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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/137

3:00 p.m. September 9, 1983

J. de Larosière, Chairman

Executive Directors	Alternate Executive Directors
	M. K. Diallo, Temporary
	L. E. J. Coene, Temporary
B. de Maulde	X. Blandin
	J. Delgadillo, Temporary
R. D. Erb	
M. Finaish	
T. Hirao	T. Yamashita
	P. Leeahtam, Temporary
R. K. Joyce	M. Casey
A. Kafka	
G. Laske	
G. Lovato	
R. N. Malhotra	A. S. Jayawardena
Y. A. Nimatallah	
	T. de Vries
	K. G. Morrell
	O. Kabbaj
	M. Camara, Temporary
	E. Portas, Temporary
	A. Lindø
	C. Taylor
Zhang Z.	Wang E.

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

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2. Policy on Access to Fund Resources - Report to Interim Committee . . . . Page 33
3. Relations with GATT - Consultation with CONTRACTING PARTIES - Fund Representation . . . . Page 35

Also Present
C F. Schwartz, Special Consultant. African Department: F. d'A. Collings. Asian Department: R. J. Hides, S. Kashiwagi, S. M. Schadler. European Department: P. Gotur. Exchange and Trade Relations Department: C. D. Finch, Director; S. Mookerjee, Deputy Director; N. Kirmani. External Relations Department: H. P. G. Handy. Fiscal Affairs Department: D. C. McDonald. Legal Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy General Counsel. Middle Eastern Department: S. von Post. Research Department: W. C. Hood, Economic Counsellor and Director; A. D. Crockett, Deputy Director; R. R. Rhomberg, Deputy Director; J. Artus, C. P. Blackwell, J. E. Blalock, M. E. Bond, J. M. Boughton, M. C. Deppler, S. J. A. Gorne, O. E. G. Johnson, M. D. Knight, A. Lanyi, C.-Y. Lin, P. J. Montiel. Secretary's Department: A. P. Bhagwat. Treasurer's Department: D. Williams, Deputy Treasurer; O. Roncesvalles, G. Wittich. Western Hemisphere Department: S. T. Beza, Associate Director; E. Hernandez-Cata, Y. Horiguchi. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: J. R. N. Almeida, T. A. Connors, L. K. Doe, S. El-Khouri, L. Ionescu, P. Kohnert, Y. Okubo, P. D. Péroz, M. Z. M. Qureshi. Assistants to Executive Directors: H. A. Arias, R. J. J. Costa, C. Flamant, I. Fridriksson, G. Gomel, V. Govindarajan, C. M. Hull, A. K. Juusela, M. J. Kooymans, W. Moerke, G. W. K. Pickering, D. I. S. Shaw, N. Toe.

1. WORLD ECONOMIC OUTLOOK - GENERAL SURVEY

The Executive Directors continued from the previous meeting (EBM/83/136, 9/9/83) their consideration of a staff report containing general survey of the world economic outlook (ID/83/5, 8/19/83).

Mr. Coene said that he generally endorsed the views expressed in ID/83/5 and would concentrate on a few topics. He agreed with the staff that the present recovery in the United States was attributable mainly to lower inflation and to deficit spending, according to an old-fashioned Keynesian recipe. While curbing inflation was an important prerequisite for a consolidated recovery, it would not be sufficient by itself. Like other Executive Directors, he felt that recovery could be sustained in the short term only if demand for consumption shifted to demand for investment. The large fiscal deficits delayed such a shift by absorbing savings mainly for purposes of consumption and thus tending to crowd out private investment. Unless a change occurred in the distribution of savings in favor of investment, rising demand would rapidly bring the utilization of existing capacity to its limits, thereby heightening price pressures. Control of monetary expansion could achieve little in shifting the distribution of savings toward investment. On the contrary, because public consumption, which absorbed a large part of total consumption, was rather insensitive to changes in interest rates, a monetary squeeze would tend to crowd out investment and private consumption in favor of public consumption.

For investment to expand, Mr. Coene continued, national authorities would have to create the necessary conditions for adequate profitability. Although profitability seemed to have improved greatly in the United States, he doubted whether it had improved sufficiently in Europe. Furthermore, national authorities had to take measures that would bring interest rates down, permitting the financing of new investments. As the staff had correctly indicated, high U.S. interest rates depressed investment in the United States and attracted funds from other countries. Thus, a reduction in the U.S. Government deficit would play a central role in assuring the sustainability of the world economic recovery. He found it particularly worrying that the rise in U.S. fiscal deficits had occurred at the same time as the lowering of savings rates. Recent evidence showed that higher interest rates alone were not sufficient to generate additional savings. However, a look would be warranted at the fiscal treatment of investment income and interest costs for purposes of consumption, in order to achieve a better equilibrium between the supply of and demand for savings.

As to the adjustments being made by developing countries, he generally agreed with the staff's views, Mr. Coene remarked. However, developing countries' efforts to adjust to external imbalances became self-defeating if they had to take place in an environment in which the large industrial countries pursued policies resulting in current account surpluses. That contradiction from the standpoint of the international adjustment process might have been worthy of some greater attention in the paper, although he saw a great improvement in the treatment of international consequences of policies pursued by the largest countries. To ensure the necessary financing to support the adjustment efforts of developing countries, close cooperation should be established between the banks and the Fund. Such cooperation should not only cover the exchange of information; it should, above all, lead to a better understanding by the financial community of recommendations formulated by the Fund concerning countries' adjustment policies. In that way, the banks would better perceive when it was to their advantage to continue lending and how they could best schedule the profile of reinvestment as a function of the implementation of adjustment programs. Only if financing occurred within a medium-term framework could a developing country expressly undertake adjustment efforts.

Mr. Portas noted that one of the prerequisites for a lasting world economic recovery was the sustainability of the recent pickup in the U.S. economy. A change in the policy mix designed to correct the larger budgetary disequilibria was needed. A sustainable, stable recovery would require steadily growing flows of private capital, which in turn would call for expectations of moderate, reasonable interest rates. Thus, the public sector deficit in the United States had to be reduced, allowing for lower interest rates to stimulate investment and additional savings to match lendable funds that would accompany the recovery.

As it was, the recovery in the United States did not provide for sufficient conditions to stimulate world economic recovery, Mr. Portas commented. The high degree of world interdependence--the binding constraints imposed on the conduct of national macroeconomic policies--should always be borne in mind by national authorities in formulating decisions. For instance, floating exchange rates had proved not to be an insulator, as once thought: the belief that floating rates would allow for independence of national economic policies had not been borne out by events. Nor did floating rates provide the additional independent policy instrument that was required to match countries' internal and external objectives, thereby reconciling domestic stability and prosperity with equilibrium in the external accounts. Recent experience had shown that conflicts arising between domestic and external objectives were rarely if ever reconcilable, and in most cases priority was given to achieving external balance. Therefore, a convergence among national policies was needed for a lasting economic recovery to take place.

A second important element to take into account concerned the choice and relative intensity of the use of policy instruments, Mr. Portas said. That inflationary expectations and other disequilibria had not disappeared, even after the improvements achieved in monetary mangement, should lead Executive Directors not to expect too much from purely monetary factors. The different instruments of economic policy would have to be used in a much more coordinated way to place the recovery on a sound footing.

Another finding in major industrial countries was that expectations about the course of policy did influence the results of policy, Mr. Portas noted. Government compliance with the announced objectives of policy had also proved to be an important regulator of adjustment. The transition to stable and adequate rates of growth would be easier and less costly if national authorities increased the degree of credibility in government policies by avoiding erratic swings in the implementation of economic programs.

Any serious recession was likely to create or reveal structural disequilibria that outlasted the recession and would not automatically reverse themselves, Mr. Portas observed. Disequilibria in capital and labor markets would have to be corrected in order for countries to resume sustained rates of growth so as to avoid a further deterioration in productivity, low capacity utilization, and wage rigidities. Increased protectionist tendencies in many countries had only delayed the need to correct such maladjustments. Like other Executive Directors, he wished to stress the importance of reversing protectionist tendencies in order to ensure a lasting and healthy world economic recovery.

Finally, the crucial role played by international institutions should be emphasized, Mr. Portas commented. Unless the proper domestic policies were chosen by large industrial countries, international institutions could not by themselves trigger sustained economic growth. They could, however, monitor international financial intermediation and thus minimize the strength of nationalistic impulses and economic misbehavior. For instance, the role of the Fund in dealing with the crises undergone by some countries in 1982 had proved essential in breaking the tendency of capital markets to expand the flow of resources toward developing countries in times of prosperity and to choke off the flow in times of recession, irrespective of the countries' economic policies.

Mr. Delgadillo said that, despite signs of recovery in the world economy, particularly in the United States, the speed and sustainability of the recovery appeared fragile. The persistence of fiscal maladjustments remained a serious cause of concern and reduced the chances for further improvement in the world economic situation. The level of real interest rates would continue to play an important role in adjustment through its effects on investment demand and economic growth. Therefore, continued fiscal imbalances contributed little to a firm and sustained recovery of the world economy. Undoubtedly, the policy stance of industrial countries had a direct impact on less developed countries. In the face of expansive fiscal policies in certain large countries, the possibility for improvements in developing countries remained crucially limited. Notwithstanding the formidable adjustment efforts being made by many countries, the prospects for their economies in the medium term were hardly favorable.

A persistent financing gap would be incompatible with any possibility of real improvement in growth, Mr. Delgadillo remarked. Regrettably, there were already many alarming signs that a large number of developing countries were actually becoming worse off in terms of the economic well-being of their people. He agreed with other speakers that an optimal combination of adjustment and financing was still to be found. Official development assistance, long-term financing, and adequate interest rates would play an important role in the near future.

