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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/172

10:00 a.m., December 14, 1983

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

Executive Directors	Alternate Executive Directors
A. Alfidja	
	H. G. Schneider
	X. Blandin
	J. Delgadillo, Temporary
R. D. Erb	
M. Finaish	T. Alhaimus
T. Hirao	
	Jaafar A.
	L. Leonard
A. Kafka	C. Robalino
	G. Grosche
G. Lovato	C. P. Caranicas
R. N. Malhotra	
Y. A. Nimatallah	
J. J. Polak	
A. R. G. Prowse	
G. Salehkhou	
	J. A. K. Munthali, Temporary
M. A. Senior	
J. Tvedt	
	T. A. Clark
Zhang Z.	Wang E.

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

Also Present

Administration Department: R. Tenconi, Director; H. J. O. Struckmeyer, Deputy Director; T. Cole, A. Coune, G. E. Gondwe, A. Goltz, J. D. Huddleston, H. Wiesner. African Department: O. B. Makalou, Deputy Director. Asian Department: K. A. Al-Eyd, J.-P. C. Golle. Central Banking Department: P. N. Kaul, Director. European Department: J. J. Hauvonen, H. Ungerer. Exchange and Trade Relations Department: D. K. Palmer, Associate Director; S. Mookerjee, Deputy Director. External Relations Department: G. P. Newman. Fiscal Affairs Department: V. Tanzi, Director; L. Garamfalvi, R. O. Khalid. IMF Institute: G. M. Teyssier, Director. Legal Department: G. P. Nicoletopoulos, Director; Ph. Lachman, J. K. Oh. Middle Eastern Department: A. K. El Selehdar, Deputy Director; M. Arif, S. H. Hitti, B. A. Karamali, A. Kayoumy, D. B. Noursi, G. Tomasson, S. von Post, L. A. Wolfe. Research Department: R. R. Rhomberg, Deputy Director. Secretary's Department: A. P. Bhagwat. Treasurer's Department: W. O. Habermeier, Counsellor and Treasurer; D. Williams, Deputy Treasurer; D. H. Brown, M. N. Bhuiyan, D. Gupta, R. B. Hicks, B. E. Keuppens, J. T. McDonald, J. V. Soromenho-Ramos, T. M. Tran, G. Wittich. Western Hemisphere Department: E. Wiesner, Director. Bureau of Language Services: A. J. Beith, Director. Bureau of Statistics: W. Dannemann, Director. Personal Assistant to the Managing Director: S. P. Collins. Advisors to Executive Directors: S. R. Abiad, H. A. Arias, C. J. Batliwalla, S. E. Conrado, K. A. Hansen, W. Moerke, Y. Okubo, P. D. Péroz, D. I. S. Shaw, D. C. Templeman. Assistants to Executive Directors: E. M. Ainley, H. Alaoui-Abdallaoui, R. Bernardo, M. Camara, M. B. Chatah, M. Eran, G. Ercel, V. Govindarajan, C. M. Hull, A. K. Juusela, H. Kobayashi, A. Kone, M. J. Kooymans, M. Rasyid, J. Reddy, A. A. Scholten, S. Sornyanyontr, A. Yasseri.

1. QATAR - 1983 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1983 Article IV consultation with Qatar (SM/83/237, 11/14/83). They also had before them a report on recent economic developments in Qatar (SM/83/243, 11/28/83).

Mr. Finaish made the following statement:

Economic policy in Qatar continues to aim at the long-term objective of broadening the country's economic base, while taking the necessary adjustment measures to deal with the more recent changes affecting the country's oil exports. Significant progress has been achieved in recent years in using oil revenues to promote growth with diversification. The annal growth rate of non-oil GDP averaged 12 percent in 1978-82, while domestic inflation was maintained at moderate levels. Since mid-1981, however, developments in the international oil market have considerably reduced the inflow of oil export receipts, thus necessitating the adoption of policies of financial restraint. These developments, and the policy response to them, are reflected in the recent slowdown in the pace of growth in the economy.

The oil sector still plays a predominant role in economic developments in Qatar, as it contributes nearly two thirds of GDP and accounts for over 90 percent of export earnings and government revenues. After recording high production levels for several years, crude oil production was somewhat lower in 1980 in response to conservation measures, but subsequent declines have been due to oil market conditions, which have affected both the volume and the price of exported crude. Production in 1982 fell well below the ceiling that had been introduced to reflect conservation considerations, and a further fall was experienced in the first half of 1983 to 252,000 barrels a day, compared with the peak of 570,000 barrels a day reached in 1973. Some increase in oil production, however, seems to have taken place in the second half of this year, thus raising expectations of a somewhat better result for the year as a whole.

The uncertainties inherent in a heavy dependence on crude oil exports have long been recognized by the authorities. Coupled with the exhaustibility of oil reserves, these have provided the major motive for the strong emphasis that has been placed on economic diversification. Endowed with limited alternative natural resources, the country set out to tap the potential of available hydrocarbon resources, which include large deposits of natural gas. Use of this valuable resource, which was largely flared before 1975, reached nearly 93 percent in 1982. Plans have been drawn up for a stage-wise development of the large offshore unassociated gas, taking into consideration market conditions and the size of investment required. Various

oil and gas-related industries have been established in the past few years. Two refineries have been completed, thus allowing Qatar to achieve self-sufficiency in refined oil products in 1984, with some capacity for export. Natural gas liquefaction, fertilizer and petrochemical projects were constructed during the past decade, and these have managed to make some contribution to exports in the past few years. While the non-oil industries, which include cement and iron and steel, still account for some 4 percent of GDP, they are being actively encouraged by means of various incentives. Furthermore, activities in agriculture and fisheries, despite adverse natural conditions, have managed to meet a considerable proportion of local demand in some products.

