries that had sought a negotiated debt rescheduling. In fact, the exercise referred to by the staff had formed an integral part of an aid package negotiated through the aid consortium. While India had made debt servicing payments on due dates, and there had been no postponement or default, the donor countries had made available part of their aid contribution as freely usable resources, instead of the usual project-tied assistance. Thus, the so-called debt relief was the method used to improve the quality of aid, which should henceforth be distinguished, or even excluded from, other forms of debt rescheduling. The single example emphasized the need for more comprehensive work on clarifying and monitoring debt information.

Mr. Donoso stated that he generally agreed with the staff analysis. He shared the staff's view of the origins of the present problem and generally supported its proposals for trying to avoid future crises of the same sort. He had had no specific instructions from his authorities. In the circumstances, he would concentrate on analyzing the developments that had taken place so far, together with the Fund's input, since the Fund by intervening or not intervening in a certain way would be playing a decisive role for the future.

He did not expect that major disruptions would arise in the process of rescheduling the debts of countries with large external indebtedness, Mr. Donoso mentioned. Commercial banks knew that if they were unwilling to reschedule debts, they would not recover their capital. Similarly, countries in debt understood clearly that radical attitudes could be too costly. Consequently, the present procedure by which the countries concerned and the IMF together worked out an adjustment program and the countries and the international banks then negotiated the financing needed to make the program viable was likely to remain useful in the future, as it satisfied the interests of all parties concerned. By that, he did not mean that the international financial system in its present form contained the necessary mechanisms for dealing with crises such as those that had recently arisen. The present process was extraordinarily costly, and recent events had indeed only made clear the lack of proper arrangements within the system.

Countries currently participating in rescheduling exercises had faced differing degrees of capital flight, Mr. Donoso recalled, together with a reduction in the demand for financial assets denominated in local currency and a fall in the level of investment. One of the reasons for those developments was the great uncertainty surrounding the whole process. The cost in terms of production forgone and unemployment was far higher than any costs that could arise from the necessary adjustment to achieve a viable balance of payments position. In passing, it might be remarked that countries had in fact not discussed the need for adjustment. For some of the countries involved in debt rescheduling, the reduction in expenditure had been greater than would have been required to free sufficient resources to pay all outstanding interest on the external debt and even to reduce that debt if revenues had remained constant. Revenues had been reduced in such a way that very few resources had been freed for use in external debt service.

Some of the reasons for that unsatisfactory state of affairs were not hard to find, Mr. Donoso considered. First, there was no way of ensuring that all creditors of a given country would continue to remain exposed to risks there. It seemed to be impossible to prevent some reduction in lending for at least some creditors. It was difficult to ascertain whether the level of lending to a country would be sufficient to provide for an orderly adjustment process at any time in the process itself. Second, banks tended to act as if they could resist the failure of the rescheduling exercise, at least for a period longer than would be tolerable for the country concerned. In that way, banks were able to obtain conditions that they would not manage to obtain in normal circumstances. Some had, for instance, asked for particularly high interest rates and additional guarantees, while putting pressure on governments to absorb exchange risks and guarantee external debts originally contracted in the private sector. In the difficult circumstances facing the debtor countries, the authorities were often bound to accept those conditions, particularly after a period of economic deterioration. Thus, even if the rescheduling process was seen to work in a rather restricted sense, it might well not be free from undesirable long-term consequences. Indeed, the negative effects of rescheduling were likely to be felt very strongly in the countries concerned, particularly in the field of economic policy.

Arguments in favor of commercial and financial protectionism, Mr. Donoso went on, had always been based on the perception that any openness to international competition was liable to make national economies vulnerable to external shocks. Present circumstances appeared to confirm that hypothesis; the countries whose economies were most integrated with the outside world were those facing the greatest difficulties.

It would be easy to say that the whole problem was due to excessive borrowing on the part of certain countries, Mr. Donoso remarked. However, he believed that the countries concerned would be able to pay without particular difficulty as part of an orderly adjustment, if world recovery developed as expected and trade restrictions were prevented from expanding. The present crisis was one not of solvency but of liquidity. Although it might be possible to identify some of the original causes, the crisis itself usually arose as a consequence of reactions by economic agents. Because the interests of the parties involved generally coincided and certain institutions--particularly the International Monetary Fund--had taken timely action, catastrophic developments had been avoided and some of the longer-term costs had been cut. Nevertheless, the remaining costs were still so high as to have negative consequences for both national and international prosperity.

Most developed countries had established a lender of last resort, Mr. Donoso said. When known in advance, the existence of such a lender tended to avoid the extension of financial crises. Most legal systems included a procedure for dealing with bankruptcies according to which the position of creditors was frozen until an orderly liquidation could be brought about. In dealing with the international monetary system, the Fund was expected by its Articles to give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with an opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity. For lack of sufficient resources, the Fund was unable to deal with the present problems in a way that would avoid the tendency to resort to measures destructive of prosperity that were likely to persist into the future.

He certainly acknowledged the great efforts being undertaken by the Fund management to avoid worse developments, Mr. Donoso stated. He interpreted the need for such actions as evidence of the lack of institutional arrangements to deal with crises on a regular basis. While management's actions had been positive, the present crisis would probably be followed by a sequence of undesirable effects. Thus, the most urgent task in relation to the debt problem was to find ways of avoiding those undesirable effects by making more resources available to the countries concerned. The additional resources should enable the countries to make their adjustment programs credible; to accept a reduction in credit from sources that would have required them to alter their policies; and to improve their negotiating stance. The last was particularly important for countries facing renegotiations and for those where a second round of renegotiation might become necessary in the future.

The scarcity of resources had to be accepted, Mr. Donoso observed; nevertheless, in present circumstances, some progress could be made by concentrating the available resources on those countries that were in particular need. The danger of having Fund resources used as a substitute for commercial credit could probably be avoided if the Fund's resources were made available only on the condition that they would not be used for that purpose. It would, for instance, be possible to devise a scheme by which the volume of the Fund's resources transferred to a specific country would be reduced pari passu with the amount of payments made by the country to foreign creditors that were not consistent with retaining the support of the banking community. On a future occasion he would like to discuss possible ways of avoiding the reduction in exposure of the commercial banks, while increasing the availability of resources in countries in such a way as to help them greatly to reduce the costly uncertainties they faced when they entered the renegotiation process. Any additional resources made available for the purpose would certainly help.