The role of the Fund would be crucial, Mr. Delgadillo said; practical means must be found to reinforce that role. One way would be to move forward discussions of the Ninth General Review of Quotas.

The recent reduction in bank financing was inconsistent with the medium-term needs of developing countries, Mr. Delgadillo concluded. It was important to begin seriously analyzing various alternative ways of transferring savings from industrial countries to developing countries, in view of the demonstrated failure of the banking system to carry out its responsibilities. In conclusion, a reversal of protectionist policies had to accompany other measures supportive of the recovery in economic activity around the world.

Mr. Lindå said that he was encouraged to learn that the upswing in the world economy was stronger than previously assumed. In historical perspective, however, the weakness of the upswing was particularly noticeable as the latest recession was the deepest and most protracted in the entire postwar period. The upturn was still too weak to bring about a reduction in unemployment in the near future. In fact, unemployment in industrial countries would continue to rise during 1983 and would decline hardly at all during 1984. Another serious feature was that the recovery was largely confined to North America, while growth in Europe remained unsatisfactory. Sluggish investment in industrial countries was of concern since an increase in productive investment was indispensable if the recovery was to be sustained. Lower interest rates would no doubt stimulate investment. It was equally important that economic growth should prove strong enough to raise capacity utilization within a reasonable period. One encouraging feature was that inflation in many industrial countries had been brought more firmly under control than previously expected.

The large current account deficit accompanying the strong recovery in the United States was helping developing countries to reduce their current account deficits and thereby improve their creditworthiness, Mr. Lindå remarked. Nevertheless, developing countries remained in a difficult economic position, with large external current account deficits and financing problems accompanied by low rates of economic growth. GNP per capita in developing countries would decline in 1983 for the third consecutive year, with little or no increase expected in 1984. Although exports and the terms of trade were expected to improve somewhat during during 1983 and 1984, several developing countries would be facing major financing problems that would put the private as well as the international financing institutions to a hard test. The scenario for developing countries drawn up by the staff might be prudent and realistic, but also conceivably overoptimistic. He agreed with the staff that there was no room for complacency and that member countries should retain the flexibility to react in an appropriate and timely manner should external developments turn out to be less favorable than foreseen. Consequently, it was of the utmost importance for developing countries that growth in industrial countries did not fall below the staff estimates.

He agreed with the staff that developing countries should carry out the necessary adjustment of their current accounts to easily financeable levels, Mr. Lindå said. In designing adjustment programs, national authorities had to give overriding priority to maintaining their creditworthiness. Since adjustment in developing countries was primarily felt in the modern sector, the authorities should also take care not to endanger their country's growth potential in the medium term.

In view of the high unemployment and low capacity utilization in industrial countries as well as the uncertain prospects for developing countries, industrial countries with low rates of inflation, positive external balances, and a disappointing rate of growth should consider measures aimed at stimulating domestic demand, Mr. Lindå recommended. Whether such measures should be implemented through an easier monetary policy or a more expansionary fiscal policy had to be decided on the basis of each country's own circumstances. However, countries should take exchange rates into consideration when using instruments of credit policy.

Countries with a satisfactory medium-term outlook should aim not at making excessive reductions in their fiscal deficits, but rather at stimulating economic activity moderately through fiscal action, Mr. Lindå remarked. His authorities were concerned about the tightening of fiscal policy that was apparently taking place in Japan and Germany. Although he agreed with the staff that budgetary balance was important under full employment and high capacity utilization, national authorities should nonetheless find it possible, in the early stage of an economic recovery with exceptionally underutilized resources, to pursue a slightly expansionary fiscal policy in order to support the recovery without rekindling inflationary pressures.

The present policy mix in the United States had unfavorable effects on interest rates, resource allocation, and growth in the medium term, Mr. Lindå considered. The structural element of the fiscal deficit needed to be gradually corrected, but the cyclical element of the deficit should not be of too great concern, for it might in fact help to maintain the momentum of the recovery. As the economy moved toward full capacity, the U.S. budget position would have to be strengthened, a step that should be accompanied by monetary measures designed to lower real interest rates.

The size of the U.S. current account deficit was not at all clear, Mr. Lindå pointed out. In 1982, the errors and omissions item in the U.S. balance of payments had amounted to more than $40 billion. The analysis provided by the staff of the large negative asymmetry in the global balance of payments statistics might indicate that a substantial part of the errors and omissions item was attributable to unrecorded or underrecorded positive current account transactions, especially on invisibles. Thus, the U.S. current account balance might be far stronger than official figures showed. An analysis of the reasons for the large errors and omissions item in the U.S. balance of payments would be highly desirable with regard to both the accuracy of current account positions and the policy decisions based on those statistics. Improved statistics for the United States could possibly explain recent exchange rate developments and the present level of the U.S. dollar. The large fluctuations in recent years in real exchange rates among the major currencies showed that there was a great need for a coordinated exchange rate policy, including both exchange market intervention and monetary measures.

He agreed with the staff that, in both developing and industrial countries, the authorities should resist protectionist pressures and eliminate restrictions currently in force as soon as possible, Mr. Lindø stated. Only through increased exports of goods and services would the developing countries be able to service their large foreign debts and develop their economies. The contrast between the current account positions of the United States and Japan might strengthen protectionist pressures, to the detriment of the world economy.

In conclusion, his authorities shared the staff's view on the necessity of maintaining official development assistance at a high level, Mr. Lindø observed. The countries that had not yet matched the agreed target figure for development assistance should raise their contributions. His authorities also agreed that the Fund had to play a key role, both in exercising surveillance over adjustment and in providing short-term and medium-term balance of payments financing. The availability of private credit for developing countries might well fall short of the desired level. In such circumstances, the Fund had to be provided with adequate resources to meet members' needs for balance of payments assistance and to act as a catalyst for additional flows from other sources.

Mr. Nimatallah noted that the world had set for itself the desirable objective of realizing a strong and sustainable recovery. The objective was still far from being reached. Recovery in Europe was still weak, and there were doubts whether the current recovery in the United States could be sustained in the medium term. Why was that so, and what could be done about it? Briefly speaking, if a sustained recovery required merely control over inflation, enhancement of productivity, and resistance to wage increases exceeding productivity gains, considerable progress had been made in those areas in most industrial countries. However, if sustained growth also required measures such as cutting large fiscal deficits, narrowing divergences among countries' interest rates, reducing large fluctuations in exchange rates, narrowing payments imbalances, and resisting protectionism, much more needed to be done in those areas by industrial countries.

During the previous two years, Mr. Nimatallah observed, a large number of developing countries had undertaken strong and effective adjustment efforts, which had resulted in significant reductions in their current account deficits. Nevertheless, they had adjusted mainly by reducing imports, a practice difficult to sustain in the medium term. A number of developing countries had also accumulated large external debts, which they were having difficulties in servicing. Their debt problem had by no means ended. Thus, developing countries would continue to face the need for adjustment and the problems of debt and financing for a number of years to come. The question was how to deal with those problems.

He did not claim to know the answer to the question, Mr. Nimatallah said. However, the international financial system needed the full cooperation of all parties concerned. Developing countries would have to press on with their adjustment efforts. There was no substitute for that course of action if developing countries were to restore their creditworthiness and if commercial banks were to resume lending on a wider scale. Industrial countries would have to enhance their efforts aimed at reducing interest rates, removing trade barriers, and promoting recovery in general. They should also improve the level of their official development assistance to the developing countries, both bilaterally and multilaterally. Finally, the Fund was in a unique position to play a focal role in bringing together developing countries, official creditors, and commercial banks. Therefore, the Fund should be enabled to continue to play its role effectively.

Mr. Leeahtam endorsed the staff's conclusions about the world economic outlook. His comments would deal with the adjustment of fiscal deficits, the staff's presentation of policy interdependence in the adjustment effort, and the reduced current account deficits of developing countries.

The U.S. federal budget showed that it was not always easy to reduce the fiscal deficit, because many budgetary items were, in fact, uncontrollable, Mr. Leeahtam continued. During the 1980 U.S. presidential campaign, some mention had been made about a balanced budget. Two years previously, some had wondered whether the deficit would exceed $100 billion. At present, it seemed likely to approach $200 billion. He agreed with Mr. Hirao and Mr. Taylor that the United States should pursue a steady reduction of the fiscal deficit. In his view, a drastic cut in the fiscal deficit, even if it were possible, would be counterproductive.

He hoped that future Fund programs could take account of the U.S. fiscal deficit and recommendations as cited above, especially the requirement that most adjustment had to be front-loaded or had to take place in the first year of the program, Mr. Leeahtam continued. The programs should be more steady and not counterproductive. Of course, adjustment by a number of countries had to be strong and effective.

He had found the staff's presentation of policy interdependence to be quite useful and hoped that the staff would explore the matter further in future world economic outlook papers, Mr. Leeahtam commented. He wished that the staff could also undertake a quantitative analysis of the impact of reduced import demand by developing countries on exports by industrial countries and the consequences on growth and employment.

He had found the staff's presentation of the adjustment effort to be rather limited, Mr. Leeahtam remarked. As the staff had pointed out, there were not only payments imbalances on both the external account and the fiscal account in developing countries, there were also payments imbalances on external accounts and fiscal accounts in some major industrial countries. Both groups of countries required considerable efforts at adjustment; the staff's presentation should refer to both groups.

On the reduced current account deficit in developing countries, he reiterated Mr. Malhotra's view that the reduction might be treated as a positive aspect from the point of view of financing, Mr. Leeahtam said. However, in most countries, the reduction had been achieved by cutting back imports, especially imports of capital goods from industrial countries. The practice was detrimental to the development process in developing countries as well as to their demand for exports from industrial countries.