Public policy remains firmly committed to the further development of the non-oil sectors. However, as noted above, the level of activity in these sectors has slowed down since 1981 as a result of expenditure restraints necessitated by oil market developments. Oil revenue, and consequently total revenue, declined sharply in 1982. As a result, a number of measures were taken to contain the growth of public expenditures, resulting in an 8 percent contraction over the previous year. The FY 1983/84 budget estimates are based on cautious assumptions reflecting uncertainties still surrounding oil revenues. Measures being considered to raise non-oil revenues include a rise in customs duties and the levying of charges on services provided by public utilities. On the expenditure side, the policy of restraint is being continued. At the same time, while capital spending is also being subjected to more intensive scrutiny, the authorities have endeavored to maintain such spending at an appropriate level because of its implications for future growth. It is noteworthy that most of the expenditure curtailment has been achieved through reducing current expenditures.

Reflecting the retrenchment in public expenditures, the growth of domestic liquidity decelerated considerably in 1981-83, contracting in absolute terms in the first half of 1983. The monetary authorities, however, stand ready to ease any possible tightness of domestic credit which may arise due to the liquidity position of the banking system and the accumulation of external assets by the banks. Instruments being considered for this purpose include the introduction of a rediscount facility and ceilings on banks' foreign asset holdings. So far, however, the liquidity situation has not been a cause for concern, and it is expected that domestic liquidity growth for 1983 as a whole will be about 3 percent, despite the contraction in the first half of the year.

The prospects for the external sector are expected to improve somewhat following the emergence last year of a deficit in the overall balance of payments for the first time since 1977.

The weakening of the external position in 1982 was due to global demand conditions that affected both oil and non-oil exports, while imports--particularly of capital goods needed to complete ongoing projects--continued to increase rapidly. While some further weakening of the balance of payments is expected for 1983, an improvement is projected for 1984, which may allow a significant reduction in the overall deficit. The authorities have so far been financing the deficit by drawing down foreign asset holdings. Finally, while the sharp decline in export proceeds has affected the magnitude of grants to developing countries, the concessionary foreign assistance is being continued.

Mr. Nimatallah noted that in the past few years Qatar had experienced a sharp decline in its export earnings and budgetary receipts due to the weakening in the international oil market. The authorities had reacted to those developments in a prudent and responsible manner. They had avoided a sharp cutback in government spending, which could have disrupted the economy. They had also avoided a continued increase in government spending, which would have reduced reserves sharply. Instead, they had chosen a pragmatic middle course involving both a gradual reduction in spending and some financing from reserves. That policy was similar, in many respects, to that adopted by the other member countries of the Gulf Cooperation Council (GCC). The basic idea was to continue the international adjustment process.

How had the Qatari authorities accomplished their objective, Mr. Nimatallah asked. The actual budgetary outcome for 1982/83 illustrated clearly the authorities' prudent response. In 1982/83, revenues had turned out to be about 27 percent below the 1981 level. At the same time, expenditures had been reduced by only 8 percent. As a result, the overall budget deficit had been kept relatively small, and the decline in external reserves had been limited to about $700 million in 1982. A similar pattern was emerging for 1983/84. Revenues were showing a further sharp decline, and expenditures were being kept within limits. For example, the freeze on wages and salaries in the public sector had been extended for another year. Budgetary subsidy payments had been reduced, many new projects of lower priority had been frozen, and the completion of existing projects had been stretched out. As a result, the budgetary deficit and the consequent loss of reserves were both expected to be relatively small.

The authorities had also made considerable progress in diversifying the productive base of their economy, Mr. Nimatallah considered. Those diversification efforts would be aided by the closer cooperation being fostered among members of the GCC. On March 1, 1983, the barriers to the movement of goods and factors of production among members of the GCC had been practically eliminated. That development would help to enlarge the markets of the GCC member countries, particularly Qatar. He commended the authorities on their prudent and smooth adjustment to the sharp decline of revenues in the short run, and on the progress they had made in diversifying their economy for the medium and long term.

Mr. Munthali remarked that the staff had shed light on the various aspects of the problems facing the economy of Qatar, particularly the difficulties emerging from the curtailment of government expenditures. As the staff clearly pointed out in SM/83/243: "In Qatar the level of economic activity depends primarily on the level of government expenditures." As a result of budgetary measures taken in response to developments in the oil sector, economic activity had slowed down considerably, affecting the construction sector in particular.

The difficult conditions in the international oil market had accounted for a considerable decline in export receipts, by far the main source of government revenue, Mr. Munthali continued. The situation underlined Qatar's heavy reliance on the oil industry and the need to diversify the economic base. However, the odds against such a policy were appreciable. The agricultural sector, which would normally play a leading role in diversification, offered little hope because of the poor quality of the soil and the relative scarcity of arable land. The Qatar authorities were aware of the situation and were seeking to encourage agricultural development through a range of programs, including the operation of experimental farms, hydrological surveys, and the provision of fertilizers, pesticides, tractors, and farming equipment. To date, the efforts to expand agricultural output had yielded positive results. Furthermore, the Government had embarked on a number of projects designed to reduce the economy's dependence on the production of oil and to enhance industrial and commercial diversification.

The authorities had also taken measures with regard to public sector wages, Mr. Munthali observed. The freeze on salaries had been a step in the right direction. Noteworthy initiatives had been taken with regard to subsidies. The increases in the prices of different petroleum products would go some way toward improving government finances. Qatar had helped many developing countries in recent years. He hoped that such assistance would continue and that it would be reinforced when the current financial situation improved.

Mr. Salehkhou commented that, faced with a major decline in oil revenues like other Gulf states in the previous two years, Qatar had satisfactorily managed to reduce the impact of the present oil market weakness on the economy and on the country's development strategy. Despite Qatar's relatively comfortable international reserves position, the decline in oil revenues had clearly stressed the urgency of a considerable diversification of the economy to avoid excessive reliance on the oil sector. In that regard, although the dependence of the budget and the balance of payments on oil receipts remained considerable, progress had been achieved in the previous decade with regard to commercial and industrial diversification, on which, considering the country's geographic and demographic features and the limited scope for developing agriculture, Qatar had appropriately centered its development efforts.

While the recent decline in oil production and export volumes had been mainly due to weakness in oil demand in major consuming countries,

Mr. Salehkhou continued, Qatar's energy conservation policy had recently been strengthened further through a deliberately low production policy and through a substantial increase in domestic oil prices aimed at reducing related budgetary subsidies and containing the rapid expansion of domestic consumption.

