IMMEDIATE ATTENTION

EBD/83/175

June 21, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Program of Seminars for Non-Officials

As agreed at Meeting 83/51 on March 21, 1983 during Executive Board discussion of the work program, the attached paper on the program of seminars for non-officials is to be brought to the agenda if called for by members of the Executive Board. Executive Directors wishing to do so are requested to inform the Secretary by the close of business on Tuesday, June 28, 1983.

If Executive Directors have technical or factual questions relating to this paper, they should contact Mr. Hartmann, ext. (5)7066.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Program of Seminars for Non-Officials

Prepared by the External Relations Department

Approved by A. F. Mohammed

June 20, 1983

1. Introduction

At the Executive Board meeting on May 28, 1982 (EBM/82/73 and EBM/82/74) on the program of seminars for nonofficials, it was agreed that the program be pursued on an experimental basis and that it be reviewed by the Executive Board after a period of one year in the light of experience. This paper provides information necessary for that review. Two seminars were approved by the Board under EBAP/82/309 (8/19/82); the first was held on August 31, 1982, at Fund headquarters with the National Bureau of Economic Research (NBER) as co-sponsor, and the second on April 5-8, 1983, in Vina del Mar, Chile, in joint sponsorship with the Central Bank of Chile and the Business School of Valparaiso--University Federico Santa Maria. Separately from the two seminars, a colloquium on International Monetary Cooperation, also approved under EBAP/82/309, was held on October 20-28, 1982, in Beijing jointly with the People's Bank of China.

A report on the IMF-NBER seminar on Exchange Rate Regimes and Policy Interdependence was circulated as Secretary's Circular No. 82/151 (10/19/82), and its proceedings were published as Volume 30, No. 1 of IMF Staff Papers in March 1983. Papers presented at the China colloquium and a summary of discussions were published in April 1983 in a book entitled "The Fund and China in the International Monetary System." A review of the major ideas brought up in the papers and proceedings is contained in these publications and in the Annex to this paper for the seminar in Chile.

2. Rationale for seminar program

To improve public understanding of the Fund's work, the External Relations Department has undertaken a broadened publications program, extended its contacts with various segments of the interested public in member countries, and intensified its press contacts, especially among developing country journalists. The seminar program for non-officials has been explored as a channel for interaction with academics, bankers, trade unionists, and businessmen, as well as opinion-makers in the media. It has been designed to serve two major purposes: to contribute to a better understanding of the role of the Fund and to evoke interest on the part of academics and other professionals in the Fund's work as well as garnering outside ideas in areas of Fund competence. In practice the balance between the two objectives has varied but regardless of the emphasis, the seminar format has been effective in combating one of the most acute problems evident at the time it was decided to establish the External Relations Department, namely, the misinformation and misconceptions about the Fund among academics and others, especially a growing conviction that the Fund was a secretive institution unwilling to explain itself.

3. Experience thus far

To date, five seminars and one colloquium have been organized in six member countries, using four languages and on various subjects. The seminar dates, locations, themes, and languages are summarized in Table 1, below:

Table 1. Seminar for Non-officials, 1981-1983

Dates	Location	Theme	Languages
1. Oct. 16-18, 1981	London	Adjustment and Financing--The Role of the International Monetary Fund	English
2. Nov. 23-25, 1981	Paris	Le Systeme Monetaire International Face aux Desequilibres	French
3. March 3-5, 1982	Nairobi	The International Monetary Fund and Developing Countries	English
4. Aug. 31, 1982	Washington, D.C.	Exchange Rate Regimes and Policy Interdependence	English
5. Oct. 20-28, 1982	Beijing	The Fund and China in the International Monetary System	Chinese/ English
6. April 5-8, 1983	Vina del Mar	The Role of the International Monetary Fund in the Adjustment Process	Spanish

All seminars have been held in conjunction with one or more co-sponsors, including central banks, universities, and research bodies. Co-sponsorship has proved very useful in providing logistical support at the country level and in assuring participants that they were not being used in a public relations exercise. The Executive Director of the host country was consulted during the planning and organization of each seminar and his role in communicating with host country authorities ensured their active involvement in all aspects of the seminar arrangements.

The number of active outside participants in each seminar varied from 22 to 44 (excluding the colloquium). In most cases, observers were admitted as inactive participants. Experience suggests that the optimal number of active participants depends on circumstances, with a larger number appropriate to a predominantly educational type and the smaller number better for seminars emphasizing dialogue among participants. It is intended to retain a flexible approach on numbers.

The seminars were chaired on a rotating basis or by a single moderator. While alternating chairmen appeared to work in sharply focused one-day seminars, those spanning several days and with a diversity of subjects were better handled through a single moderator who could pull together varying aspects and views in summing up the proceedings and also help in the required editing where proceedings were published.

The proceedings of three seminars and the colloquium have been published:

- Adjustment and Financing in the Developing World--The Role of the International Monetary Fund, edited by Tony Killick, published by the Fund in association with the Overseas Development Institute, London. Washington, D.C., 1982.