Mr. Erb remarked that his authorities did not disagree with the outlook for the U.S. economy presented by the staff. As he had said during the recent Article IV consultation with the United States, major changes in the fiscal deficits were unlikely during the coming two or three years.

With respect to monetary policy, the efforts of the Federal Reserve to slow money growth appeared to be succeeding, Mr. Erb observed. The rise in interest rates earlier in the summer appeared to have been followed by a decline. Thus, the efforts to slow the rapid money growth that had occurred during early 1983 might in the short run have contributed to a rise in interest rates, but, as he had said during the Article IV consultation, such efforts increased the likelihood of lower interest rates toward the end of 1983 and into early 1984. Although unwilling to make a precise prediction, he considered that the Federal Reserve had moved in the right direction to bring interest rates down.

The upward revision in the staff forecast for U.S. economic growth was welcome, Mr. Erb said. However, he agreed with Mr. Laske that it would be undesirable for the United States to experience an excessively rapid rate of growth over the near term, a prospect that appeared less likely at present than earlier in the summer.

Regarding the prospects for other industrial countries, analysts in the U.S. Government expected lower growth in the range of about 2.8 percent for 1983, compared with the staff's forecast of 3.25 percent, Mr. Erb commented. He had no major differences with the projections for growth in other countries. Obviously, the strong expansion in the Canadian economy reflected the strength of the U.S. economy. He would also agree that France and Italy, among the six largest foreign economies, were in the weakest position, and that the United Kingdom showed some buoyancy, although there had been some recent signs of slowing growth. In Germany, the U.S. authorities expected a slightly more solid recovery in 1984 than the staff projected.

Regarding the composition of output growth, ID/83/5 correctly pointed out that most of the strength in domestic demand in countries other than the United States had come from private consumption, Mr. Erb remarked. Business investment in particular had lagged. Nevertheless, surveys of investment intentions by business in several countries pointed to a turnaround in business investment, and the Fund staff projected a pickup. His own authorities had observed that in the two largest economies other than the United States--Germany and Japan--recent investment intentions pointed to a continued weakness. The staff had noted in ID/83/5 that considerable uncertainty surrounded projections of investment strength. It might thus be fair to say that, for a large number of industrial countries, there appeared to be little evidence yet of any recovery in investment.

Regarding the prospects for oil exporting countries, he was in basic agreement with the projections contained in ID/83/5, Mr. Erb went on. The substantial cutback in spending initiated by most such countries was likely to result in a sharp drop in the growth of the oil sector and should lead to a fall in their current account deficits as well. As to non-oil developing countries, the staff projections for 1983 were close to those made by the U.S. authorities, who did however predict a current account deficit smaller by $6 billion than the figure arrived at by the staff. The divergence could be traced primarily to differing judgments about the prospects in Latin America. His authorities projected a decline of almost $15 billion in the current account deficits of just five countries--Argentina, Brazil, Chile, Mexico, and Peru--while the paper prepared by the staff showed a decline of $13.5 billion for all of Latin America. In addition, the projection of a 1.2 percent decline in Latin American economic activity in 1983 might be too optimistic.

With respect to 1984, it appeared unlikely that the real growth of imports into non-oil developing countries would be as large as the 5.5 percent projected by the staff, Mr. Erb continued. The difference in the outlook of the U.S. authorities versus that of the staff could probably be traced to differences in assumptions about interest rates. It appeared unlikely that on average the interest rate on developing countries' debts would decline by 1 percentage point between 1983 and 1984, as was implied in ID/83/5. After all, spreads on new and rescheduled floating-rate debt would turn out to be higher, and the average cost of debt would continue its upward trend as the portion of lower-interest old debt was replaced by higher-interest new debt. Hence, if interest payments remained unchanged or increased in 1983 and if financing remained unchanged or declined, export growth in developing countries--given the rate of growth projected for industrial countries--was unlikely to be great enough to allow for real import growth at or near 5.5 percent in 1984.

Section IV in ID/83/5 presented a good analysis of the causes, both internal and external, of the debt crisis faced by several developing countries, Mr. Erb noted. The data on a new subcategory of non-oil developing countries--the 20 major borrowers from private sources--were a useful addition. The report pointed out that the needed current account adjustment would soon be complete; his authorities differed on the timing of the current account adjustment, expecting a sharp reduction in those countries' current account deficits. However, as the staff had stated, the twin factors of import suppression and extraordinary exchange controls, which had allowed many countries' current account deficits to decline rapidly, needed to be replaced by policies that would allow growth to resume with lower current account deficits.

His authorities agreed with the conclusion reached by the staff that there was no need to change the basic thrust of the strategies worked out between the Fund and individual debtor countries, Mr. Erb observed. Over time, a Fund strategy stressing structural shifts and efficiency gains in developing countries, together with higher growth in industrial countries, would ease the problems of debtors. As the staff had noted, however, and as his authorities' judgment would indicate, the burden of debt--under an assumption of reasonably favorable growth in developed countries--would fall from current levels but would remain high relative to the 1970s. In his view, with which the staff concurred, the low or negative interest rates of the 1970s appeared to have been an anomaly and were unlikely to recur in the future. Thus, debt problems would remain severe.

He had found the work provided in Section V, on policy interdependence and exchange rates, to be interesting and helpful, Mr. Erb said. In general, however, the staff seemed to have put too much emphasis on fiscal policies and not enough on monetary policies. He did agree with the staff's fiscal analysis, which correctly emphasized the structural consequences of fiscal deficits, including their impact on the structure of economies and on the structure of international trade and financial flows. As he had suggested during the Article IV consultation with the United States, such structural effects were in many ways more important than the potential impact of fiscal deficits on real economic growth.

On monetary policy, he would have liked to see a clearer statement of what assumptions were being used by the staff, particularly what was meant by the term "monetary restraint," Mr. Erb commented. He agreed with the staff's discussion of the convergence of inflation rates in a number of major industrial countries, a positive development that was however far from complete. An important condition for exchange rate stability would be the movement of a larger number of countries' inflation rates toward the low rates of inflation in the major money-center countries. In the subsection dealing with exchange rates during the previous two years, the staff had attributed the instability to the sharp divergence between fiscal policies in different countries. He was not certain whether and to what extent the divergence had led to the instability observed in exchange rates. For one thing, the time frame of the staff's analysis was unclear. He believed that the rise in the U.S. fiscal deficit and the shift to a noninflationary monetary policy had been major reasons for the large shift that had taken place in the value of the U.S. dollar against other currencies since 1980. Fluctuations in exchange rates were more closely related to fluctuations in monetary developments in different countries than to uncertainty caused by fiscal deficits in the United States. From a U.S. perspective, the problem had been not that people were uncertain about the size of the fiscal deficit but rather that they were certain that it would continue to rise, a belief that had encouraged higher interest rates and had thus contributed to a stronger dollar. However, he was not of the view that it had contributed to the fluctuations that had occurred since 1980.

The staff had also expressed concern about the evolution of current account positions, Mr. Erb noted, stating that it represented a potential threat to the stability of the international monetary system. He believed that, if the implications of a country's current account as spelled out by the staff were to become more and more widely recognized by the market, that development would lead to a desired adjustment in the country's exchange rate, not to greater exchange rate instability. However, if awareness of the actual growth in a country's current account deficit began to influence the exchange rate of its currency, and if the national authorities embarked upon a much more expansionary monetary policy, the consequences for the exchange rate could be severe. Consistent with the staff analysis, the current account deficit in the United States was in a way a reflection of the U.S. fiscal deficit and the high relative real interest rates prevailing in the United States.

On page 35 of ID/83/5, the staff spelled out the favorable impact that the appreciation of the U.S. dollar had had on other countries' balance of payments, Mr. Erb continued. As Mr. Joyce had said at the previous meeting, the greater competitiveness that other countries had acquired as a result of the strong appreciation of the U.S. dollar should encourage them to take further initiatives in liberalizing trade.

In light of the attempt made by the staff on pages 35-38 to analyze the causes of fluctuations in the value of the U.S. dollar, Mr. Erb said that a fully satisfactory explanation was difficult to construct. Of all the ideas devised to explain why the dollar had been strong, one that had struck him was that there might well be a good reason why the United States--alone among industrial countries--could conceivably over time, and rationally so, sustain a current account deficit. The explanation was the comparative advantage of the United States as a financial center. Even in the United Kingdom, Germany, and Japan, it was difficult to find markets with the depth, breadth, and degree of liquidity that could be found in U.S. financial markets. At times when the United States had an inflation rate similar to the rates prevailing in Germany and Japan, the United States as a financial center thus became a major source of attraction for foreign savings from all sources and could conceivably enable the United States to run a sustainable current account deficit for some time.

At the top of page 37, the staff pointed out that Executive Directors might express different opinions about whether the crowding out of financial markets would occur in an environment of continued monetary restraint, intimating that either inflation would be kept under control or a shift would occur to a more accommodating monetary policy that would quickly lead to a rekindling of inflationary fires, Mr. Erb went on. In either event, according to the staff, crowding out was likely to exert upward pressure on the exchange value of the U.S. dollar. It would have been useful to see the staff's analysis performed more explicitly in terms of nominal and effective exchange rates. In his view, if fiscal deficits were to be monetized, resulting in a much higher rate of inflation in the United States, the nominal dollar rate would weaken over time.