The decline in oil exports and revenues had resulted in a considerable slowing down of economic activity, including the non-oil sector, which had been directly affected by large reductions in government expenditures, Mr. Salehkhou added. The latter development had helped to ease the pressures on domestic prices, in conjunction with a reduction in the growth rate of liquidity and the continued appreciation of the Qatari riyal. The decline in the injection of liquidity by the public sector had been particularly large and could have seriously affected the liquidity position of the banking system. If liquidity became too tight, the intention of the monetary authorities to resort to a rediscount facility or to ceilings on foreign asset holdings by commercial banks appeared appropriate, and certainly preferable to changes in interest rates that might adversely affect the already sluggish economy.

Turning to fiscal policy, Mr. Salehkhou remarked that the steep curtailment of government capital and current expenditures, including the grants to developing countries, had efficiently contained the adverse impact of declining oil revenues. However, although spending cuts had been concentrated to some extent on current expenditures, the measures aimed at stretching out the implementation of ongoing projects and the cancellation of new projects might be putting the burden of adjustment unduly on investment, with an undesirable effect on the objective of economic diversification. The prospect was unnecessary, not only because of Qatar's significant international reserves, but also because of the scope for a substantial increase in government revenues and for the reduction or elimination of a clearly overgenerous system of subsidies.

The current account of the balance of payments had shown a positive balance in 1982, Mr. Salehkhou noted, despite a 24 percent drop in oil export receipts and a 28 percent increase in the value of imports. Thus, the turnaround in the overall balance of payments had apparently been related to a larger deficit in the capital account as a result of increased capital outflows. While the external position should continue to be relatively difficult in 1983, the prospects for 1984 appeared to indicate some improvement. The situation should enable Qatar to broaden further its economic diversification, which, in view of the exhaustibility of oil revenues underlined by Mr. Finaish, remained crucial to the country's long-term development. It might also encourage Qatar to re-establish its foreign aid programs, which had been particularly hit by recent difficulties.

Mr. Erb said that he shared the staff's favorable appraisal of the way in which the authorities in Qatar had responded to a sharp decline in oil export income, and particularly the strategy of continuing to aim at the long-term objective of broadening the country's economic base while

taking the necessary adjustment measures. The vicissitudes of the oil industry in recent years underlined the importance of the economic diversification under way, built mainly on Qatar's natural resource base.

Investments in recent years appeared to have succeeded in eliminating a number of bottlenecks, thereby contributing significantly to the diversification effort, Mr. Erb continued. The noteworthy prompt efforts to contain budgetary expenditures in the face of the sharp drop in oil revenues had succeeded mainly in restraining current expenditures while permitting capital expenditures to continue to rise. That pattern was not common in the adjustment efforts that the Executive Board had been examining recently. Nevertheless, the freeze on most new development projects and the stretching out of others appeared appropriate in the circumstances.

In light of the continued revenue uncertainties, the authorities were acting prudently in examining alternative sources of revenue, such as public utility rates, Mr. Erb considered. The recent decline in the growth of domestic liquidity was a positive sign and had contributed to the deceleration of inflation. He supported the authorities' contingency plans to ensure adequate credit for the private sector if such action should prove necessary. He agreed with the staff's conclusion that Qatar had been pursuing appropriate external policies.

Mr. Finaish stated that the authorities were aware of the implications of abrupt cuts in public spending, and they intended to pursue a restrained fiscal policy over the medium term, including restraint on capital expenditures. The present situation in the oil market was an opportunity for Qatar and other oil exporting countries to proceed more cautiously in that regard. Careful analysis of new project investment, particularly in oil-based industries, aimed at avoiding duplication, might usefully be undertaken within the framework of the Gulf Cooperation Council and other regional organizations.

The Chairman made the following summing up:

> Executive Directors were in general agreement with the views contained in the staff report on the 1983 Article IV consultation with Qatar. Directors noted that the Qatari authorities had been faced with a difficult task of economic adjustment in 1982/83 because of the sharp decline in oil receipts from the level of previous years. The authorities were commended for adopting appropriate, well-balanced adjustment policies stressing fiscal restraint. Measures to contain the growth in government spending in 1982/83 had been successful, as reflected by a decline in current expenditures. The restrained fiscal stance had led to a marked slowing down in the rate of monetary expansion.
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> Directors noted that budgetary plans for 1983/84 continued to emphasize fiscal restraint with further cuts in total outlays from the level of the year before, including the extension of the freeze on government salaries, cuts in subsidies, and greater selectivity in development spending.

Directors agreed with the Qatari authorities on the need to formulate fiscal policies within a longer-term framework in order to facilitate the achievement of balanced and more diversified growth in the economy. Reflecting the drop in oil export receipts, deficits had been recorded in the overall balance of payments during 1982 and 1983. Directors noted that Qatar had been pursuing appropriate, open external sector policies, that it maintained a liberal trade and exchange system, and that it had continued its foreign aid programs despite falling oil revenues.

It is expected that the next Article IV consultation with Qatar will be held on the 18-month cycle.

The Executive Directors concluded the 1983 Article IV consultation with Qatar.

2. FUND INCOME POSITION - REVIEW; AND REVIEW OF EXPENSES IN FY 1984 AND BUDGETARY OUTLOOK FOR FY 1985

The Executive Directors considered a paper reviewing the Fund's income position (EBS/83/248, 11/21/83; and Cor. 1, 12/12/83), together with a memorandum by the Managing Director on the midyear review of expenses in FY 1984 and the budgetary outlook for FY 1985 (EBAP/83/296, 12/6/83). They also had before them a memorandum by the Managing Director on guidelines for electronic data processing (EDP) support for Executive Directors' offices (EBAP/83/307, 12/12/83), and a paper on the installation of the new Rolm telephone system (EBAP/83/302, 12/9/83).

The Director of the Administration Department stated that the number of debt reschedulings listed in Table 3 of EBAP/83/296 should be 36 in CY 1983, not 35.