If the Fund made its own resources available to a country before the banking community had agreed to play its part, Mr. Donoso considered, there was a danger that the banking community would have an incentive to postpone offering its support. On the other hand, if the Fund withheld resources until the banks had negotiated with a country and the country had obtained a clear commitment from the banks, the country would have no resources at all until agreement was reached. Such an arrangement certainly weakened the country's negotiating position. The solution might be to provide countries with larger Fund resources once an adjustment program had been agreed upon, thus improving the negotiating positión of the country and making it possible for it to face a reduction in credit from sources that it was unable to control. If it were not possible to adopt such an arrangement and there was no way of deciding whether it was better for the Fund to provide resources before or after the banking community had undertaken the commitment, he strongly supported the type of action to speed up commitment by the banking community of the sort recently taken by the Managing Director. The weaker the negotiating position of the country involved, the more valuable would be the action by the Managing Director. Similarly, the smaller the country, the stronger the Fund's support should be.

His views had been based on two specific perceptions, Mr. Donoso explained. First, the costs that the countries were facing were far greater than those that would be needed for a proper adjustment, even though the perception was difficult to quantify. Second, as the process was currently working, it led to the imposition of interest charges, front-end fees, and guarantees that were proving excessively costly for countries, probably because of the weakness of their negotiating position. He would be interested to hear the staff's view on the present cost of refinancing countries' debts.

Mr. Orleans-Lindsay stated that his observations were preliminary and confined to major policy issues. As to the implementation of the surveillance of external debt, he observed that the staff of the Fund and the World Bank had always worked in close cooperation, and that the Fund staff had relied heavily on the World Bank's debt-reporting system for analyzing medium-term and long-term developments. The close relationship between the Fund and the World Bank should be maintained and strengthened. He agreed with the staff that the increased debt servicing problems faced by many member countries at present underscored the importance of including as comprehensive an assessment as possible of external debt policies in Article IV consultations in order to facilitate the Board being informed at an early stage of potential payments difficulties. The external debt surveillance to be contained in Article IV consultations should be strengthened along the lines indicated by the staff. He agreed that the technical analysis to be made for the medium-term debt scenario should be viewed not only as a predictive exercise but as an analytical tool for strengthening the basis for the judgment involved, while taking account of the particular circumstances of each member country. Against that background, the authorities should be able to give an assessment of how their own policies and targets fitted with the maintenance or achievement of a sustainable external debt position.

As to cooperation between the Fund and commercial lenders and the need for the Fund to release Article IV consultations or documents on the use of Fund resources to commercial banks, Mr. Orleans-Lindsay stated that the existing position was satisfactory. In other words, the staff report for Article IV consultations, reports on economic developments, and summings up should be withheld from private commercial banks. Nevertheless, avenues of consultation between the Fund and central banks and supervisory authorities in member countries should be kept fully open to help the central banks and the supervisory authorities to consider issues relating to borrowing risks affecting their own economies. Some Executive Directors appeared to have doubts about the nature of such contacts; however, his chair would be interested to hear what the staff had to say on the point.

Commenting on the relationship between various forms of balance of payments assistance and the implementation of adjustment efforts supported by Fund programs, Mr. Orleans-Lindsay stated that he had no difficulty in supporting the view that the procedures for official multilateral debt negotiations that had emerged as a result of experience should be used as a guide for the future. However, each case should be examined on its merits, and where exceptional circumstances existed, as in the case of Sudan and perhaps also of Uganda, the established norm should be set aside. While he could sympathize with the creditors' view that, in receiving debt relief, the debtor country should take measures to restore its financial viability, it should also be recognized by the international community that for many low-income countries with satisfactory adjustment policies, the success of any debt rescheduling was likely to be strongly influenced by the availability of sufficient concessional aid.

A distinction should be made between rescheduling debt to commercial banks and the multilateral renegotiation of debts to official entities, Mr. Orleans-Lindsay considered. With regard to the former, no general features had been established as a guide for future rescheduling since many important issues in specific cases were still evolving. He recognized that the timing of a country's approach to comercial banks when a debt problem was likely to emerge was crucial, and the role that the Fund should play was of the utmost importance. Debtor countries would certainly welcome the support that the Fund staff could provide in discussions with a group of commercial banks and in explaining the implications of the adjustment efforts being undertaken by the authorities of the debtor countries. The Fund's neutral role vis-à-vis different groups of creditors should be maintained. When the situation of major debtors had serious implications for the orderly functioning of the international monetary system, Fund management should continue to take the initiative on a case-by-case basis. When the Fund and a country were reaching agreement on a Fund-supported adjustment program and there were still ex ante financing gaps, the staff should be permitted to proceed with the approach it had outlined in Section V, 1(b)(ii) on page 26 of SM/83/45.

The guideline on performance criteria with respect to foreign borrowing had played a useful role in the design of upper credit tranche adjustment programs, Mr. Orleans-Lindsay considered. He was in favor of maintaining the present guidelines supplemented by the staff proposals shown on pages 45 and 46 of SM/83/45.

Mr. Zhang commented first on the implementation of external debt surveillance. He agreed with the staff that the Fund's initiative in providing adequate external financing and designing adjustment programs for countries facing clear balance of payments difficulties represented a timely and effective response to the circumstances of the immediate past. It was on the basis of the experience it had just acquired that the staff proposed a major strengthening of the external debt surveillance content of future Article IV consultations. For developing countries the staff had proposed some improved procedures for the surveillance both of borrowing and of debt management; the proposals seemed reasonable and warranted further examination. However, contrary to the usual practice of uniformity, the staff had not attempted to introduce similar procedures for the surveillance of the lending operations of developed countries, and it had not given any reasons for not doing so. The staff's position was both strange and disappointing seeing that the current external debt problem was attributable to the excessive and imprudent lending by the developed creditor countries, and the lack of regulation of the international financial activities of the commercial banks in those countries. The situation had been further aggravated by restrictive domestic monetary policies in the major developed lending countries. Thus, it was evident that, as usual, future international adjustments would be unilateral if they were undertaken by the developing countries alone.

While he supported the staff position concerning cooperation with central banks, Mr. Zhang went on, certain rules should perhaps be explicitly spelled out. The Fund should expand its activities connected with the publication and dissemination of data on external debt, and aim at eventually becoming the focal point of that type of activity.

Commenting on the role of the Fund in future negotiations of external debt, both public and private, and the relationship of the negotiations to Fund-supported adjustment programs, Mr. Zhang remarked that the course of action suggested by the staff--a case-by-case approach in consultation with all parties concerned--while avoiding a formalization of a general policy criteria, appeared to be both reasonable and practicable. He would, however, like to view the problem from another angle. Although successful, the Fund had recently done no more than help out panic-striken creditor countries, while designing patch-up operations for rescheduling the debts of countries unable to repay.