As to the policy implications spelled out in Section V, subsection 4, the staff had again used the unfortunate term "policy mix," Mr. Erb observed. The term, which had different meanings for different people, suggested that a different combination of monetary and fiscal policies might have produced a better outcome. Yet it seemed to him that the focus of monetary policy should be on achieving price stability. The focus of fiscal policy should be to restore a stable and relatively low fiscal deficit, but, even if the deficit were lower, he was uncertain whether there would be an opportunity for a more expansionary monetary policy, because he believed that, even with a lower fiscal deficit, higher monetary growth would lead to a higher rate of inflation. Nevertheless, it was unclear to him what the staff had had in mind in recommending monetary restraint or what changes the staff would expect to occur in monetary policies if fiscal deficits were brought down. He agreed that monetary conditions would change and that interest rates were likely to fall, but he did not think that those developments would or should induce the monetary authorities to follow a more expansionary policy.

The staff had made strong suggestions throughout that section that industrial countries had recently exerted monetary restraint, Mr. Erb stated. He himself believed that there had been little restraint, at least during the past nine months, either in the United States or in Germany. As Mr. Laske had informed the Board at the previous meeting, one of the reasons for the decision to raise German interest rates the previous day had been the higher than desired money growth in Germany. He would not wish the implications of the staff's argument to be that national authorities could allow an easier monetary policy if they succeeded in reducing the fiscal deficit.

Like other Executive Directors, he agreed with the staff that it was important, especially in Europe, to encourage a shift in the distribution of income in favor of profits, Mr. Erb remarked. Higher profits seemed essential to provide incentives for more buoyant investment within Europe. He also strongly agreed that the loss of export markets through protectionism could be particularly harmful to developing countries, given their need to expand exports. He would also argue that developing countries should avoid intensifying their trade subsidies and restraints on trade, which in turn exacerbated protectionist pressures in their export markets. Thus, protectionism tended to feed on itself, even when it originated in developing countries.

As he had said earlier, his major concern about the budget deficits was their impact on the structure of economies, Mr. Erb continued. Deficits per se were unlikely, either in the short run or within a year or two, to strangle or even to slow down economic recovery. Rather, deficits contributed to economic growth in the short run; one of the consequences was higher real interest rates. At the same time, he thought it desirable to lower fiscal deficits, especially in the United States. In response to Mr. Joyce, lower deficits would indeed mean, at least in the short run, a lower growth rate in the United States and a slower economic recovery. Those developments would represent a desirable cost in light of the structural benefits over time of bringing down fiscal deficits along with interest rates. Moreover, lower interest rates would have a desirable effect on the structural adjustment of developing countries to their external debt position. Over the next six months to a year, a slower growth rate in the United States and some further reduction in interest rates would on balance have a beneficial effect on developing countries. Even though it would mean slower export growth for other countries, a decline in interest rates would have a favorable effect on them as well. It was thus a question of the distribution of growth through the world economy and the distribution of growth within economies because of the differential effects that interest rates had on interest-sensitive sectors of individual economies.

Mr. de Maulde observed that the general tone of the report was much more optimistic than that of the previous one. He had some doubts about that optimistic tone; however, since the paper, and comments on it, would be widely available during the Annual Meetings, the Fund's attempt to promote confidence was not in itself unsound. The point was well made that France was undergoing adjustment, and that the results coming in were better than had been expected. He wished to endorse the comments made by Mr. Joyce at the previous meeting.

On page 41 (ID/83/5), the staff had given three explanations for the recovery in economic activity under way in North America, Mr. de Maulde went on. He was not happy with any of them. The staff had maintained that the recovery was due mainly to the effects of lower inflation in helping to bring down interest rates and revive interest-sensitive expenditures; he did not believe that explanation. The staff had stated at other points in the paper that real interest rates remained exceptionally high, even if they had declined marginally. In his thought-provoking statement at EBM/83/136, Mr. de Vries had given two explanations for the phenomenon, one referring to the expansion of monetary aggregates. He himself considered that the evolution of monetary aggregates was more an effect than a cause and that no one knew enough about the time lags with which monetary aggregates affected national economies to place any confidence in them. Mr. de Vries had however come up with a better argument in dealing with the real sector of the economy by saying that firms, especially those in the United States during the recession, had made great progress in preparing for better profits in the future. Although he would like to go along with Mr. de Vries's explanation, during the same period fixed investment had been low, meaning that new equipment had generally not been put into place. All in all, he could not believe that undergoing a recession was the best way for industry to update its productive equipment.

Putting aside those explanations, Mr. de Maulde continued, he would suggest another one, perhaps too classical to be accepted by Executive Directors. He wondered whether the huge U.S. fiscal deficit, which had been countered by some easing in monetary policy since December 1982, might have had some consequence for global demand in the United States, especially since preparations made during the recession did not explain most of the recovery. He was thus led to concur with Mr. Joyce that the recovery was indeed fragile. It stemmed from consumer expenditures; it was bolstered by an expected high point in the inventory cycle; and it was also energized by the large fiscal deficit. There was no likelihood that budget deficits would be reduced in the next 18 months, and he was uneasy about the overoptimistic thoughts about recovery in the United States. He did not believe that the recovery currently under way was necessarily self-sustaining. He also wondered whether the staff forecasts for other low-inflation industrial countries might not be overoptimistic.

In principle, he agreed with the staff's advocacy of a medium-term anti-inflationary policy, Mr. de Maulde said. Nevertheless, the staff appeared to share his doubts about the appropriateness of such a policy. For instance, on page 20 (ID/83/5), the staff said that, while Germany and Japan would have to make progress toward reducing fiscal deficits and rates of monetary growth, the speed of such progress would have to be moderated in the light of the continued weakness of domestic demand. Did the staff advocate containing demand? In industrial countries other than the United States with a low inflation rate, the staff would have to be careful in making a distinction, particularly when discussing budget deficits, between structural effects and underemployment effects. For example, the figures available on the budget in Germany might cause observers to wonder whether, given full employment, there would really be a substantial deficit.

He agreed with what other Executive Directors had said on the need to struggle against structural rigidities, Mr. de Maulde continued. If national authorities strove to compress demand and accommodate high budget deficits for a long time, they would succeed in consolidating low inflation and low employment. The Fund should be opposed to such a course of action.

He had no special problems with the staff's observations about oil exporting countries, Mr. de Maulde said. As all forecasts in that field were extremely difficult, the one made by the staff was probably no more unreasonable than any other.

On exchange rates and policy interaction, he did not agree with the comments made at EBM/83/136 by Mr. de Vries, Mr. de Maulde observed. He was not certain that European countries were in disagreement about the effects of the overvaluation of the U.S. dollar and the high interest rates on their economies. On that point, he agreed with Mr. Laske.

Turning to Section IV, Mr. de Maulde considered that Mr. Lovato had put his finger on the basic difficulty: the pressure put on countries by the Fund to conduct their policies according to its lights was perhaps correct for each particular country; but it might well be self-defeating when all countries were taken together. When the Fund recommended to a large number of countries that they increase exports and decrease imports, the policies might not always mesh. He believed in adjustment, and his authorities greatly favored it. Was the Fund doing all that was needed?

First, more effective cooperation between Fund programs and World Bank financing was needed, Mr. de Maulde continued. While the Fund was attempting to bring about adjustment mostly on the demand side, many countries would no doubt find it helpful if there were some investment financed by the World Bank on the supply side. Second, he agreed with Mr. Joyce's comments about official aid and special military aid, which was extremely self-defeating. It would be morally wrong and economically absurd for industrial countries to backtrack on official aid during the period ahead. Third, bank lending would continue to developing countries. Perhaps some institution, like the World Bank, could attempt to help commercial banks to grant further lending in the future by extending warranties to the commercial banks for new credit. In fact, the World Bank had begun to do precisely that in a timid way under its so-called cofinancing scheme.

Like other Executive Directors, he believed that protectionism should be held back, Mr. de Maulde considered. The process of surveillance introduced by the Managing Director was working well. Moreover, ID/83/5 pointed to the desirability of keeping Fund financing at a reasonably high level in the forthcoming period. It would be disastrous if Executive Directors should fail to obtain a consensus in the Fund at a time when the worldwide economic recovery needed to be stimulated. It would be inconsistent to limit too sharply access to the Fund. Finally, the paper presented background for Executive Directors to consider the desirability of new allocations of SDRs, which would be especially helpful to those countries that needed the assets.

Mr. Erb, referring to the point made by Mr. de Vries on the short-run consequences of reducing the fiscal deficit, explained that it was the belief within the United States that any steps taken at present to reduce the fiscal deficit would have a detrimental impact on short-run growth. That belief was one of the many factors that made it unlikely that the fiscal deficit would fall substantially in the next year or two.

Mr. Zhang observed that, for the past three to four years, the major industrial countries had followed the policy that recovery in growth would have to wait until inflation had been expunged. National authorities had relied upon stringent monetary policy as the main instrument to break inflation; they had relied on fiscal policy to a much lesser extent; and they had revived and strengthened incomes policy measures in only a few countries. Although the continuing application of stringent monetary policy had led to a halt in inflationary trends in many countries, the halt had been achieved at the cost of a severe and protracted recession. World trade and long-term capital flows had suffered, while the external debt servicing problems of developing countries had been exacerbated by high and rising real interest rates. Under the circumstances, recession in those countries would have been even more severe and protracted had not the restrictive effects of a strict monetary policy been partly offset by an expansive fiscal policy.

The current economic recovery in the United States could not have begun before the authorities had eased their stringent monetary policy, which they had done about one year previously, Mr. Zhang continued. At present, the recovery was moving ahead more strongly than expected, but the transition from the current recovery to sustained noninflationary growth would need a continuation of an accommodative monetary policy and other policies as well. Generally speaking, in a mature market economy, specific industrial policies should be adopted as a means of solving structural adjustment problems in production, employment, and investment. To maintain price stability would facilitate growth. It was probably significant that, when the economy was just emerging from a relatively long period of stagnation, there was a fear that expansion in growth supported by an accommodative economic policy would rekindle inflation. Under such circumstances, price and wage stabilization measures would be necessary.