Mr. Kafka commented that the Fund's management and staff had performed magnificently during an extraordinarily difficult period without consideration of personal or family convenience. With regard to the work program, the first problem was staffing. The information in Table 3 of EBAP/83/296 indicated the degree of work pressure on the staff and the increase in 1983. It would be interesting to subdivide the table by departments and possibly by divisions. The principal pressure was at the level of division chiefs and those senior enough to be mission leaders. Some relief might be found through the borrowing of mission leaders by area departments from other departments, but the problem was general. A temporary relaxation, where necessary, of the mobility policy would be advisable. For example, the Western Hemisphere Department, in the period between the onset of the international debt crisis in August 1982 and October 14, 1983, had suffered a net loss of one economist at Level F-I in addition to losing staff at a higher level. Even if there had been a net gain, it was clear that the turnover--seven incoming staff members at

Level F-I, and eight outgoing staff members at that level--had to have increased enormously the pressures on the department during an extremely delicate period while new staff members became familiar with the area's problems.

Given that the Fund needed to recruit and retain high-quality staff, a number of ideas to deal with the general staff shortage warranted consideration, Mr. Kafka continued. Some staff members who had recently retired, or who had left their former positions but remained at the Fund, could make excellent mission leaders almost without needing any period of training. There might also be younger former staff members who could be enticed back from the organizations to which they had gone and who could be put to work relatively quickly. The recruiting system relied heavily on the Economists' Program. Thus, an expansion of staff at the senior level could come about only through accelerating promotions as recruitment was intensified at the junior level. Such an expedient might lead to premature promotions. It would be more appropriate to intensify recruitment at higher levels, in part perhaps on a fixed-term basis. In any case, the staff badly needed not only recruitment at the junior level, but also an infusion of people at the more senior level who had outside experience in government. Such experience was vital for Fund staff members, who had to deal with delicate political and social realities, not simply construct Pareto-optimal programs. Such experience could best, and perhaps only, be learned by working in a national government. It would also be worth considering, at a later date when the Fund was under less pressure, the establishment of internships for senior staff in their own national governments where they could acquire the necessary experience if they had not acquired it before coming to the Fund.

In sum, the pace of recruitment at all levels should be stepped up to the maximum extent to which the Fund could usefully absorb new staff, Mr. Kafka went on. For the time being at least, he favored the risk of overrecruitment rather than underrecruitment, given the heavy emphasis on the latter for many years, a policy from which the Fund was suffering grievously. It would also be helpful, not only from the point of view of the work load, if there were a practice of attaching staff members from the Research Department to area department missions to a much larger extent than had occurred to date. A staff member of the Research Department brought to a country program a quite different perspective than someone, even the same person, who had been in the area department for a time. Such a perspective was useful, indeed essential, if the level of analytical sophistication in all departments was to be improved as far as to the data base of each country under examination permitted.

The Administration Department had never been in better hands than at present, Mr. Kafka considered. Among the problems that it faced, the outstanding issue was the new telephone system, the inadequacies of which Directors were well aware of. The more up-to-date equipment being put in place might improve the situation, but the experience suggested that the staff should consider a fundamental examination of its own administration processes, perhaps along the lines of the "Why" Committees that had

examined the United Kingdom's administration after World War I, by simply asking why about every function from top to bottom. A further problem was the messenger service, which was conscientious but sometimes slow. It had happened quite frequently to all Executive Directors that they had not received papers issued just before Board meetings, sometimes even the night before, in time for the meeting. Given the crisis nature of the Fund's activities in recent months, it would be worth having a 24-hour telephone operator who could get in touch with all senior staff and Executive Directors and make connections for them. The cost need not be great, and the Fund could learn from the experience of departments of the U.S. Government that operated on that basis. Among the interesting innovations being considered in the administrative area, all of which were welcome, the most encouraging were the plans to increase security.

It had been suggested by Mr. Malhotra at an earlier Executive Board meeting that the Fund should set up an evaluation staff, analagous to the World Bank's Operations Evaluation Staff, Mr. Kafka observed. The idea deserved consideration; such staff would have to be entirely separate from the existing professional staff, from which it might be recruited but to which it could not return.

Within the work program, Mr. Kafka remarked, the most important areas were the work on the international monetary system, international liquidity, the SDR, and the analytical approach underlying the Fund's surveillance activities, the debt and adjustment problems. It would also be worth studying the analytical approach underlying the design of the Fund's programs and, perhaps more cautiously, the style and method of the Fund's negotiations. In all those studies, the use of outside consultants in conjunction with the staff could be valuable. He agreed with the other points made in EBAP/83/296 and with the conclusions contained in EBAP/83/302 and EBAP/83/307.

Mr. Grosche said that he was generally satisfied with the explanation that the staff had provided concerning the deviations that had occurred from the budget estimates. With regard to the Fund's income position, the results for the first six months were such that the safeguard mechanism in Rule I-6(4) was not brought into effect. There was, therefore, no need to change the rate of charge on the basis of that rule.

He agreed broadly with the program of activity described in EBAP/83/296, Mr. Grosche continued. He also agreed with Mr. Kafka that the Fund should be able to recruit the necessary staff, but it ought to stay as lean as possible. Quality should come far ahead of quantity. With regard to the establishment of a separate Fund computer center, it was regrettable that the cooperation with the World Bank, which had been intended to produce economies of scale, appeared to have surpassed its point of maximum return and that the costly installation of the Fund's own center was probably inevitable as a way of ensuring that the Fund had the best possible services. The introduction of capital budgeting and accounting procedures was welcome, as they should enable better cost/benefit analysis to be carried out. He looked forward to the Executive Board's discussion of the subject following the staff's review and submission of a formal proposal.

Mr. Lovato stated that he agreed with the revisions made in the estimates that had been prepared at the beginning of FY 1984. The increases in administrative expenses in the three items "Other Personnel Expenses," "Data Processing Services," and "Miscellaneous" were striking. He understood the effect of the decision to provide for the estimated value of earned separation grants and accumulated unused annual leave over and above the amount provided for in FY 1983. However, it was not so easy to understand the sudden appearance of an increase of $1,555,000 for "Data Processing Services" and of an increase of $2,200,000 in the "Miscellaneous" category that was also the result of "the cost of data processing services," unless such increases constituted an admission that policy in that area in recent years had not been the most efficient. He had heard remarks to the effect that the capacity of the computing facilities had not been utilized optimally and that much more could have been done with the existing equipment. It appeared that deterioration in the level of services had, to some extent, been the result of a lack of rational organization of equipment and personnel. The increase in expenses in those two categories was depicted as an attempt to make up for the lack of progress in recent years and to improve the efficiency of the computing system. While he could agree that the Fund had to buy or rent new equipment and to train staff so as to improve the efficiency of the computing services, he invited the staff to say whether it was possible to provide a rough estimate of the cost of the operation.