In dealing with the emergency situation of the recent past, Mr. Zhang continued, it was understandable that the staff had been unable to pay sufficient attention to studying the underlying fundamental nonmonetary factors that had been responsible for the emergence of the present situation, and were thus unable to make concrete proposals either for escaping from the present dilemma or for preventing the recurrence of crises in the future. The time had come when, in addition to trying to solve the problems of individual countries on a case-by-case basis, the Fund would have to take a lead in examining the debt problem from an overall standpoint and seek a solution in global terms. In those circumstances, it would be useful if the staff could examine the various proposals put forward outside the Fund for dealing with the external debt problems of developing countries. It would also be useful if the staff would consider whether the nature of the debt problem might not alter in future as a result of changes in the world economic environment, such as the decline in oil prices. Finally, in establishing performance criteria for individual countries, the Fund should take into account the specific conditions in each country, and avoid unduly damaging the country's chances of reaching its target for future economic growth. Any tightening of conditionality on the ceilings for borrowing that would necessarily derive from the staff proposals should be avoided.

Mr. Hirao stated that he too would concentrate his comments on the issues raised in Section VI of SM/83/45. He reiterated his support for the proposed major strengthening of the external debt content of the Article IV consultation process. The proposed inclusion in the staff report of the medium-term debt outlook and the relevant policy discussions in the case of members with significant external borrowing was not only pertinent but also essential in the present circumstances. He would prefer the material not to be included in the reports on recent economic developments in order to maintain confidentiality. Similarly, he would endorse the present policy of withholding documents on Article IV consultations and the use of Fund resources from commercial lenders. It was too early to say anything definite about making information available to the Institute of International Finance. On the other hand, he could endorse the suggestion that the Fund should be prepared to assist members in collecting information that they might wish to put at the disposal of the Institute and to encourage debtor countries to make available nonconfidential information if it was found useful to do so. The same information should be made available to similar institutions authorized by national authorities if they requested it, in order to ensure uniformity of treatment.

He agreed with the staff that cooperation with the staff of the World Bank on questions relating to external debt would be essential, Mr. Hirao went on. He welcomed the recent expansion of the role of the Central Banking Department in providing technical assistance to member countries in connection with the monitoring of external debt. He would also endorse in principle the proposal to improve public access to data contained in the data fund of the Bureau of Statistics. However, like the staff, he considered it important to ensure that data of a confidential nature were not made public without the explicit consent of the member providing the data, and that the reporting burden on national compilers should not become excessive. He joined those Directors who had stressed the need to avoid duplicating work among international organizations, and he fully endorsed the importance of collaboration with the appropriate agencies.

Concerning the issues relating to the implementation of adjustment efforts in connection with Fund-supported programs, Mr. Hirao commented that the main role of the Fund was to assist member countries with balance of payments difficulties by formulating an appropriate adjustment program, and thereby helping to enhance the credibility of debtor countries. He therefore agreed with the staff that the Fund's direct involvement in debt rescheduling negotiations should be limited to exceptional cases in which the international financial system might be adversely affected; even then, a case-by-case approach should be adopted rather than a formalized procedure. If the Fund took an initiative in such a case, the supervisory authorities of the banks concerned should be given the relevant information on the sequence of developments. He would also like to underscore the importance attached by the staff on page 12 of SM/83/45 to the issue of treating all creditors equitably.

He agreed with the staff, Mr. Hirao stated, that the criteria with respect to foreign borrowing had been useful. He had no difficulty with normally raising the upper maturity limit for loans covered by the guidelines to 15 years, or normally including short-term debt with a maturity of less than 1 year under the criteria, despite the difficulties in collecting the relevant data. It would certainly be useful to improve the method of collecting data on short-term debt in a timely fashion.

Mr. Feito stated that he agreed with the idea of strengthening the external debt surveillance activities of the Fund. He had no specific instructions from his authorities regarding the many proposals put forward by the staff, and he would associate himself with most of the remarks made by Mr. Kafka and Mr. Joyce.

As to the Fund's role in helping to overcome the current external debt crisis, Mr. Feito stated that the main instruments should be the Fund's programs and associated activities as a means of ensuring the viability of the needed adjustment process. Like others, he felt that the Fund had a heavy responsibility in the present circumstances. Executive Directors should therefore make every effort to improve the quality and soundness of the Fund's programs, on which the credibility, and even perhaps the future role, of the Fund would to some extent depend. One of the important messages to be derived from the staff papers was the crucial importance for the success of any program of correctly evaluating the time profile of the major flows involved in any adjustment process. The amount of external finance available and the size of the adjustment effort were both important; but so were the maturity structure of the liabilities incurred and the schedule of returns from investment. The important role played by the time element in the design of adjustment programs to be carried out under the constraints imposed by heavy external debt had been properly dealt with by the staff. He hoped that it would be possible to design adjustment programs in line with the description contained in the staff papers.

Like Mr. Mtei he emphasized that the Fund was not only a creditor but also a source of loans for the international economy, Mr. Feito went on. The Fund was encouraging commercial banks and major creditors to lengthen the maturity of their loans through rescheduling and other means. In the circumstances, the Fund should perhaps also look at the rules governing the maturities of its own loans and at the debt owed to the Fund by member countries. Although the Fund's share in the total indebtedness of its members was small, it was quite significant for many of the lower-income countries, and it was bound to increase in future. It might not be entirely consistent to recognize the need for longer adjustment periods than in the past, while leaving the maturity structure of the loans made available to finance the adjustment effort unchanged. The 3-5 year rule attached to stand-by arrangements seemed to him to stem from the early 1950s, having come into existence as a result of the approval of the so-called Rooth Plan adopted by the Executive Board on February 13, 1952 in Decision No. 102-(52/11). Naturally, there had been changes, such as those embodied in the decision on the extended Fund facility extending the period from 4 to 10 years, and the enlarged access policy.

While he could understand that Executive Directors would not wish to embark on changing the 1952 decision--although it was worth considering how far it would be possible to improve the maturity structure of the Fund's loans without endangering the revolving character of the Fund itself--Mr. Feito stated, it would be possible to improve the maturity structure of member countries' indebtedness to the Fund by making greater use of the extended Fund facility financed from ordinary resources. It should be possible to devise some sort of rescheduling operation by converting stand-by arrangements into extended arrangements, assuming of course that the countries concerned met the requirements. Naturally, the Fund would have to have a sufficient supply of ordinary resources, or the rules governing the maturity structure for the use of the Fund's extraordinary resources would have to be changed. In any event, such questions, and many others posed in the papers by the staff, would have to be dealt with in future discussions on related subjects.

Mr. Finaish indicated that his observations too were preliminary. The rationale behind the Fund's recent active involvement in the external debt problem had many sources. The problem had recently reached a stage where it posed a threat to the smooth functioning of capital markets and the flow of international trade. International monetary and trade relations could have been disrupted by a chain of defaults and by the consequent erosion of confidence if the matter had been left unattended by national or international authorities. The prospects of success for adjustment in many countries could have been adversely affected. Furthermore, coming at a time when the pickup in activity in the world economy was still rather fragile, a serious banking crisis could have aborted a sustained recovery.