The present high fiscal deficits in all countries were, in varying degrees, the direct result of the present recession, Mr. Zhang observed. In some countries, deficits had indeed been large by historical standards, but the recession had been quite deep. Recently, there had been some improvements in the fiscal position of several relatively large countries. The experience of individual industries did not seem to show that there was any close, positive relationship between the size of the fiscal deficit and the level of interest rates. In the United States, for example, changes in interest rates had mainly reflected changes in monetary policy. Furthermore, the fiscal problem in the United States had to do more with future policy intentions than with previous and current realities. Even given a record growth of GNP during the next several years, the fiscal deficits were still likely to be well in excess of any experienced since World War II. What would be the effect on the economy if large deficits were expected to continue? In the short run, such expectations would tend to offset the effectiveness of monetary policy by lending support to fears among those in financial markets that, sooner or later, large deficits would lead either to a clash between monetary and fiscal policies or to the adoption of an inflationary monetary policy designed to finance the deficits. Those fears tended to prevent long-term real interest rates from falling in the markets, even though the authorities had taken action to reduce short-term interest rates. He found it difficult to say to what extent reductions had actually occurred recently; if they had, the effect would be difficult to quantify.

Even if long-term interest rates did not fall, the existence of underutilization of capacity made it uncertain how private investment would be adversely affected, Mr. Zhang continued. As experience had shown, private investment decisions on plant and equipment were not determined solely by the level of, or expected change in, long-term interest rates. High interest rates in the United States would also have important international repercussions. In the medium term, it might be reasonable to expect that large fiscal deficits would tend to reduce the supply of savings available for investment, and hence the amount of investment itself. The reduction in investment would affect the future rate of growth and future productivity. Furthermore, given the current composition of the budget, a continuous expansive fiscal policy would result in a GNP more heavily weighted toward consumption and defense expenditure than toward investment in plant and equipment. That development would eventually bring about a change in the basic pattern of expenditure and output in the U.S. economy.

As to exchange rates and policy interaction, he agreed with the staff's exposition of the adverse impact of the appreciation of the U.S. dollar on the world economy, which had had the effect of absorbing world savings and strengthening protectionism, Mr. Zhang remarked. He was, however, unsure about the extent to which the appreciation of the dollar could be attributed directly to the markets' fear of prospective fiscal deficits. The appreciation of the dollar and the consequent inflows of capital into the United States had been caused mainly by high U.S. interest rates, the direct result of the stringent U.S. monetary policy adopted to fight inflation. Capital inflows were also attributable to speculation and political developments elsewhere.

Recent experience in other industrial economies, particularly those in Western Europe, had been quite different, Mr. Zhang observed: interest rate policies had been geared to achieving exchange rate objectives. Those economies were open, and their domestic cost-price structure was rigid. Although central banks intervened in the exchange market from time to time, they generally took actions to raise interest rates in order to cope with downward pressures on the exchange value of their currency in the markets, particularly if the domestic currency was depreciation-prone. In a few countries, such downward pressures had resulted from persistent imbalances in the current account of the balance of payments, rather than from capital movements.

As to the rest of the world, Mr. Zhang stressed the importance of a favorable international environment for adjustment in developing countries. Even more important, national authorities, in pursuing adjustment, could not ignore their country's growth objectives. With regard to international cooperation, he generally shared the staff's views on the elimination of protectionism, the need for more efficient development assistance, and the importance of the Fund's role in international cooperation. Finally, like several other Directors, he had not found the analysis of economic policies and difficulties in developing countries to be adequate. He hoped that, in future reports, the staff would pay greater attention to that topic.

Mr. Morrell observed that ID/83/5 presented an excellent analysis of the world economic situation and of short-term forecasts. He had no difficulty in supporting the conclusions. He endorsed Mr. Hirao's comment at EBM/83/136 on the need for medium-term strategies to deal with structural imbalances, which should be implemented flexibly but with resolve. He would also endorse Mr. Taylor's remarks on the need for governments to explain fully to union and labor organizations the adverse consequences for recovery that would result if they were to attempt to make up for recent declines in real wages without concerning themselves with the need to restore business profitability and to limit wage increases in line with productivity increases.

In light of the recovery in the U.S. economy, Mr. Morrell said, he would have some sympathy with the view that institutional factors could contribute to maintaining high interest rates when other factors might not support them. However, it was clear that the persistence of higher budget deficits did have an effect on inflationary expectations and thus on the level of interest rates. He fully endorsed the staff's views on page 39 of ID/83/5 on the need to reduce large budget deficits and on the dangers of an excessively expansionary monetary policy. He would also endorse Mr. Erb's views on the dangers of structural deficits. There was little that could be done in the short run to affect such deficits, but there was a need for a convincing start to be made if financial markets were to change their expectations about the future demand for funds.

He could endorse the staff's conclusion that one of the most important elements of policy interaction would be for the main industrial countries to bring their fiscal deficits down to appropriate levels, Mr. Morrell continued. The interest rate pressures that followed from fiscal deficits jeopardized recovery by inhibiting investment while distorting international markets through their effects on exchange rates. As mentioned by a number of Directors, large fiscal deficits in industrial countries could have dangerous consequences for the flow of global savings to finance the balance of payments deficits and debt service of developing countries. He was glad that the staff had attributed considerable significance to that problem. Greater convergence of economic policy and performance, particularly lower and less variable rates of inflation, would contribute greatly toward moderating the variability in exchange rates. Until such convergence had been achieved, any talk of global exchange rates would remain premature.

The strength of the U.S. dollar had to be connected in some way to high real interest rates in the United States, which flowed in part from the huge fiscal deficit, Mr. Morrell observed. Insofar as the strength of the U.S. dollar was a source of international tension, that connection tended to highlight the need for concerted efforts to reduce the fiscal deficit. However, interest rates had been sustained both by large deficits and by rapid rates of inflation in some other countries.

On adjustment in developing countries, Mr. Morrell said, ID/83/5 presented ample evidence that developing countries, particularly the major borrowers, were adjusting, although more progress was required. As Executive Directors had noted, the current account deficits of the major borrowers were expected to decline from SDR 63 billion in 1981 to SDR 39 billion in 1983, falling from the equivalent of 25 percent to 13 percent of those countries' exports of goods and services. As others had observed, the decline had been achieved in an environment of drastic deterioration in the terms of trade, depressed demand for exports, and tightened protectionism at a cost of a severe compression of imports. In 1982, for example, import volumes of the major borrowing countries had fallen by some 10 percent. The obvious question arose of how long compression could be sustained. It was worrisome that there was no evidence of increased investment spending in industrial countries. There was also a question whether developing countries would be able over the medium term to take advantage of the opportunities that had been opened up by a recovery in industrial countries, which had engaged in severe financial restraint for some time.

The issue of whether continued, albeit moderate, lending by the commercial banks could be assured was critical, Mr. Morrell said. Mr. de Vries had commented at the previous meeting about the need for some alternative to commercial banks as a source of funds, but no alternatives seemed to be on the horizon. The staff projected the growth of commercial bank lending in the coming year to be in the range of 5-7 percent. Unfortunately, there would be considerable variation among different countries in the growth of lending. There was also a concern about the influence exerted by the Fund when assisting in the financing of major programs and the consequences of Fund influence on other borrowing countries.

On international cooperation, Mr. Morrell said that protectionism was a practice that everyone criticized but no one confessed to. Clearly, protectionist action jeopardized international adjustment and the resolution of some debt problems. One of the most urgent concerns was how to deal with protectionist mechanisms already in place; over the medium term, action would be needed to dismantle the mechanisms that systematically discriminated in international agreements, such as the treatment of the agricultural sector in the GATT and the multilateral cover for protectionism in textiles under the Multifiber Arrangement.

He endorsed the staff's remarks on the need to sustain and increase official development assistance, Mr. Morrell concluded. The paper had identified two main roles for the Fund: overseeing realistic adjustment and providing adequate financing. Clearly, the Fund could hardly be expected to succeed in overseeing realistic efforts at adjustment by countries if it did not have adequate resources to contribute to their financing.

The Economic Counsellor recalled that Mr. de Vries had questioned the role of interest rates in the generation of recovery, preferring to stress monetary measures, particularly the control of monetary aggregates. The staff certainly believed that the abatement of inflation had permitted some decline in interest rates. Without understating the role of monetary management in inducing an abatement of inflation, he found it useful to refer to the role in the recovery of demand of some of its interest-sensitive components. Higher spending on housing and automobiles, together with the response of inventory management to changes in interest rates, had affected the economic recovery under way.

In commenting on that point, the Economic Counsellor continued, Mr. de Maulde had maintained that the staff could not have it both ways by saying that real interest rates were high, which could not be both a stimulant and a depressant to demand. As a matter of fact, high interest rates could indeed both stimulate and depress demand. The question revolved around whether a home buyer was moved more by high nominal rates or by high real rates. The feeling among staff members was that the role of real interest rates should not be understated, but that in the realm of housing, car buying, and perhaps even inventories, nominal interest rates had an independent and significant effect of their own. Of course, the question of the sustainability of the recovery had a great effect on interest rates. Mr. Taylor in particular had mentioned that an increase in the rate of inventory accumulation could be relied upon only to a limited extent or for a limited time in sustaining an economic recovery. He himself agreed with that observation. If Mr. Erb felt that the recovery in the United States might be showing less ebullience than a few weeks previously, it was perhaps because interest rates in the United States, particularly nominal rates, had been on a rising course in the past few weeks. The effect of the rise had been reflected in the demand for housing. He would expect that it would also have an effect on inventory demand as well as on automobile demand. A third explanation had been offered by Mr. de Maulde, who had maintained that the high deficit accompanied by an easier monetary policy had induced the recovery. He himself agreed that demand from the government sector supported economic activity. Moreover, Table 6 on page 69 (ID/83/5) showed a modest increase in the fiscal impulse in 1982 and a rather more substantial increase in 1983. All those points were relevant. The continuing question was whether the recovery would prove to be sustainable.