Commenting on the budgetary outlook for FY 1985, Mr. Lovato observed that it was easy to accept that the work load was not likely to diminish. The quality of the staff, as well as the quantity, was an important factor in handling the increase in the work load and in improving efficiency. The staff had proved itself capable, and, to the extent possible, mobility should be improved further. However, it could become necessary to provide some relief for the area and functional departments. Taking into account the experience of the previous two years, a great deal of importance should be attached to the "special services to member countries," particularly technical assistance in the fiscal area.

Mr. Leonard remarked that he fully appreciated the difficulties of estimating the Fund's income position even for as short a period as six months ahead, given the many uncertainties that existed, especially with regard to the development of interest rates. It was not surprising that the revised estimate was about half the original estimate; nevertheless, the net income in the first six months of the year remained well above the level that would require activation of the safeguard mechanism under Rule I-6(4)(b). He agreed with the staff that there was no need at present to adjust the rate of charge; the midyear review should not normally be the occasion for making a change unless the net income had fallen below the target level. However, his chair continued to believe that the rate of remuneration should be raised to 100 percent of the SDR rate as soon as possible. He strongly urged that there should be a review of the Fund's income position in 1984, following an Executive Board decision on the rate of remuneration.

EBAP/83/296 could be regarded as much a review of progress and achievement as of expenses and the budgetary outlook for the coming fiscal year, Mr. Leonard considered. To measure such progress and achievement, it would be useful if more quantitative measures could be developed, particularly with regard to the area departments' relations with the member countries. Such analysis would complement the work undertaken earlier in the year in assessing the effects of purchases under the upper credit tranches. He was not advocating an elaborate system of program budgeting, but a more detailed analysis could help to improve management of the Fund's budget and the workings of its programs and activities. Any steps in the direction that he had suggested should be undertaken with care and tact, given that the present system worked well.

The program of work of the IMF Institute focused primarily on demand management issues, Mr. Lenoard observed. Such issues were properly within the interest of the Fund, and it was appropriate that the Institute should concentrate on them. However, management of an economy involved more than demand management alone, and the Fund should make participants in its programs aware that supply-side questions were also important. Perhaps efforts in that area could be undertaken in collaboration with the World Bank.

Mr. Nimatallah commented that the staff had shown that the Fund's net income position in the first half of FY 1984 had been satisfactory. It had also suggested that the Fund remained on track toward achieving the income target for the year as a whole. The analysis was encouraging, and he agreed with the staff that there was no need to raise charges at present. The projections for the second half of FY 1984 were subject to the usual uncertainties. The income position would be strengthened if members paid in their quota increases by the end of December. He hoped, therefore, that all members would do so as soon as possible; Saudi Arabia would. It was in the interest of all members, debtors and creditors alike, that the Fund's financial position, and its credit standing, should remain strong in the difficult period ahead.

Turning to the midyear review of expenses in FY 1984 and the budgetary outlook for FY 1985, Mr. Nimatallah said that the Chairman had provided a clear and well-balanced assessment of the present budgetary position and of the outlook for FY 1985. He was in broad agreement with the main conclusions. It was clear from that statement, and from the staff paper on reserves and charges (EBS/83/251, 11/25/83), to be discussed by the Executive Board at EBM/83/177 (12/19/83), that administrative expenses had increased considerably in recent years. Unfortunately, that development appeared to be unavoidable, at least in some respects. However, it was important for the Fund to practice what it preached to its member countries, particularly in view of the present financial constraints. The Fund should, therefore, do its utmost to reduce costs and to eliminate unnecessary expenditure in all areas.

In the current financial year, administrative expenditures would exceed the revised ceiling by about 3 percent or $6 million, Mr. Nimatallah noted. The increase reflected, in part, the sensible change in accounting procedures to provide for the estimated value of earned separation grants and accumulated annual leave. It also stemmed from the proposed improvements in data processing services. He agreed that there was scope for improvement, but it was essential for the Fund to draw up a clear, medium-term plan in that critical area, given the large sums involved. He looked forward to the staff paper on the establishment of an independent computer center. The Executive Board should be careful to avoid costly mistakes in that field.

There had also been overspending on the new Fund building, Mr. Nimatallah continued. He hoped that it had been once-only expenditure and that it would not recur in future years. It was important that the Fund use the new building to its full potential. In particular, he expected that the cost of the Annual Meetings would be significantly reduced because the meetings of the Interim Committee and other meetings would be held in the new conference hall. That procedure would avoid many unnecessary expenses. He agreed with Mr. Kafka that the new telephone system was a mixed blessing, and he hoped that the present difficulties and the cost overruns would be short-lived. The staff paper explaining why it had been necessary to change the system had been helpful.

With regard to the outlook for FY 1985, Mr. Nimatallah remarked, the proposals to improve the administrative budget and to strengthen expenditure controls were welcome. He hoped that they would soon show results. He agreed that the Fund's policy and country work was likely to continue at the same high level; that there would be a need for the Fund staff to develop its collaboration with banks and other international organizations; and that the demand for technical assistance was likely to increase. As he had mentioned on previous occasions, such developments would mean growing pressure on the staff, particularly in certain areas and at senior levels. Therefore, he fully endorsed the Chairman's recommendations on staffing. The situation would have to be monitored closely, and the Executive Board would have to be flexible to ensure that the Fund recruited the qualified staff that it needed to meet its growing responsibilities. He also agreed with the Chairman's comments on the important role of the IMF Institute. The recent introduction of new facilities and seminar courses for Arabic-speaking participants had been extremely useful for the countries concerned. He expected that the Institute would continue to provide the same helpful services for those members in the period ahead.