In such circumstances, the actions taken by the Fund had been commendable, although it should be recognized that the need for an emergency response could have been substantially lessened if the existence of the problems had been detected and corrective measures taken at an earlier stage.

It followed from recent experience, Mr. Finaish considered, that the Fund should pay greater attention to external debt matters in the future. In order to formulate its future approach to such problems, the Fund would have to be clear on the main issues involved. The staff had dwelt on possible domestic sources of indebtedness, including inadequate economic management and excess demand. Other aspects that were particularly relevant were the external environment facing debtor countries, and the concentration of major indebtedness in a limited number of countries. As the depressed demand for exports, the deterioration in the terms of trade, and high interest rates on new borrowing were among the important factors behind the recent intensification of financial difficulties in some debtor countries, the present problems could be expected to ease with an improvement in the global economic environment. The Fund should therefore beware of entering into long-term arrangements involving binding commitments toward other institutions, such as commercial banks, which might become unnecessary and indeed prove burdensome as circumstances changed. The fact that major indebtedness was concentrated in a fairly small number of countries should indicate to the Fund that it should design its approach in such a way as to enable it to address the particular circumstances of those countries, without unduly imposing the proposed safeguards on the rest of the Fund members, whose external debt was relatively small or involved no serious problem.

Taking up some specific improvements in the Fund's role in such areas as expanded technical assistance to members on debt management, continued cooperation with the World Bank, and greater attention to debt policies in Article IV consultations, Mr. Finaish commented that the suggested inclusion in Article IV consultation reports of forward-looking external debt analysis of members engaged in significant external borrowing was rather ambitious. The proposal could prove useful as it could provide authorities with a more solid basis for assessing the sustainability of various debt policies because it was designed to project the implications of alternative policies into the medium term. Naturally, the many limitations of such a forecasting exercise would have to be kept in mind. However, as it was proposed that the analysis would be prepared in close cooperation with the authorities, he hoped that it would be reasonably realistic; it should be possible to take into account the specific features of each debtor country. It was also understandable that the analysis would be confined to members engaged in substantial borrowing operations; such an arrangement would allow a clearer focus on members more in need of a better basis for debt management and on those whose circumstances could have a major impact on the global debt situation.

The staff suggestions for publication of data and for cooperation with the Institute of International Finance should be treated with caution, Mr. Finaish commented. While recognizing the need to ensure that decisions by private lenders were based on objective and comprehensive information, the supply of such information, including the detailed series underlying the data published in International Financial Statistics should be left to the debtor countries themselves. A careful approach was also needed in handling the additional statistical material associated with the proposed forward-looking debt analysis; it would be more appropriate to include it in the staff report than in the report on recent economic developments. Proposals for possible cooperation with the Institute of International Finance, which would be a private institution, could only be usefully considered once the Institute became operational. In any event, the Fund's relations with the Institute, or with other similar institutions, should avoid commitments that went beyond what was needed to enable the Fund to carry out its obligations and that could adversely affect members' confidence in the Fund itself.

An aspect that could have been further explored was the Fund's relationship with supervisory authorities--mainly central banks and the Bank for International Settlements--that were in a position to exercise influence on the banking system, Mr. Finaish considered. In particular, more work needed to be undertaken to see whether it was possible to ensure the adoption of more stable policies by the private banks in their external lending. One view was that after pursuing a liberal lending policy the banks had rather abruptly shifted to a restrictive stance and that their practices in assessing country risks and the sustainability of their country exposure left much to be desired. The question might be considered whether the monetary authorities of major financing centers should not play a more active role in ensuring the adoption of more stable and predictable lending policies. While the topic was by no means new, in view of the recent experience, the whole field did at least deserve further exploration, especially in the light of Mr. Zhang's observation to the effect that much time was spent discussing what was expected from debtors but very little on the role of the creditors and their banks.

The Fund's approach to the provision of adjustment financing during the recent particularly difficult period that confronted major debtor countries and threatened to destabilize the international financial system as a whole, Mr. Finaish said, had been flexible in adapting to the change in circumstances and had included some timely initiatives. Of special significance was the Fund's active role in ensuring sufficient financing for adjustment programs, by coordinating directly with both official and private creditors. It was reasonable to conclude from recent experience, as the staff had done, that it would not be appropriate to formalize any general policy criteria regarding the relations between the Fund and other sources of external finance in exceptionally difficult situations, and that such situations should continue to be handled on a case-by-case basis, according to the particular circumstances prevailing, while ensuring that similar cases were dealt with in a similar fashion. A related point was that in the Fund's collaboration with official institutions in multilateral debt renegotiations, the various official creditors should also receive similar, evenhanded, treatment.

The guideline on performance criteria with respect to foreign borrowing formulated in 1979 had proved sufficiently flexible in its adaptation to subsequent developments, such as the inclusion of loans of less than one year's maturity and the formulation of criteria in terms of disbursed rather than contracted debt, Mr. Finaish remarked. The staff's present suggestions for modification were in fact not a basic departure from the established guideline but rather an attempt to further expand the use of some provisions. The suggestion to place external borrowing ceilings on disbursed rather than contracted debt, while continuing to exclude concessional loans, seemed appropriate. The coverage of the private banking system's external liabilities could be justified in cases of excessive buildup, but private nonbanking debt should be included under debt ceilings only in exceptional circumstances, due to the difficulties involved.

It would be useful if the staff, when writing on upper credit tranche programs, would include a more explicit explanation of the rationale behind the foreign borrowing criteria as a means of clarifying the basis for such limitations, Mr. Finaish stated. If the maturity coverage of debt ceilings had to be raised from the present limit of 10-12 years to 15 years, appropriate allowance should be made for loans from multilateral institutions that would fall within the expanded maturity coverage. The case for raising the existing upper limit did not seem very strong in light of the figures shown on page 38 of SM/83/45; the longest maturity had not increased since 1979, when the existing upper limit had been fixed. Indeed, during several of the quarter years shown in the table the length of the longest maturity had shortened. The present practice of normally excluding loans of less than one year's maturity while allowing their inclusion in exceptional circumstances seemed appropriate. The practice of excluding refinancing and restructuring loans should be maintained, unless it could be clearly demonstrated that certain types of loan might have a significant impact that would need to be taken into consideration.