- Le systeme monetaire international face aux desequilibres, edited by Paul Coulbois, published by Economica, Paris, 1982.

- Conference on Exchange Rate Regimes and Policy Interdependence, IMF Staff Papers, Vol. 30, No. 1, March 1983.

- The Fund and China in the International Monetary System, edited by A. W. Hooke, published by the Fund, Washington, D.C., April 1983. (Chinese edition under preparation in the People's Bank of China.)

The total cost of the two seminars and the colloquium conducted since the last Board review was $121,402. This compares with budget estimates given in EBAP/82/309 (8/19/82) of $130,000 (Table 2). Costs include transportation expenses of Fund staff and participants, their accommodation and subsistence during the event (except in China), the commissioning fees for papers by outsiders, a part of the cost of translation, and the cost of publication. Not included is the cost in staff time for participating in the seminars. Sales of seminar publications amounted to $13,600 in FY 1983.

Table 2. Cost of Fund Co-sponsored Seminars for Non-Officials

(1) Seminar	(2) No. of participants	(3) No. of outside participants 1/	(4) Budget expenses as estimated in EBAP/82/309 (8/19/82)	(5) Actual costs
			In U.S. dollars	
Washington, D.C.	70	36	35,000	19,985
Beijing 2/	200	194	50,000	42,930
Vina del Mar	36	30	45,000 3/	58,487
Total	306	260	130,000	121,402

1/ Excluding Fund and Bank staff.
2/ Colloquium.
3/ Budget later revised to $65,000.

Although it is always difficult to quantify the direct benefits of a program such as seminars, there are considerable indirect benefits as shown in the publications resulting from it, the enlargement of contacts with a number of individuals concerned with the Fund and its work, and the opportunity afforded to senior Fund staff to sharpen their understanding of views held outside the institution. In a number of instances, participants, including ex-officials who have dealt with the Fund, have remarked favorably on the opportunity afforded by the seminar program to frankly debate issues such as conditionality in face-to-face encounters with senior Fund staff and in an environment free of the inevitable controversies that prevail during a negotiating process for the use of Fund resources. The willingness of senior staff to take time to explain the organization's philosophy and approaches to the issues it faces in the current environment has been commented upon frequently as an "eye-opener" to persons who have hitherto perceived the organization as an ideologically coercive influence in their countries' policies.

4. Future seminars

It appears appropriate to move from the experimental stage and to place the seminar program as a regular element within the Fund's external relations effort. At the last Board review of the program, it was agreed that the program should be conducted very cautiously and in a modest fashion. To organize many seminars could create an impression that the Fund was undertaking a public relations effort, which is contrary to the concept underlying the program. It would also be impossible to manage a much larger program than the present one, given the limited resources available in terms of the time of senior staff whose participation is crucial to success.

It is therefore proposed that no more than three seminars for non-officials be organized in any given year. For FY 1984 three such seminars are contemplated, one in Central Europe to be conducted in German, one in West Africa to be conducted in French, and one in East Asia to be conducted in English.

As in the past, the question of publication of the proceedings will be dealt with on a case-by-case basis, taking into account factors such as quality and originality of papers, relevance of discussion, and desirability of publishing in a given language.

As noted by Executive Directors at the discussion of the seminar program last year, there is also the need to consider separate briefings on general aspects of the Fund's work exclusively for the media. In view of requests received from authorities in different parts of the world, it is therefore proposed, on an experimental basis, to conduct up to four such press briefings, in Africa, Latin America, and North America, as approved in the Administrative Budget for FY 1984, EBAP/83/96 (3/31/83).

In preparing the seminars, particular attention will be paid to the needs of the country authorities in formulating the program and in the selection of topics to be discussed. With respect both to the seminar program and media briefings, the closest consultation will be maintained with the Executive Directors concerned. Provision exists in the FY 1984 budget to cover the cost of the program.

Seminar in Chile

1. Introduction

A seminar on "The Role of the International Monetary Fund in the Adjustment Process" was the first to be organized in Latin America. The seminar took place in Vina del Mar (April 5-8, 1983) under the joint sponsorship of the Central Bank of Chile, the Business School of Valparaiso--University Federico Santa Maria, and the Fund. There were 36 participants, including 26 from Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay. Participants were professional economists selected in consultation with the co-sponsoring institutions from universities, banks, and other non-official institutions, and representing a wide range of views. A number of observers also attended at the invitation of the Chilean co-sponsoring institution. The seminar moderator was Professor Joaquin Muns of the University of Barcelona and formerly an Executive Director at the IMF and the World Bank. He was assisted by Professor Fernando Ossa of the Catholic University of Chile, acting as seminar rapporteur.

The seminar consisted of seven sessions with a paper presented in each by either a Fund staff member or an outside author (see Attachment). There were two designated discussants for each paper whose comments were followed by a general discussion and a summing up by the author. The papers and proceedings are to be published in Spanish and English.