There was an urgent need to improve the Fund's security, as the Chairman had suggested, Mr. Nimatallah added. He had personally been disappointed to discover just how weak the present security system was. The situation was not at all reassuring for anyone who worked in the building. He would not be reassured until specific measures were taken, and soon, to improve the unfortunate situation. He was anxious to learn what the Fund intended to do to strengthen security procedures on all fronts.

Mr. Hirao said that, with regard to the Fund's income position, he could support the staff's view that there was no need at present to change the rate of charge, as the safeguard mechanism was not brought into effect. However, should the Executive Board decide to bring the rate of remuneration closer to the SDR interest rate, the level of charge would have to be reviewed again with a view to maintaining an appropriate level of reserves in the Fund.

He could generally endorse EBAP/83/296, Mr. Hirao continued. He agreed that recent experience suggested that there was a need to intensify the public education program, and he hoped that the opening of the Visitors' Center would enhance better communications with the public. Other important activities, not covered in EBAP/83/296, included the Chairman's public appearances at various fora, which had no doubt been instrumental in furthering public understanding of the role and functions of the Fund.

There might still be a need to continue the practice of the past few years of giving increases in staff positions for selected high-pressure points, Mr. Hirao noted. If the Fund was to fulfill its expanded role effectively, the maintenance of a high-quality staff was of the utmost importance, and he would be prepared to consider with an open mind a proposal to increase some staff positions, if such a request was presented to the Executive Board. With regard to data processing services, the Chairman had indicated that the Fund was moving toward the establishment of an independent Fund computer center. He looked forward to studying the paper presenting such a recommendation, as it would be an important element in the evolution of the Fund's work. He could endorse the guidelines for electronic data processing support of Executive Directors' offices, under the present circumstances, it being understood that those guidelines would be reviewed, if developments in the computer environment warranted such action.

Mr. Schneider said that he agreed with the staff's conclusions in EBS/83/248. With regard to EBAP/83/296, the paper was most welcome, being more informative and comprehensive than before. He regretted the estimated overrun of expenses by about 3 percent for FY 1984 in comparison to the original budget ceiling, but he was satisfied with the general explanations for that overrun. He invited the staff to provide explanations of the high increases in salaries for "experts" mentioned in paragraph 4 of the paper. The increase in remuneration of Executive Board members and their advisors had amounted to $200,000, compared to an increase in the salaries of "experts" of $245,000, an amount that appeared high. Did the category "experts" include consultants?

It was estimated that the budget for carpeting would be exceeded by about $283,000, Mr. Schneider observed. However, on his floor of the building, the old carpeting had been taken out before the previous Interim Committee meeting, yet Directors had had to await the new carpeting for months. It was not satisfactory that the Fund had had to defer the acquisition of some office furniture and equipment. In his office at least,

there had been a waiting period of about six months for some furniture to be delivered; moreover, his office was not yet furnished on a comparable basis to the offices of some other Executive Directors. The revised estimate of an increase of 40.3 percent in the category "Miscellaneous" was surprising. A major part of the increase was attributable, he understood, to the cost of data processing services provided by private companies. He hoped, therefore, that there would be some savings in the medium term when the Fund had its separate computer center.

Turning to the budgetary outlook for FY 1985, Mr. Schneider remarked that he had difficulty understanding the rationale behind paragraph 16 of of the section dealing with "General Policy Development and Research." It was his expectation that the Eighth General Review of Quotas, the enlarged General Arrangements to Borrow, and the proposed borrowing through the Bank for International Settlements and Saudi Arabia would be concluded in January 1984, while FY 1985 began on April 1, 1984. Nevertheless, the Executive Board would have to continue paying close attention to the Fund's liquidity position.

He was disappointed that only after the Deputies of the Group of Ten had taken the initiative to look into possible improvements in the functioning of the international monetary system was the Fund about to take up related issues, Mr. Schneider commented. He would have expected that the Fund itself, as an international monetary institution, would have taken up those issues independently at an earlier stage. He welcomed the intention to pay special attention to the assessment of the external debt situation and its potential course over the medium term in the next World Economic Outlook. In that context, it would be extremely useful, if possible, for the staff to provide long-term projections of the real growth rates and increase in world trade in real terms that would be required for the developing countries to maintain orderly debt service. He also welcomed the proposed study of the Fund's approach to centrally planned economies. However, he believed that there had already been a request to undertake work on the analytical approach underlying the Fund's surveillance activities.

Commenting on operations and relations with member countries, Mr. Schneider paid tribute to the Fund's work in technical assistance. Other than the financial support of stabilization programs in the framework of stand-by and extended arrangements, such work was the most important activity of the Fund, in particular, the work of the IMF Institute, the Central Banking Department, the Legal Department, the Fiscal Affairs Department, and the External Relations Department. He also wished to thank the Fund's Historian for her outstanding work in writing the history of the Fund. With regard to relations with other international organizations, it appeared that closer cooperation was needed with the World Bank, especially in extended arrangements.

He could in principle support the proposal to improve the budget process by introducing capital budgeting and accounting, Mr. Schneider went on. However, given that the Fund was not subject to a tax code

in which depreciation rules were clearly defined, some provisions in that regard would be needed. In paragraph 42 of EBAP/83/296, there appeared to be more concern with safeguarding the confidentiality of certain Fund documents than with physical security in the Fund building. It could not be excluded, for example, that some offices might be subject to harassment by political groups, and the entrance to the garage was a particularly weak point. When someone entered the garage outside regular working hours, the guard did not more than check the car, noting the passengers in it. Some improvements in procedure might be possible, for example, by requiring such people to show the usual identification cards to the guard.

He agreed with previous speakers that a number of departments were understaffed, Mr. Schneider added, and that there was difficulty in coping with the present work load. It was, therefore, necessary to increase the number of staff so as to maintain the quality of its work. Sometimes follow-up missions, which were not of the same importance as the original missions negotiating an arrangement, had the same size as original missions. Perhaps some economies could be made in that area. He thanked the staff for its help in answering Directors' questions and in solving their problems. It would be reasonable to include the offices of Executive Directors in the summer intern program. His office had had excellent experience with students from Belgium. Perhaps the Administration Department could also consider establishing a position for an editor to assist those Executive Directors' offices that had language difficulties. It was clear that in the present circumstances expenditures for FY 1985 would be higher than in FY 1984, but he remained confident that the management and staff would approach the matter in the traditional conservative way.