The comment had been made by Mr. de Vries that high deficits led to high interest rates, which might abort the recovery but were needed to curb higher demand and avoid a resurgence of inflation, the Economic Counsellor noted. The staff would continue to regard inflation as the enemy of growth and expansion. He did not disagree that high deficits and expansion of private demand might be expected at some time to exert pressure on resources that resulted in higher prices. That point of view was a static one based on the assumption that a country's resources were fully employed. The problem, particularly in the United States, was not so much the size of the fiscal deficit in relation to GNP as the prospect that the ratio would grow without control in the future. In those circumstances, there were fears of higher inflation and therefore of higher interest rates that were prejudicial to any commitment to invest and therefore to the prospect that recovery would advance to a more mature stage.

A set of observations had also been made by Mr. de Vries about the advantages that high interest rates on dollar-denominated assets offered to European economies, and other economies as well, in stimulating their ability to export, especially into the dollar area, the Economic Counsellor recalled. He certainly agreed that lower exchange rates helped exports from countries experiencing the lower rates, but there were also effects of the opposite kind, such as the higher costs of imports into countries whose currencies had declined against the U.S. dollar. Among those were imports of energy. Policymakers in European countries had often referred to the importance of higher import costs to them and the impact on their competitiveness of higher costs resulting from increases in dollar exchange rates. The second negative effect was the inducement to greater protectionism in the United States resulting from the impaired U.S. export capability and the encouragement to U.S. imports stemming from the higher value of the dollar in terms of foreign currency. The staff would give great weight in the present circumstances to the deleterious effect on the world economy, which would be relieved somewhat, perhaps considerably, if the exchange rate for the dollar were lower and if the perception of U.S. producers of damage to their exports caused by high interest rates were different. A third point would be the staff's feeling that high U.S. interest rates resulting in a high dollar made for a slower expansion of the vast U.S. market for other countries' exports.

A good deal of attention had been given by Mr. Joyce and Mr. Erb to whether a lowering of interest rates brought about through a reduction in fiscal deficits would induce rapid expansion in the private sector and, perhaps through the exchange rate effects on exports, maintain the level of economic activity, the Economic Counsellor said. If Mr. Joyce and Mr. Erb had been speaking of a sharp, sudden reduction in fiscal deficits, he himself had no doubt that the immediate consequence would be a reduction in the overall level of economic activity. However, such a prospect was unlikely. In the light of Mr. Hirao's plea for a commitment to fiscal discipline, defined as gradually by bringing under control the fiscal deficits that were troubling many countries, he himself supposed that a gradual reduction in the deficit was about all that could be expected. Nevertheless, if the authorities' commitment to such a program was convincing, the interest rate effects could come about a great deal sooner than the actual reduction in ratios of fiscal deficits to GNP. Accordingly, the beneficial expansion of private demand could well occur before any negative impact of reductions in fiscal deficits.

There had also been considerable discussion about the nexus linking fiscal deficits to interest rates and to exchange rates, the Economic Counsellor observed. Mr. Joyce had pointed out that if the U.S. fiscal deficit were partly monetized, the policy should weaken the dollar in and of itself. While agreeing with Mr. Joyce on that point, he would add that even if the U.S. fiscal deficit were monetized, it would still absorb the same amount of savings. He expected that such a large demand by the public sector for savings would be accompanied by interest rates that were high in relation either to current or to expected rates of inflation and that those high interest rates would be accompanied by a high real exchange rate for the U.S. dollar and a large U.S. current account deficit. If the large fiscal deficit were accompanied by a higher rate of monetary expansion, the inflation rate in the United States would rise sooner or later, and the U.S. dollar would depreciate sooner or later to reflect the inflation differential between the United States and other countries. However, the real value of the U.S. dollar would remain high, and real interest rates would also remain high, as a result of the high demand for savings.

The staff had attributed the instability of exchange rates to a country's fiscal policy, the Economic Counsellor recalled. Mr. Erb, on the other hand, had felt that it would be more sensible to relate the instability of the exchange rate to monetary policy. Mr. Erb had gone on to say that there had been no great change in fiscal policy for some time, but that there had been great variations in monetary policy. From a month-to-month perspective, he would not disagree with Mr. Erb on that point. However, the staff had had a rather longer perspective in mind.

As to the reasons for the dollar's strength, the Economic Counsellor recalled, Mr. Erb had invited the staff to include in its considerations the fact that the United States was a large financial center. There had been no dramatic change in the status of the United States recently, but there had been a change in the exchange value of the U.S. dollar. There was also what could be called the "safe-haven factor." There had recently been an increase in the demand for "safe-haven facilities." He had no doubt that part of the strength of the dollar in recent times had been attributable to investors' using U.S. financial facilities as a safe haven for their funds.

One other comment made by Mr. Erb had been that the focus of monetary policy should be on price stability, the Economic Counsellor noted. Mr. Erb had gone on to say that, even if the fiscal deficits were eliminated, the authorities would not by that fact have an excuse for monetary expansion. He himself would by and large agree with that line of argument. In those hypothetical circumstances, however, the authorities might feel more comfortable using monetary policy to nudge the economy closer to full employment if they found it necessary. In addition, the response of the private sector to easier monetary conditions might be adequate to move the economy toward full utilization of resources, in which event the question of using monetary policy to accomplish the goal of full resource use would not arise.

Reference had been made by Mr. de Maulde to a sentence written by the staff on page 20 of ID/83/5, the Economic Counsellor recalled. The staff had said that the authorities of Germany and Japan might wish to pursue appropriate policies leading toward medium-term reductions in fiscal deficits and the rate of monetary growth, but that they might wish to moderate the speed of such progress in light of the continued weakness of domestic demand. The first part of that observation had manifestly appealed to Mr. Hirao, for it was not at all inconsistent with his observations. What might be bothering Mr. de Maulde was the second half of the sentence. The staff had added that second clause in order to leave some flexibility in the staff position to allow for changes in circumstances that might arise during the rest of 1983.

A suggestion had been made by Mr. Malhotra that the staff should pay more attention to the relationship between adjustment and development, the Economic Counsellor concluded. The 1983 World Economic Outlook, for example, had three notes in the Appendix--Supplementary Notes 5, 6, and 7--relating to that relationship, which he considered to be important. In considering policies for developing countries in present circumstances, the staff's aim was to try to find that combination of arrangements in policies that would minimize the loss of momentum in developing countries' economic growth.

The Deputy Director of the Research Department recalled that Mr. Finaish had noted that the growth rate projected by the staff for developing countries in 1983 had been reduced to a figure some 0.7 percentage points lower than the figure used in the June staff report, which had come from the World Economic Outlook. The median growth rate of developing countries had been revised downward by about 0.9 percentage points. The statistics destined to be published in the World Economic Outlook had been gathered in March and April and therefore had not included much direct information on the year 1983. The later information was less satisfactory. The analytical subgroup in which the largest downward revisions had been made was "major exporters of manufactures." The regions with the largest revisions were the Western Hemisphere and Africa. One country whose figures had been revised downward significantly was Brazil; the revision reflected in part the intensification of domestic adjustment measures in the months between the preparation of the earlier report and the present report.

A query of a similar character had been made by Mr. Joyce concerning the staff's forecast for the United States, the Deputy Director continued. Mr. Joyce had queried why there should be a larger increase in the projected U.S. growth rate for 1984 than the revised increase for 1983. The figure was to some extent a statistical curiosity that arose from the use of yearly average figures. Thus, the revision between the previous paper and the present paper had led to an increase of 1.2 percentage points in the growth rate expected for the United States during 1983. The earlier paper had been based on an assumed growth rate from fourth quarter to fourth quarter of 4 percent; the staff now projected 5.2 percent. For 1984, the earlier paper had projected a growth rate of 3.5 percent, while the latest paper had made a slight upward revision to 3.8 percent. However, because so much of the upward revision in 1983 would come in the last three quarters of the year, the 1984 figures would take off from a higher base, so that the yearly average figures were subject to larger revisions in 1984 than in 1983.

A question had been raised by Mr. Laske and Mr. Malhotra referring to the savings ratio in the United States, the Deputy Director recalled. Mr. Laske had remarked that, although the tax changes had been implemented with the intention of raising the savings ratio, the response seemed to have been disappointing. Savings as a proportion of personal disposable income had been about 6 percent from 1979 to 1981. Since the beginning of 1982, the savings ratio had gradually fallen, provisionally reaching 3.9 percent by the second quarter of 1983. The decline probably had something to do with the large surge in spending on consumer durables and housing, which he would expect to have an initial sharp effect on the savings ratio. Finally, the decline in the savings ratio observed during the previous 18 months was to some extent what he would expect in the cyclical conjuncture. It might not reflect a failure of the measures that had been introduced to produce the desired result. Regrettably, he would be unable to answer the question definitively until the staff had some experience about how the savings ratio responded to an economic upturn.