While the action taken by the Fund had been helpful in preventing the international debt situation from becoming an immediate crisis, the position continued to be difficult, Mr. Finaish observed. In addition to taking steps for the period immediately ahead, the Fund, in addressing the problems of the future, could take a longer-term look both at the origins of the difficulties and at possible cures. The work should start with a careful analysis of the roots of the debt problem, including the factors that caused short-term liquidity shortages as well as longer-term structural difficulties. Such an analysis should then serve as the basis for a discussion of ways in which parties concerned might be able to deal with indebtedness more effectively in the future, covering a field broader than the immediate steps proposed by the staff in SM/83/45.

Regarding the cost of rescheduling--a point raised by Mr. Polak and Mr. Prowse--he too would be interested in the staff's reply, Mr. Finaish said.

Mr. Nimatallah commented that in its relations with member countries the Fund performed four main functions. First, the Article IV consultations presented a framework within which the economic and financial policies of member countries could be analyzed and discussed. The consultations were thus one of the most useful means for implementing the Fund's surveillance function. Second, the Fund provided conditional financing in support of adjustment. It had therefore to design and monitor stabilization programs adopted by member countries. Third, the Fund offered technical assistance, mainly in connection with central banking and fiscal affairs. Fourth, the Fund made available economic financial information mainly through the work of the Bureau of Statistics.

The world outside the Fund, Mr. Nimatallah noted, constantly asked what more the Fund could do to help member countries, and thereby assist in improving the functioning of the international financial system. Following the debt crisis of late 1982, the international financial community had asked why the Fund had been unable to anticipate sooner what was taking place in connection with the indebtedness of member countries. The present question was whether the Fund's membership should expand the role of the Fund to include the duty of following up on international debt activities. If the answer was affirmative, the Fund's membership would have to decide how it should implement that task. In principle, he favored the idea that the Fund's role should include the supervision of debt. It was in the interests of all, whether creditors or debtors, that the international monetary system should function smoothly. The member countries and the commercial banks alike had a responsibility to cooperate with the Fund to prevent the recurrence of any possible crises in the future. He also favored the idea that the Fund should establish specific guidelines for its intervention in the field of debt. In so doing, the principles of confidentiality and uniformity of treatment of member countries should be uppermost. However, it should be understood that all members shared the responsibility for maintaining the well-being of the system, which could only function effectively if members cooperated not only with the Fund but with one another.

The staff had proposed that the Fund's debt monitoring procedures should be strengthened considerably, Mr. Nimatallah noted, so as to provide early warning of potential debt problems. He also proposed that the monitoring procedure should extend to the four main operational functions of the Fund, and if necessary to others as well. Management's efforts in recent months to coordinate the work of commercial banks, central banks, and other parties like the Bank for International Settlements in putting together bridge financing and other additional financing before a Fund-supported program was in place, were an excellent example of what he had in mind.

Taking up the proposals by the staff in Section VI of SM/83/45 in relation to the four main functions of the Fund, Mr. Nimatallah remarked, first, that it had become evident that weaknesses in debt monitoring procedures in some countries had contributed to the emergence of debt service problems. There was certainly room for improvement in the machinery for external debt control in those countries. He therefore supported any expansion of the technical assistance program that could be offered by the Central Banking Department in that area. Second, he agreed with the staff that it would be beneficial for international organizations like the Fund, the World Bank, the Bank for International Settlements, and the Organization for Economic Cooperation and Development (OECD) to maintain a continuing dialogue on data collection. It would also be useful to explore some of the staff's suggestions for publishing more comprehensive debt information in International Financial Statistics. With respect to relations with the Institute of International Finance, in principle he had no problem with Fund collaboration. However, he would like to know more about that phantom institution before deciding on how to cooperate with it.

Third, Mr. Nimatalah continued, the proposal by the staff that in the context of consultation reports it should prepare a medium-term debt analysis for countries that were judged to have significant external borrowing operations made good sense. It would strengthen the Fund's ability to look ahead and to issue warnings against potential problems. There were, however, two questions in connection with the implementation of the proposal. How would the staff judge whether or not a particular country was a candidate for such analysis? In other words, what was the benchmark that should attract the Fund's attention to a country's debt activities? Also, if there were a divergence of views between the authorities and the staff regarding the projections for the medium term, what procedure would there be for reconciliation, and what would happen if there were no reconciliation? If member countries found themselves in serious difficulties, reconciliation would be essential; otherwise the Fund and the other parties involved would be unable to propose useful solutions.

Fourth, the proposed tightening of the 1979 guideline on external borrowing seemed justified in the light of the experience gained since the adoption of the guideline, Mr. Nimatallah stated. He was, however, not completely convinced that ceilings on a disbursement basis could be effectively enforced, nor that short-term debt of less than one year could be monitored carefully. Nevertheless, he was prepared to support efforts in those fields, provided that they were kept under constant review.

There was no simple answer to the question of how the Fund should proceed in dealing with countries with ex ante financing gaps, Mr. Nimatallah considered. The staff had suggested an approach whereby performance criteria were formulated only for the part of the program period in which major variables would not be affected by the outcome of debt relief discussions. Review clauses could be provided in the program to make it possible to formulate the remaining performance criteria in the light of the outcome of debt relief. While in general he would have no difficulty in going along with such an approach, flexibility would be needed in determining whether a country might be required to undertake further adjustment.

The Fund should remain neutral in trying to encourage commercial banks to take part in rescheduling, Mr. Nimatallah observed. On the other hand, in some cases Fund programs had little chance of success unless the commercial banks continued to cooperate. He agreed with the staff that in normal circumstances the Fund should continue to act as a conduit for information and provide whatever technical assistance the debtor country requested in presenting its case to commercial creditors. In exceptional circumstances the Fund--in particular, management--would have to do more, always provided that the Executive Board and all parties concerned were kept fully informed.

The Fund's involvement in debt rescheduling, whether by the Paris Club or by commercial banks, stemmed from the need of creditors to be informed about the financial situation of the debtor country, as well as the need for some coordination among the various creditors. The agreed minutes of Paris Club meetings included nondiscrimination clauses to ensure that the debt to nonparticipating creditors was not repaid on more favorable terms than those of participating creditors. While such an arrangement was fair, it would also be fair to ensure that the participating creditors were not repaid on more favorable terms than others. One of the factors that ought to be taken into account, whenever a debt rescheduling was being conducted, was to ensure uniform treatment of all creditors. The Executive Board might also discuss, inter alia, the paper suggested by Mr. Taylor on the external debt of member countries, together with the paper on international capital markets. It would also be worth discussing what more management could do to avert possible crises once danger signs were perceived.

The Fund membership should constantly bear in mind that the main objective was the smooth functioning of the international monetary system, Mr. Nimatallah concluded. The Fund could contribute to achieving that goal. In connection with debt management, more and better information and a decision on how to use that information were needed. The Fund could improve the quantity and quality of the information on debt that it made available, and it could put the information into use to prevent the system from falling into crises. The success of debt surveillance would depend heavily on the extent of cooperation between the countries concerned and the Fund. He hoped that in the near future the Fund would adopt certain policy guidelines to enable it to work more effectively in the field of international debt.