Mr. Munthali stated that he agreed with the staff's suggestion in EBS/83/248 not to change the rate of charge on the use of ordinary resources. The staff had cited the reduction in the use of Fund resources as one of the reasons behind the decline in net income from the financial year as a whole. As he had said on previous occasions, his authorities continued to be concerned about the Fund's inability to meet members' genuine needs even when the situation was the result of a desire to safeguard the Fund's income position. They believed strongly that such a situation should not be allowed to recur if the Fund was to continue to play its role in the international monetary system more effectively. They harbored genuine fears that in such a situation the small developing countries would often be ignored because they were regarded as having little or no deleterious effects on the functioning of the international monetary system. Consequently, their imbalances were exacerbated by a lack of timely support. The staff's reference to the possibility of activating the safeguard mechanism when the midyear income position was SDR 24 million while the trigger point was SDR 5 million or less could cause unnecessary anxiety about the Fund's actual income position. While such a reference might have been appropriate at one time, it served no useful purpose at present.

The information in EBAP/83/296 provided useful and pertinent details that made it easier to understand the factors that had caused the original budget estimate to be exceeded, Mr. Munthali continued. He would not question the assumptions underlying the revised estimates; there was a satisfactory explanation for the expenditure overruns in each category. The outcome underscored the practical difficulties that the staff in any bureaucracy, including the Fund, had to face in working with the estimates. Perhaps it was a phenomenon that would have to be lived with, provided that the overall overexpenditures did not produce unnecessary strains on the budget or impinge on the proper functioning of the Fund. The present overruns could not be interpreted as stemming from laxity on the part of the staff or management; there had been genuine costs that could not have been avoided.

The various activities being contemplated in the area of "General Policy Development and Research" were welcome, Mr. Munthali remarked. The priorities, insofar as they could be inferred from the paper, were appropriate, building on the completion of the Fund's work on the Eighth Review of Quotas. He had hoped to have seen some research activity directed at analysis of the problems of stabilization programs from the standpoint of the Fund itself. In that regard, he agreed with the remarks made by Mr. Kafka. Perhaps the time had come for the Fund to undertake such an exercise in a systematic fashion so that Executive Directors could discuss the successes and failures. An ex post evaluation of various stabilization programs, including self-criticism if necessary, would be useful. While such evaluations might be taking place all the time as an ongoing exercise, more formal studies in that area could form an essential ingredient of the work being contemplated on the problems of adjustment of developing countries, particularly in relation to the chronic users of Fund resources, as suggested in EBAP/83/296. He invited the staff to comment on the idea.

The category "Operations and Relations with Member Countries" understandably took a major share of the administrative budget, Mr. Munthali observed. His interest in that item arose from the fact that many countries had increased their use of Fund resources in recent years, and, as a consequence, the average number of missions had inevitably increased. The efforts by management to support the critical needs of the African Department were greatly appreciated. Significant improvements had been initiated: for example, the existing establishment had been reinforced, both at the division level and in the front office; some expansion in the number of divisions had also been allowed, partly to accommodate possible new members of the Fund and, more important, to streamline operations. With the increased work load necessitated by the expansion of Fund exposure to those countries, and the need to observe strictly the 12-month consultation cycle, there could be no doubt that such improvements would enhance efficiency.

To facilitate the staff's work in the field, Mr. Munthali added, it might also be necessary to ensure that they were furnished with the needed equipment to discharge their duties expeditiously. The use of

minicomputers could prove helpful on staff missions, a point mentioned in EBAP/83/296. At the Fund headquarters, efforts should be directed at providing the desired equipment to help the staff to speed up the processing of papers following a mission so as to enable the Executive Board to consider the papers in a timely fashion. He hoped that those needs would be supported in FY 1985. While a great deal had been accomplished, there remained room for further improvement, and he encouraged management to provide the necessary support that had always been forthcoming in the past. With regard to the special services to member countries, the technical assistance programs had been of great value to countries in his constituency. He urged, therefore, the continuation and, wherever possible, the strengthening of those programs.

Mr. Delgadillo said that he agreed with the conclusions in EBS/83/248, particularly with regard to the maintenance of the rate of charge. He welcomed the midyear review of expenses in EBAP/83/296, and he was satisfied with the explanation of the deviations from previous targets. He looked forward to the future work to be undertaken by the staff in several areas, particularly the extension of the effort on international banking statistics, and, in the area of general support services, of capital budgeting and accounting, and the improvements in security.

Mr. Jaafar commented that he was satisfied with the outcome of the Fund's income position as presented in EBS/83/248. The projected outturn of SDR 52 million for the year as a whole, although below the April 1983 projection, continued to exceed by far the target of SDR 30 million. While the final outcome for FY 1984 would depend on a number of unknowns, the target of SDR 24 million for the first half of the financial year had already been reached. It was highly probable that a net income target in excess of 3 percent for the whole year would be achieved; there was, therefore, no good reason to increase the rate of charge at present. When the rate of charge had been increased to 6.6 percent in May 1982, the decision had been based on a staff assumption that Fund income would amount to about SDR 100 million in FY 1983; however, the actual outturn of SDR 57 million for FY 1983 income had far exceeded the 3 percent target. The Executive Board had not reduced charges at that time, and the expected surplus for the current financial year was also large. He could support the maintenance of the rate of charge at present, but, if the result at the end of the financial year were significantly above target, consideration should be given at that time to reducing it.

Welcoming the midyear review of expenses, Mr. Jaafar remarked that the explanation of the revisions in the budget had been satisfactory. With regard to the budgetary outlook for FY 1985, the section on "General Policy Development and Research" placed considerable emphasis on issues such as the exchange rate system, international liquidity, and the future role of the Fund in the international monetary system. Two aspects of the problem facing the world economy had not been given sufficient attention: first, the policies pursued in some major industrial countries, which were contributing to high interest rates, thereby inhibiting recovery in the world economy; and, second, issues relating to flows of trade

and capital. Such matters were as damaging to the world economy as the existence of exchange rate instability or an inappropriate level of international liquidity. He hoped that those issues would be given greater attention in the work of the Fund.