Surprise had been expressed by Mr. de Vries that the effective exchange rate for the U.S. dollar in 1983 was 7.5 percent above the rate recorded in 1970, the Deputy Director of the Research Department said. Mr. de Vries had also asked why the staff had picked 1970 as a base date. The effective exchange rate as published in International Financial Statistics was simply a weighted average of bilateral exchange rates against other currencies. The staff used rates calculated from the multilateral exchange rate model (MERM), which included some 14 currencies. Although it was true that the deutsche mark and the yen had appreciated against the dollar, most other currencies had depreciated against the dollar, a development that explained why the U.S. currency had appreciated overall. The staff had chosen 1970 as the base year because it provided the last annual average before the advent of the parity changes announced on August 15, 1971. Before the introduction of a floating rate system, there had been a widespread perception that the U.S. dollar was overvalued. However, since 1970, the inflation rate in the United States had been no higher than the average for industrial countries.

Mr. de Vries commented that he was not sure whether there had been a perception in 1970 that the U.S. dollar was overvalued on an effective exchange rate trade-weighted model, as the Deputy Director of the Research Department had explained. Instead, there had been a perception that the U.S. dollar was overvalued against some currencies like the deutsche mark, the schilling, the guilder, and the yen. Had the staff chosen to measure those perceptions, the dollar would appear lower in 1983 than in 1970. He did not believe that there had been any perception expressed in terms of MERM or weighted exchange rate models in 1970.

The Deputy Director of the Research Department responded that perceptions were of course in the mind of the perceiver. However, at the Smithsonian realignment of December 1971, which had involved all currencies of countries belonging to the Group of Ten, he did not believe that any currency had been devalued against the U.S. dollar.

A question had been asked by Mr. Taylor whether the staff had considered the effects of the appreciation of the U.S. dollar since May 1983, the Deputy Director continued. Since that time, the U.S. dollar had appreciated by 5.2 percent and the Canadian dollar by about 2 percent, while the currencies of other countries--with the exception of the pound sterling, which had remained stable--had all depreciated by about 2 percent in effective terms. On the assumption that those changes would not be reversed during the projection period used by the staff, there would be potential effects on a country's balance of payments position and on the growth as well as on the valuation of developing country debt. The staff's calculations, based on MERM, suggested that, after two to three years, the appreciation of the U.S. dollar would lead to a weakening of the balance of payments on the order of $10-15 billion, while countries with depreciated currencies would experience a strengthening of their current accounts of about the same size. After the immediate effects had had a chance to work through, and on the assumption that there were no offsetting changes in fiscal and monetary policies, there would be a reduction in the GDP of the United States of 0.25-0.50 percentage points and an increase in the GDP of other industrial countries of a somewhat smaller magnitude, reflecting the fact that all of them together represented a larger economic unit than the United States by itself. The main effect on developing countries would be to increase the value of their external debt, most of which was denominated in U.S. dollars, relative to the value of their receipts, which tended to be more responsive to average currency movements. The effect was difficult to quantify, but the staff estimated that a 5 percent increase in the value of the U.S. dollar relative to other currencies might lead to an increase in the value of developing countries' debt relative to their current receipts of roughly half that size, or 2-3 percent.

Questions relating to the staff's medium-term projections had been raised by several speakers, the Deputy Director recalled. Mr. Finaish had asked whether the staff was satisfied that the medium-term scenario was in fact consistent with the financing flows likely to be available. The staff did indeed so believe on the basis of the reasonable projections set out in the World Economic Outlook, published the previous May, in which the current account deficit of developing countries had been projected at about $68 billion in 1984 and at about $93 billion in 1986. The staff had subsequently received no information that would cause it to change that figure for 1986. However, the substantial increase in the deficit to be financed might raise questions about what sources of finance were likely to expand rapidly enough to fill the prospective gap. The staff had assumed that bank exposure was going to increase by some 7 percent in both 1985 and 1986. The actual increases in bank exposure for 1983 and 1984, which were taken from individual desk forecasts, were therefore based not on normative judgments but on more direct information; the actual increase in the present year and next year was projected to be considerably less than 7 percent. If bank lending rose with a return to more normal world economic conditions, and with the coming to fruition of adjustment programs in many countries, bank lending that expanded at about 7 percent a year would provide perhaps half of the additional $26 billion that was needed. If an increase of 10-20 percent were projected for other components of overall capital flows--nondebt-creating flows and official assistance--the resultant figure would allow a country's deficit to be financed with a modest accumulation of reserves.

Both Mr. Taylor and Mr. Delgadillo had wondered whether it was desirable, even if possible, to rely so heavily on bank financing, the Deputy Director recalled. A 7 percent annual growth in net bank exposure would still allow bank financing to decline slightly as a share of the overall GDP of developing countries, the exports of developing countries, and the capital base of the lending banks.

A question had been asked by Mr. Finaish whether the shift in oil exporting countries from surplus into deficit would reduce the funds available to other developing countries, the Deputy Director said. At one level, the surpluses that had previously resided in oil exporting countries resided in other countries at present, so that the surpluses were still available, although in different places, to finance the deficits that developing countries still had. That observation would lead him to conclude that in the world as a whole, there had been no reduction in the funds available to finance deficits. However, it was possible that the transfer of income from high savers--oil producing countries--to relatively low savers--consumers in oil importing countries--might lead to a change in the savings schedule that would have an impact on the interest rates prevailing in capital markets. The volume of savings that would be transferred in that way was small relative to aggregate flows of savings, so that the staff's conclusion would be that the net impact would be relatively small as well. Nevertheless, there could be an effect on the willingness to save and therefore on the rate of interest required to attract the needed volume of savings.

Another question raised by Mr. Finaish dealt with the problem of financing related to the skewness in the geographical allocation of debt among countries, the Deputy Director continued. Had the skewness--the fact that 40 percent of developing country debt was owed by four countries--contributed to the problem? Mr. Finaish had also asked whether the skewness had increased over time and whether the large share of the debt owed by the largest borrowers meant that the position of smaller countries was relatively more comfortable. The staff would say that it was difficult to associate specific volumes of debt with a country's vulnerability to a debt service crisis. Other factors had to be taken into account beyond the absolute level of the debt relative to some magnitude such as GNP. For instance, there were dynamic factors such as the rate of growth of the economy, the rate of growth of exports, and the capacity of the economy to adapt the structure of production toward tradable goods. Skewness had increased over time: the share of country debt owed by the four largest countries, which had been 34 percent in 1978, had risen to more than 39 percent in 1983. The increase meant that those four countries had recently been borrowing even more than the 34 percent share that they had begun with, a practice that had no doubt contributed to the problems that they were facing.

Mr. Erb remarked that the issue of how large a reduction in the fiscal deficit would be required to bring down interest rates depended on the credibility of the fiscal authorities. It went back to a point made by the Economic Counsellor that there was in the United States a sense that the fiscal deficit was out of control; in the face of a lack of credibility, reductions in the deficit having been promised year after year, the only way that the authorities could restore credibility would be to make a sudden large reduction in the deficit. Some time ago, the United States had had a similar problem on the monetary side when the monetary authorities had lost credibility, which had meant that they had to make changes in policy to demonstrate their trustworthiness. Thus, in the practical world, the only way that the fiscal authorities could have a significant effect on interest rates would be to press for a large reduction in the fiscal deficit in the short run, something that might be quite unrealistic.

When speaking of the comparative advantage of the United States as a financial center, Mr. Erb continued, he had meant to stress that the advantage was greatest when the rate of inflation in the United States was roughly the same as that prevailing in Germany and Japan. When the rate of inflation was high and rising in the United States, foreigners had little desire to invest in the United States and sought other financial markets instead. However, when the issue of inflation was removed from investors' calculations, the size and depth of the U.S. market became an important factor, quite aside from the safe-haven factor. One of the great changes in recent years in the United States had been the authorities' emphasis on achieving price stability after over a decade of a rising inflation rate. The aim of the authorities had been to re-establish the United States as a financial center and enable the country to run a smaller surplus than other industrial countries might run, or perhaps even to run a deficit on current account for a certain time.

Mr. de Maulde said that one point in his statement might have appeared ambiguous. On the one hand, he had attributed the recent recovery in the United States to the fiscal stimulus, and, on the other hand, he had advocated a reduction in the U.S. fiscal deficit. To his mind, there was no inconsistency in maintaining that, at a very low rate of capacity utilization, fiscal stimulus might be and had in fact been quite helpful in stimulating economic recovery; but, after a certain stage, if the authorities wished to prolong the recovery, they would find it not only useful but even urgent to lower the pressure of the public sector on the economy. The same reasoning could also be applied to the desirable fiscal stance in other low-inflation countries. A more active fiscal policy might thus be helpful in stimulating employment and activity without causing detrimental effects on the rate of inflation. He had meant to say merely that fiscal policy should not be inflexible.

Mr. Kafka, referring to the question of nominal versus real interest rates, asked whether there might actually be two concepts of real interest rates. The first would consist of the nominal rate minus current inflation, the second of the nominal rate minus expected inflation. Expected inflation was nearly impossible to measure. He would not be surprised to find that the first concept of the real interest rate--the nominal rate minus current inflation--might have little to do with people's expectations in an economy. By contrast, even though it could not be measured precisely, the second concept might prove much more useful in analyzing the effects of real interest rates.

The statement had been made by the Economic Counsellor that the effect of a fiscal deficit would be the same even if it were monetized, Mr. Kafka continued. He himself wondered whether the effect depended on the rapidity of the impact of the monetization on prices, and also upon whether more expenditures than revenues were fixed in nominal terms. If so, inflation was likely to reduce the real deficit, which could have an important effect.