The Director of the Exchange and Trade Relations Department stated that he welcomed the Executive Board's desire to keep under continuous review the topics that had been discussed during the meeting. The staff did believe that those topics were of the greatest importance, the more so because countries experiencing debt difficulties were facing major problems, such as severe inflation, heavy unemployment, and sharp cuts in imports. It was important that the Fund should examine carefully what it had been doing to see whether there were lessons to be learned from the recent past. The staff had tried to put forward new ideas that it thought could be constructive for the future. In particular, it had proposed to expand the content of Article IV staff reports to the Executive Board. While it was aware of the difficulties, such as those raised by Mr. Joyce, that might arise from more frankness, the staff believed that one of the most evident lessons of the past was that nothing was to be gained by hiding the problems problems that countries were facing. The longer those problems were left untackled the more damaging they could become. At the same time, the staff had no intention of irresponsibly exaggerating countries' difficulties, and detailed discussions would be held with the countries' authorities before analyses were communicated to Executive Directors. Similarly, while the staff believed that quantification of scenarios was necessary and useful, it was important that the reactions of the authorities be recorded for the information of Directors. More generally, one of the areas in which staff reports could be improved was fuller reporting of the interactions between the staff and the authorities of member countries.

Regarding the costs of obtaining data--a point emphasized by Mr. Kafka--the Director remarked that the staff wished to err on the side of remedying some of the past shortcomings in that area. In a number of fields, countries would have benefited by having available more comprehensive data. For instance, the authorities in many countries were unaware of their true short-term debt position. While it was not easy to obtain such information, it was essential for countries (as well as for the Fund) to know exactly what the situation was before any suggestions could be made for improvement. Because of the extremely damaging nature of any slippages that might arise during an adjustment effort, it was worth incurring some costs to obtain accurate information. While there were clearly limits to what could be undertaken, and there might be difficult questions of definition, the Fund should approach the problems with vigor. In that connection, he would reply to Mr. Zhang, who had raised the question of equal treatment, by saying that the Fund would be pressing not only debtor countries but also creditor countries for information. For instance, commercial banks would be pressed to give information quickly in a usable form. The whole supervisory side of the international monetary system could only function efficiently if better information was available to all.

Taking up a comment by Mr. Prowse, the Director explained that the staff certainly hoped that adequate capital flows to countries that could make proper use of them should continue, since they would remain an essential ingredient of the development of the world economy. In that process, private sources would be critically important. Consequently, the Fund would do all that it could to see that private sources were strengthened and encouraged to function effectively. In using the term "efficiency," on which Mr. Polak had commented, the staff had only sought to convey the view that it was important that both debtors and creditors should take on the transfer of resources in full knowledge that the transferred resources would involve debt servicing obligations. The staff had therefore been referring in the broadest sense to the efficiency of aggregate investment, rather than to the quality of a particular project. Naturally, too, any creditor would have to be concerned with the way in which the authorities were conducting their macroeconomic policy. Regarding the whole process of the transfer of resources, at present the staff believed in decentralized decision making for the transfer of capital, even though the staff had been compelled to take a global view of the transfers to and from particular countries in order to try to ensure that the creditors acted in a way that was consistent with bringing order into a disorderly situation.

The staff paper had been least forthcoming in dealing with relations between the Fund and the Institute of International Finance on the one hand, and with the bank supervisory agencies on the other, the Director conceded. It was too early to say clearly what should be done in those areas. Thus, the Institute of International Finance would not appoint a managing director for at least two months. The purpose of the staff in mentioning the Institute at all had only been to say that it welcomed the attempt by banks to provide more information for decision makers. As he understood it, the purpose of the Institute was only to provide information on which individual banks could take better decisions; it was not intended to control or guide them.

The staff believed that the commercial banks had perhaps made mistakes in the past because they had not been sufficiently concerned about the quality of the overall financial management of countries receiving loans, the Director explained. If commercial banks were to continue to transfer part of their capital to countries abroad, they would have to convince the depositors that they were properly informed. It was the hope of the staff therefore that the Institute might help to make the commercial banks aware of their responsibility in that respect. There would be no attempt on the part of the Fund to provide a credit rating or even to encourage the Institute to provide one. None of the relationships described in the paper were yet in existence; the staff would keep Executive Directors informed, and it would bear in mind their desire for complete confidentiality. Naturally, the effectiveness of anything that the Fund could do was absolutely dependent on there being full confidence on the part of a debtor country that the Fund would respect its desire for confidentiality.

Similarly, the Fund's relations with bank supervisors hardly existed as yet, the Director explained. The staff was indeed still considering what form the contacts between the Fund and bank supervisors should take in dealing, for instance, with problems similar to those of Mexico. The Fund had a great interest in seeing that the supervisors did not reduce the capacity of banks to enter into orderly arrangements in such circumstances. On the occasion of the negotiations with Mexico, the Fund had received very welcome support by the U.S. supervisory authorities, as well as from many others. He understood well that the German authorities did not regard it as part of their role to advise banks. Many other supervisory agencies held the same view and, in principle, the staff also believed that banks should make their own decisions. Nevertheless, at the present moment, there was considerable interest in the Fund acting to improve the cooperative aspects of dealing with difficult situations.

Some aspects of the rescheduling of debt in parallel with the receipt of Fund assistance might cause a problem, the Director of the Exchange and Trade Relations Department stated. The problem had, however, been exaggerated in the press, and would probably be exaggerated still further in future. The staff had looked into the comments that had been made in the press regarding the costs incurred by the Mexican authorities in the course of restructuring the country's external debt. The press had suggested that any cost to a country over the cost of raising the money was a special penalty being levied on the country wishing to re-establish its position. Allegations had been made about the cost to Mexico of the rescheduling, without allowance for the normal costs that would have arisen in any event. Taking that element into account, the staff had estimated the true additional cost was perhaps one fourth or one third of the amounts mentioned in public. Nevertheless, the issue was one of considerable importance. Another issue was that mentioned by Mr. Donoso--whether the debt owed by private firms in the debtor country should be brought into the official negotiations and guaranteed retroactively by the authorities. On issues such as those, the staff wished to make it quite clear that it did not regard the Fund as an instrument for seeing that the commercial banks were unduly protected from some of the costs that they would otherwise have incurred. Naturally, the staff would keep a close watch on those matters and report to the Executive Board when ways were found to improve the efficiency of the Fund's efforts.