Additional work was being contemplated on the possibility of an SDR allocation, Mr. Jaafar noted, and reference had also been made to work on improving the characteristics of the SDR. In the present political climate, the Fund staff should not spend too much time and energy on those matters. Considerable progress had already been made in approving the attractiveness of the SDR as a reserve asset. What was lacking was the will among major industrial countries to increase the supply of SDRs, notwithstanding the convincing arguments provided in earlier staff papers for a further allocation.

There were references in EBAP/83/296 to the heavy mission work load in connection with the use of Fund resources and Article IV consultations, Mr. Jaafar observed. He encouraged the staff to provide longer intervals than the present 12-month cycle for countries that did not face major problems, where policies were basically sound, and for those countries that did not have a major impact on the world economy. Wherever practicable, staff missions should combine Article IV consultations and use of Fund resources discussions. The members of his constituency had found the Fund's special services to be extremely useful. Resident representatives in two countries in his constituency had provided invaluable services. In addition, some of his authorities had had technical assistance in a number of areas through the Central Banking Department, the Fiscal Affairs Department, and the Bureau of Statistics. They had also found the training at the IMF Institute to be most beneficial. He encouraged management to continue those special services and, if necessary, to devote more resources to them.

The progress that had been made to date in the area of information and statistical services was welcome, Mr. Jaafer commented. However, caution should be exercised to prevent excessive indulgence in publicity campaigns. Technical assistance and the IMF Institute were much better instruments of Fund publicity in developing countries than many of the initiatives undertaken by the External Relations Department. He had reservations regarding seminars for nonofficials, and he urged that the number of such seminars should be kept as few as possible. It was proposed to have more realistic cost/benefit analyses of the growing amount of costly equipment required for the program of data processing. Such analyses should be undertaken by an independent outside consultant, a vitally important action because the Fund was moving into a period in which it would be making huge investments in sophisticated computing equipment. Mr. Kafka's remarks on a staff evaluation unit, along the lines of the World Bank's, were interesting and deserved support. In addition, the Fund should establish an independent unit within the organization to evaluate the appropriateness and the effectiveness of Fund programs in solving member countries' balance of payments problems. The establishment of such a unit would make Directors aware of the strengths and weaknesses in program design so that all members could benefit.

Mr. Prowse stated that the staff's recommendations in EBS/83/248 were acceptable. He invited the staff to provide further information with regard to the reduction in estimated purchases of about SDR 2.2 billion, a reduction of some 35 percent. More generally, on future occasions, the paper would benefit from more detailed explanations of the changes in the assumptions underlying the estimates.

The information in EBAP/83/296 was welcome, Mr. Prowse continued. It was more comprehensive than in the past. However, the paper had not been circulated much in advance of the present meeting. He hoped that in future more time would be made available so that the paper could be considered by Directors' authorities. It would also be helpful if the budget outline could be circulated with sufficient time for Directors to consider it thoroughly.

While the presentation in EBAP/83/296 was more comprehensive, it could be improved further if the tables were set out on a more consistent basis, Mr. Prowse considered. For example, it would be desirable to relate the information on expenditure headings presented in Table 1 to that on projected program expenditures presented in Table 2 and Table 3. As Mr. Leonard had suggested, it was difficult to see how expenditure related to activity. Furthermore, the paper did not provide the same degree of quantitative analysis as provided in the budget document itself. Although the resources that could be devoted to producing a review document were inevitably limited, more analysis should be undertaken. For example, it was difficult to see the trend of expenditures, such as travel expenditures, and how such expenditures related to increases in the work load. The projected travel expenditure appeared large, and he hoped that it would be justified when the full budget document was produced. Perhaps the travel guidelines would need to be reviewed.

Most estimates had been close to the original targets, apart from the growth in data processing costs, Mr. Prowse noted. He did not feel qualified to say whether the full increase in data processing costs had been justified, but it was reassuring that the Committee overseeing that expenditure was chaired by the Deputy Managing Director. The increase in question had been alarming; it made budgeting difficult and also made it difficult to assess the relative claims of different activities on the budget. While a detailed system of program budgeting might not be readily applicable to the Fund's activities, some moves in that direction could be warranted. For example, in the area of "General Policy Development and Research," it would be interesting to see a breakdown of the additional staff to be hired by program activity, perhaps broken down further into professional and support staff. It would also be useful if a table could be provided showing incremental expenditures on salaries and other large budget items by major programs. Perhaps such an exercise could be undertaken with regard to the World Economic Outlook. In that way, management would be able to make a clearer decision on the appropriateness of the amount of resources being devoted to such an activity.

His chair continued to be impressed by the performance of the staff members with whom it had dealings, Mr. Prowse added, and his authorities had been generally impressed by the quality of the staff missions. He wished to pay personal tribute to the job done by the staff of the Communications Division in the Secretary's Department. He also had high regard for the work of the IMF Institute. The proposals put forward with regard to additional staff appeared reasonable, even conservative, given the work load. He expected to be able to support management's concrete proposals when they were presented in the budget. Finally, perhaps the budget outline could be referred to the Committee on Administrative Policies for consideration. While the formal terms of reference of the Committee needed to be taken into account, the position ought not to inhibit the Committee from looking at such detailed aspects as it might wish to take up. It was, of course, the right of any Director or Alternate Director to attend the Committee meetings and to take part in the discussion.

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

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/83/171 (12/9/83) and EBM/83/172 (12/14/83).

3. AUDIT COMMITTEE

The Executive Board approves the nomination set forth in EBAP/83/222, Supplement 1 (12/6/83).

Adopted December 9, 1983

4. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/83/298 (12/8/83), EBAP/83/299 (12/9/83), EBAP/83/300 (12/12/83), and by an Assistant to an Executive Director as set forth in EBAP/83/306 (12/13/83), is approved.

5. STAFF TRAVEL

Travel by the Managing Director as set forth in EBAP/83/308 (12/13/83) is approved.

APPROVED: April 9, 1984

LEO VAN HOUTVEN
Secretary