The Economic Counsellor agreed that there were two concepts of the real rate of inflation. In commenting on the sensitivity of some classes of expenditure to nominal interest rates, he had been thinking of a potential house buyer, planning to buy his house with the benefit of a mortgage; what was important to the house buyer was the relationship between his income and the monthly amortization payments that he had to make. The house buyer knew nothing about real rates of interest, whether defined in relation to recorded prices or in relation to expected prices; if the decline in nominal rates brought down his monthly amortization into a range that he believed he could afford, he would decide to buy. The same considerations applied to a car buyer. Therefore, the observed fact that the reduction in nominal interest rates had been followed by an increase in the sale of houses and cars could be attributed to a nominal interest rate effect.

Mr. de Maulde commented that he had been under the impression, perhaps a misguided one, that the upsurge in housing expenditures had been less than strong during the past few months and that consumer demand had been concentrated rather on automobiles and other consumer goods. Interest rates appeared not to have played a great role in the housing sector for the simple reason that special interest rates had been given to house buyers for long periods.

The Deputy Director of the Research Department responded that housing had been an important component of the recovery in North America, indeed the most important component. During the first half of 1983, house-building expenditure had risen at an annual rate of 57 percent over the figure for the second half of 1982.

Mr. de Maulde commented that the rise had occurred from a very low base point. If figures for the normal pace of housing expenses were used, perhaps beginning in 1980, the picture would look different.

The Chairman observed that, in calculating the extent of an economic recovery, analysts compared the trough of the recession with the subsequent increase. Thus, housing had been a main engine in the economic recovery of North America.

Mr. Erb, referring to the point raised by Mr. Kafka, said that he would draw the opposite conclusion, beginning with the assumption that the rate of inflation was related to inflationary expectations, especially in an economy with a fiscal deficit perceived to be out of control. If the deficit were monetized, and if the deficit were out of control, then in effect money growth would be out of control. If there were no money illusion, growth in the money supply would result in ballooning inflation and sharply rising interest rates; because of the cost of self-financing, the fiscal deficit would also grow in the end. The outcome depended on whether or not there was money illusion. It also depended on the way in which the performance of the deficit influenced inflationary expectations, which could outpace actual current monetary growth if the deficit were perceived to be out of control and monetized.

Mr. de Vries, referring to the point made by Mr. de Maulde, commented that he also believed that interest rates did not play such a great role; at a time when the inflation differential had changed only slightly, there was a recovery in the United States but not in Europe. He continued to believe, with Mr. de Maulde, that structural changes and the budgetary stimulus were responsible for the recovery in North America, whereas in Japan and Germany a marginally contractional budgetary position might have hindered recovery. Thus, interest rates had played some role, but, as Mr. de Maulde had argued, the principal reasons lay elsewhere.

The Deputy Director of the Research Department responded that housing starts and construction activity were still not high in relation to historical averages, but interest rates, nominal or real, were still high relative to historical trends. The relationship between interest rates and housing starts was not negated by the fact that housing starts continued to be low. They had been even lower in 1981 and 1982, when nominal interest rates had reached extremely high peaks; during the first half of 1983, as nominal interest rates had declined, housing starts had recovered significantly. Although the base figure had indeed been quite low, and although housebuilding accounted for a relatively small part of total GDP, an increase of 57 percent was substantial by any standard. Perhaps more than half the increase in final expenditure during the first half of 1983 had been attributable to housing and automobiles; together with stockbuilding, those two factors had accounted for most of the recovery in the first half of the year. Moreover, housebuilding had picked up before the full impact of the fiscal stimulus had been felt. The fiscal stimulus would assume its greatest proportions during the course of 1983, while housebuilding had begun to pick up around the end of 1982.

Mr. Zhang commented that Executive Directors had talked a great deal about the fiscal deficit and appeared to regard it as the root of a great deal of economic trouble. Suppose somehow balanced budgets could be achieved in all industrial countries. Would that development have a superior effect on inflationary pressure?

The Economic Counsellor replied that, as a phrase in the front of a textbook by Alfred Marshall said, "Nature does not move in jumps." The phrase was relevant to answering the question because the achievement of balanced budgets simultaneously in all industrial countries would be such a shock to the system that it would be unable to adjust readily. The consequences of the elimination of fiscal deficits around the world would be a temporary but quite large decline in economic activity. However, the prospect was unlikely.

Mr. Laske noted that his authorities believed that they were not pushing too hard for the reduction of fiscal deficits in Germany. The latest indications were that all aggregates seemed to be about 0.5 percentage points more favorable than the staff had forecast in its projections. They were also more favorable than the German Government had projected at the beginning of 1983.

Mr. de Maulde said that he had wondered whether budgetary deficits in Germany on a high-employment basis might soon be eliminated. His authorities had never embraced the concept of a high-employment deficit because it was much less important whether the deficit existed theoretically on a high-employment basis than whether there was confidence in fiscal policy. His authorities believed that the credibility of their policy with regard to reducing fiscal deficits was what counted in the success of their adjustment policies.

Mr. Joyce said that he wished to clarify his position on the stimulative effects of a reduction in fiscal deficits. He had never taken the view that it was politically realistic to expect a major reduction in the fiscal deficit in the United States or, for that matter, in any country in the very short term. He had merely wished to point out to those Executive Directors who were urging the United States to reduce its deficit that the reduction of that deficit would not necessarily be an unmitigated blessing: adverse consequences might arise if the private sector did not take up the burden caused by lower public sector deficits.

The Chairman stated that he would present his summing up of the World Economic Outlook at the next meeting of the Executive Board (EBM/83/138, 9/12/83).

2. POLICY ON ACCESS TO FUND RESOURCES - REPORT TO INTERIM COMMITTEE

The Executive Directors continued from EBM/83/135 (9/8/83) their consideration of a draft report by the Executive Board to the Interim Committee on the policy on access to the Fund's resources (SM/83/198, Revision 1, 9/9/83).

The Secretary observed that one point raised by Executive Directors had dealt with the understanding that a table dealing with proposed quotas, percentage increases in quotas, present absolute access, and percentage changes in absolute access would be included in the Report to the Interim Committee rather than as an attachment circulated for the information of Executive Directors.

Mr. Malhotra urged that the table be made a part of the Report.

The Executive Directors accepted Mr. Malhotra's proposal.

The Director of the Exchange and Trade Relations Department proposed that a footnote explaining that a plan for access limits at 110/330/440 percent would result in a reduction in potential maximum access for 64 members and an increase for 82 members should be included in the second paragraph of Section III.1.

The Executive Board agreed to the proposal.

Mr. Taylor observed that in Section III.3, dealing with the various groups of Directors who had positions on future access limits, his chair was listed both in the groups discussed in the main paragraph and in the group discussed in the second paragraph beginning "Other Directors." The implication of the term "Other Directors" was that the two groups were mutually exclusive. His chair wished to be included both in the group of Executive Directors that did not wish to be too precise about fixing timetables, and in the group of Directors that emphasized the temporary nature of the policy on enlarged access. It would be better if the second paragraph began, "A number of Directors...."

The Executive Directors agreed to the proposal by Mr. Taylor.

Mr. Morrell noted that the first paragraph on page 6 of the draft report, as it stood, attributed the suggestion made by Mr. Kabbaj about some Directors' concerns about simplicity and administrative uniformity only to that group of Directors who considered that the proposal would result in access limits going to 102 percent. In fact, he had been among the Executive Directors concerned that it would result in limits going toward the upper end. Thus, the paragraph should be reordered. Part of the paragraph should read: "Many Directors did not favor the two-tier system because it would be neither simple to operate nor would it guarantee uniformity of treatment. The majority of these Directors were also concerned that it would in their view effectively reduce the annual access limits for most members to 102 percent; others considered that access at or near the second-tier limit could become commonplace."

Mr. de Vries and Mr. de Maulde suggested that the word "could" proposed by Mr. Morrell should remain "would."

The Executive Board agreed to the proposal.

Mr. Lindø noted that on page 8, in the section on access to special facilities, the position of his authorities seemed to have disappeared. A sentence should be added to the paragraph ending in the middle of page 8, which would then read: "A few held the view that the reduction in access to the compensatory financing facility should be equiproportional to that under the enlarged access policy."

Mr. Taylor noted that the position of his authorities had also disappeared in the reorganization of SM/83/198. He would therefore support the proposal made by Mr. Lindø.

Mr. Joyce suggested that the wording should be "a few Directors" rather than a "fourth group."

Mr. Malhotra noted that on page 10 there was a reference to "traditional access levels"--100 percent and 165 percent of quota. There was little that was traditional about those elements, and he would prefer that the word "former" be used.

Mr. Laske commented that the word "former" would suggest that those limits no longer applied. In reality, they did still apply but could be exceeded under the policy of enlarged access.

Mr. Erb, agreeing with Mr. Laske, noted that the Fund had had programs without the use of enlarged access, which would operate under the limits of 100 percent or 165 percent of quota.

The Director of the Legal Department observed that a way around the problem might be found by saying that access limits of 100 percent for the credit tranches and 165 percent under the extended Fund facility would be restored.

The Chairman suggested that the wording should be that the limits of 100 percent and 165 percent "would be applied."

The Executive Board agreed to the proposal and concluded the review of its report to the Interim Committee on the policy on access to Fund resources.

The Board then took the following decision:

> The Executive Board approves the transmittal to the Interim Committee of the Report on the Policy on Access to Fund Resources, as amended.
>
> Adopted September 9, 1983

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/83/136 (9/9/83) and EBM/83/137 (9/9/83).

3. RELATIONS WITH GATT - CONSULTATION WITH CONTRACTING PARTIES - FUND REPRESENTATION

> The Executive Board approves Fund representation at the next round of GATT consultations to be held in Geneva, as set forth in EBD/83/230 (9/6/83).
>
> Adopted September 9, 1983

APPROVED: March 8, 1984

LEO VAN HOUTVEN
Secretary