The staff representative from the Exchange and Trade Relations Department, replying to Mr. Erb, explained that the three countries that had not so far indicated their desire to participate in the project on banking statistics under the auspices of the Bureau of Statistics were Iceland, Korea, and Saudi Arabia. Mr. Nimatallah had of course spoken on that point for Saudi Arabia.

A number of questions had been raised regarding the guideline limiting foreign borrowing in connection with the use of the Fund's resources, the staff representative recalled. Mr. Schneider, for instance, had inquired whether it would not be appropriate in some instances to include all debts contracted by the public sector in calculating the borrowing limits on nonconcessional loans. That was indeed what the staff had done in the case of Mexico, where a disbursement ceiling had been used without defining an upper maturity limit for the loans included. Mr. Finaish had remarked that he did not see, from the data included in SM/83/45, that the upper maturity limit on nonconcessional loans had increased. However, the OECD data used by the staff clearly showed that while the highest maturity available for commercial loans had been 12 years or less prior to 1979 (the date when the 12-year guideline had been adopted) it had been 15 years in most quarters since then. Regarding the discussion on whether ceilings should be imposed on borrowing on a disbursement basis or on a commitment basis, most Directors had favored the disbursement approach where possible. However, it was recognized that there were some situations in which the disbursement approach might not be feasible. In those cases, a commitment approach would be necessary.

As to whether it was appropriate to exclude voluntary refinancing loans from the coverage of debt ceilings, the staff representative remarked that the question really arose in connection with ceilings on the contracting of loans and not with ceilings on disbursement. If the ceiling was to be on the contracting of loans the staff felt that there was a general case for excluding voluntary refinancing, but even then not automatically. The staff would have to see the nature of the particular refinancing operation involved; otherwise it could involve a shift to an inappropriate lower maturity range.

On the question of whether, in the forward-looking technical analysis, the staff envisaged any targeting of the current account of the balance of payments for the period ahead, the answer was "certainly not." While the staff would discuss with the authorities the range of policies under consideration, any current account profile that would emerge for the period ahead would certainly be very tentative, depending on the assumptions that were made.

Replying to Mr. Jayawardena's comment about the inclusion of India in a list of countries involved in official multilateral debt rescheduling, the staff representative from the Exchange and Trade Relations Department stated that he agreed with Mr. Jayawardena that the transfers to India were really aid and not a form of debt assistance. The staff had sought to indicate that the forum in which the discussions with India had taken place was an aid consortium and not the Paris Club. Moreover, a number of footnotes had been provided to show that India was not involved in debt renegotiation.

Mr. Nimatallah assured his colleagues that Saudi Arabia would cooperate fully with the Fund in connection with the program run by the Bureau of Statistics. If the Fund would send a staff member to Riyadh to explain what was needed, he was certain that all the information would be forthcoming.

The Chairman made the following summing up:

> In view of the speed with which recent developments had unfolded, Directors felt that it was important that the Fund should be in a position to react quickly and flexibly in response to different types of situations. Directors generally believed that the initiatives that had been taken by the Fund to assist member countries in acute debt crisis situations had been appropriate in the circumstances. But the discussion had also indicated that there was a need to improve the Fund's methods to try to avoid the repetition of recent crises or, more generally, to acquire the knowledge to prevent potentially dangerous situations from arising.
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> Comments could be made under three main headings:
>
> 1. <u>The Implementation of external surveillance</u>
>
> Directors observed that more timely, more comprehensive, and more accurate information on the external debt situation of members, and on changes therein, is required. There had been

strong support for Fund actions to improve the availability of external debt information. A number of specific points were made. First, technical assistance could usefully be provided to member countries, especially by the Central Banking Department, to help them to improve their statistical and administrative capacity in assessing debt developments. That was a point to be borne in mind when discussing the resources at the disposal of the Central Banking Department.

Second, the Fund itself should be more active in compiling external debt statistics on a regular basis; at present they were scattered in many different places and were not always available either in a centralized form or in a timely manner. Many Directors warmly welcomed the work currently under way in the Bureau of Statistics. They were particularly heartened by Mr. Nimatallah's intervention, because it was important to have wide coverage and to receive the cooperation of the monetary authorities responsible for the statistical information on bank lending in their home countries. At the same time, the Fund should not overlap or duplicate the work of other institutions. Instead, it should improve its cooperation with other institutions, such as the World Bank and the Bank for International Settlements (BIS), and with them work out a procedure that would make data on external debt more comprehensive and more rapidly available. There was much to do in that field.

Third, the Fund should improve its ability to analyze external debt developments and problems on a worldwide basis. It was clear that the papers prepared in connection with the World Economic Outlook exercise, describing developments in international financial markets and in the debt situation, should continue to be prepared. Even outside the regular World Economic Outlook discussions, management and staff should be able to provide the Board with interesting updating papers, although the Article IV consultations provided the best framework for improving the analysis of the external debt situations of individual countries. Speakers agreed that the Fund should pragmatically try to improve the external debt surveillance content of the Article IV consultation process.

Two points had been made on that topic during the discussion. First, consistent with what the Fund was trying to do on a general basis in the Bureau of Statistics, it should use Article IV consultations to try to improve the reporting of external debt developments in individual member countries, with particular reference to areas such as private debt, short-term debt, short-term liabilities, and the assets of the banking sector at large. But Article IV consultations should go further than merely describing a country's existing external debt; they should seek to include a description of the medium-term external debt outlook for the country concerned. Such forward-looking analyses would not be easy, and the staff would have to rely heavily on assumptions regarding the external environment, including world trade, commodity prices, and many other factors that were difficult to anticipate. Naturally, such analyses ought not to be accorded more significance than the uncertainty of future events allowed. Nonetheless, it was the duty of the Fund, as an institution charged with the responsibility of surveillance in a very difficult world, to try to help member countries better to understand the medium-term implications of their external debt policies.

It was evident that, if the forward-looking analyses were to be meaningful, they should take into account debt service payments associated with new borrowings planned for the period ahead. Directors agreed that such forward-looking technical analyses should be prepared in close cooperation with the authorities in member countries. They too had views on the underlying medium-term assumptions. Also, in view of the uncertainties involved, it would not be right to include the forward-looking analyses in the reports on recent economic developments. Most speakers had said that the correct place for them would be in the staff reports for Article IV consultations, which would of course continue to be confidential. In a number of countries the staff had already included medium-term assumptions on debt service developments in its reports. It would continue to do so, bearing in mind the words of caution spoken by several Directors during the discussion. It was important also that forward-looking external debt analyses should not be limited to countries that were in difficult debt situations or engaged in rescheduling operations; rather, they should become a routine element in the Fund's work. Such an arrangement would not only be consistent with the notion of uniformity of treatment; it would also serve to show that the forward-looking debt analyses were not in any sense a predictive exercise, but an analytical tool that should become part of the set of elements used in any assessment of the sustainability of a balance of payments situation or of borrowing policies.

Directors supported the continuation of the present policy of withholding reports for Article IV consultations and papers on the use of Fund resources from commercial bankers, for reasons of confidentiality. It was essential for the Fund to maintain the unique relationship involving confidence and mutual trust between the Fund and member countries, and to avoid any suspicion that information provided on a confidential basis might fall into the hands of the international banking community.

A number of Directors had commented on the relationship between the Fund and the Institute of International Finance. It was felt that the Fund should adopt a pragmatic attitude.

Nevertheless, it was clear that the Institute should have no privileged access to confidential information from the Fund. Relations with the Institute would be conducted according to the principles of confidentiality and uniformity of treatment that the Fund applied in the conduct of all its work. However, on a pragmatic basis, the Institute might well prove to be a useful channel of communication with the commercial banks.

Many Directors had suggested that there was some scope for enhancing the informal contacts between the Fund and the national bank supervisory authorities. In that area the Fund would have to act very cautiously because it should not be seen as becoming an international agency for rating the creditworthiness of countries. Such a function did not fall within the Articles of Agreement. However, it might sometimes be useful for the Fund to inform the bank supervisory authorities of what the Fund and member countries were trying to achieve in the framework of programs supported by the use of Fund resources. The purpose would be, for example, to prevent the supervisory authorities adopting unduly rigid rules that might have adverse consequences for member countries.

2. Balance of Payments Assistance and Implementation of Adjustment Efforts in the Context of Fund-Supported Programs

Executive Directors commented on the relationship between balance of payments assistance from non-Fund sources and the implementation of Fund-supported adjustment efforts by members experiencing debt servicing difficulties.

First, Directors considered the way in which the Fund collaborates with official institutions in multilateral debt renegotiations to be generally satisfactory. Some of them had said that the various official creditors should receive similar, evenhanded treatment, if only to ensure continued cooperation among official creditors. Directors felt that any special elements that might be involved in the relationship between Fund-supported programs and the debt relief envisaged by the Paris Club, or other groups concerned with official multilateral debt renegotiations, should continue to be handled on a case-by-case basis.

It was evident that in the case of some countries, only the provision of further concessional aid could make the rescheduling exercise successful. In those circumstances, it would be the duty of the Fund to put the matter squarely before the members of the international community able to provide aid. The straightforward rescheduling of official debt might occasionally be inadequate; more might be required even if the provision of extended assistance were to complicate the renegotiations.

Second, Directors recognized that the procedures for rescheduling commercial bank debt were not as well developed as those for official debt negotiations. Nonetheless, the Fund could play, and had played, a useful role in bringing about a successful outcome to discussions between a debtor country and the commercial bank groups involved. Since the summer of 1982, certain "exceptional" circumstances had arisen, in which the difficulties encountered by major debtors have had broader implications for the orderly functioning of the international monetary system. The Fund management--in concert with major creditors, central banks, the BIS, and governments--had taken the initiative in ensuring that before Fund resources could be committed, sufficient additional financial flows from governments, official sources, and commercial sources were available to support the adjustment efforts of the member concerned. Directors had endorsed that approach, although some of them had cautioned against the Fund as a matter of general policy interjecting itself too closely or too systematically into traditional commercial bank/client relationships. They had encouraged the Fund to maintain a generally neutral role. The consensus was that the Fund should proceed on a case-by-case basis in full consultation with all the parties involved, bearing in mind the need for evenhanded treatment between cases.

Third, Executive Directors noted the inevitable degree of uncertainty regarding the amount and timing of external financing that could be made available during the period of an adjustment program supported by the Fund's resources. Such uncertainties should not necessarily prevent a member country wishing to enter into an arrangement with the Fund from doing so. But the Executive Board would need sufficient safeguards to ensure that the Fund's resources would be used to support a viable and financeable adjustment program. The best means of providing such safeguards--in the absence of any conclusion to the negotiations on non-Fund financing of a Fund-supported program--was considered to be the practice of introducing review clauses at an early stage of the program, linked, if necessary, to the satisfactory outcome of discussions on balance of payments financing from other sources. The staff would indicate in its reports what additional adjustment measures should be contemplated by the authorities if the amounts of external financing assumed by the staff did not materialize.

3. Guideline on foreign borrowing in connection with upper credit tranche arrangements

In reviewing the 1979 guideline, the Directors made a number of comments. First, many Directors felt that normally it would be better to impose ceilings on disbursed rather than on contracted debt; nonetheless, some flexibility should continue to be used.

Second, there were divergent views on the question of including loans with maturities of from 12 to 15 years within the ceiling on loans. It was understood that if loans of 12 to 15 years' maturity were included, the concessional loans without that category should still be excluded.

Third, Directors generally encouraged the staff to include short-term debt of a maturity of less than one year in the performance criteria relating to foreign borrowing, while allowing some flexibility in light of the different institutional reporting procedures employed by members, and the statistical difficulties of recording that category of debt. In quite a number of cases, it might be necessary to formulate the limitation as a subceiling.

Fourth, normally performance criteria would exclude only concessional loans, together with restructuring and refinancing loans specifically associated with multilateral government or commercial bank loan reschedulings.

Fifth, Directors considered that, in describing adjustment programs submitted by members in connection with requests for upper credit tranche stand-by arrangements or extended arrangements, staff papers should contain a description of the proposed external borrowing limitations in the light of the prospective medium-term debt servicing profile of the member that should of course be consistent with the medium-term analysis in the staff report for the Article IV consultation.

4. Concluding remarks

The Executive Board would return to the subject of Fund policies and external debt servicing problems after the Development Committee had discussed the issues involved and Executive Directors have had time for further reflection in light of any changes in the international debt situation.

Some Directors had suggested that the Fund should concentrate more closely on analyzing the causes of the tight external debt positions being experienced by many countries, with a view to devising global policies for treating the fundamental causes of the present situation rather than simply tackling its surface manifestations. In my view, taking into account the fragile nature of international credit, this subject was one that ought perhaps to be discussed in an informal gathering of the Board. I would note, however, that recently the Fund had helped to arrange on a country-by-country basis rescheduling over a period of 7 to 8 years, with a 3 or 4 years' grace period, for three Latin American countries expected to reach some $45 billion, on terms that six months previously would have been considered extremely favorable. Moreover, in so doing, it had carefully avoided any approach based on general schemes.

Finally, Directors agreed that the external debt situations of countries were extremely sensitive to the world environment. Whatever the Fund could do in the ambit of its more general surveillance activities to encourage member countries to adopt a mix of economic policies that would foster economic recovery, and to avoid recourse to restrictive commercial practices, would be helpful in improving the external debt situation of member countries.

APPROVED: September 2, 1983

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