2. The proceedings

A discussion of the current state and prospects of the world economy with special attention to the countries in Central and South America was introduced by Ms. Linda Koenig (IMF). There was a consensus that economic performance in the region reflected a combination of the impact of external factors such as high oil prices and interest rates, the world recession, and protectionist trends together with weakness in domestic economic management including insufficient bank supervision in some countries undergoing a financial liberalization process, delayed exchange rate adjustments, and the foreign financing of aggregate demand at an unsustainable level. In the face of the resulting imbalances, and of the reduction in capital flows to the region, the need for adjustment was deemed unavoidable, and participants noted the role of the Fund in contributing to an orderly adjustment process. However, several participants expressed concern over the viability of the process in the medium term, if further declines in income occur as these could lead to serious social pressures in a number of countries.

Professor John F. O. Bilson (University of Chicago and NBER) presented a paper in the second session on the balance of payments adjustment process in developing countries that linked to the reserve currency through a fixed exchange rate regime. Bilson noted that the monetary approach relied on variations in the quantity of money interacting with a stable demand for money to bring about adjustment in the balance of payments. This mechanism leads to substantial instability in small countries if financial conditions in the reserve currency country are unstable. When volatility also prevails in the exchange rate relationships among the major industrial countries, the result for countries of the periphery is even greater instability in real interest rates, real exchange rates, and real raw material prices, in part because their residents have substantial debts denominated in foreign currency. To insulate the economy from developments in the rest of the world requires the small country to place less reliance on external financing. Bilson explores an alternative mechanism in which the exchange rate is continuously adjusted so that the value of central bank assets and liabilities is always kept equal (e.g., in the absence of a change in the monetary base the receipt of interest on foreign assets of the central bank would require an appreciation of the exchange rate in order to maintain such equality). He proceeds to demonstrate that a situation in which the central bank maintains the real value of its portfolio enables the small country to reduce the instability emanating from abroad.

Discussants found the paper rather theoretical and not sufficiently mindful of the problems of implementation of a flexible rate regime given the institutional and other constraints in developing countries. The issue was raised whether the assumption of interest rate parity in the asset market approach used by Bilson was applicable in a situation where large fiscal disequilibria raised the domestic rate of interest above the foreign rate of interest after adjusting for the depreciation of the exchange rate. The higher domestic interest rates encourage capital inflows which finance domestic price increases as was the case in Argentina during 1977-81 and in Chile during 1979-82. Concurrently, prices of nontradables rise faster than prices of tradables, leading to a widening in the current account deficit, which is more than financed by capital inflows and allows for an increase in net international reserves.

A paper on Fund conditionality was presented by Mr. E. Walter Robichek (IMF) at the third session. After documenting the juridical basis for the Fund's conditionality, he explained that both the speed and the magnitude of the adjustment effort are constrained by the overall availability of financial resources from the Fund and other sources to cover the external deficit. The paper addressed a number of frequently made criticisms of the Fund and the implications of the world economic recession for the Fund's conditionality. The Fund could be more flexible in periods when exports are falling or international interest rates are rising provided there were both an increase in the member's access to Fund resources (relative to quota) as well as an expansion in the institution's resource base.

Participants did not take issue with the juridical or the policy basis of conditionality but some raised the issue that the Fund's approach to adjustment assumes rapid, almost automatic, market adjustments, implying the existence of efficient markets. Since markets are not competitive, transparent, or stable, the changes required in variables like inflation may be substantial and may involve longer periods of time than are envisaged by Fund programs. Some participants thought the present role of the Fund in maintaining net banking flows may be postponing the "hour of reckoning" because debts rescheduled at 5-7 per cent real interest rates could not be paid back if commodity prices were not rising correspondingly.

The role of appropriate exchange rate and of other economy-wide prices (interest rates, wages, and administered prices) in the adjustment process was the subject of a paper presented by Mr. Claudio Loser (IMF) at the fourth session. The role of these prices was seen as crucial due to their impact on aggregate demand as well as their importance in resource allocation. The paper described the pricing prescriptions in stand-by and extended arrangements approved during the 1973-80 period and concluded that these have proved successful when accompanied by the required support policies. It contrasted this with the experiences of Argentina, Chile, Mexico, and Uruguay with fixed exchange rate regimes or exchange rate schemes based on a preannouncement of the path of the exchange rate. While aimed at reducing the rate of inflation by relying on the exchange rate to attain a rapid convergence of domestic price increases to the international rate of inflation, the lack of coherence with financial policies resulted in a considerable appreciation of the real exchange rate and a general loss of competitiveness.

Some participants observed that it was a mistake to implement simultaneous tariff reduction and pre-announced fixed exchange rate policies due to the severe impact on income distribution: placing the heaviest burden on exporters and on the import substituting sector resulted in a loss of credibility for the overall economic strategy. The objective of maintaining the real exchange rate in Fund programs was viewed with concern by some participants in the sense that given the difficulties in determining the equilibrium level, this prescription might result in competitive depreciations. Some participants took issue with the residual nature of the wage variable in Fund adjustment programs, inasmuch as labor markets in the region are characterized by considerable downward rigidities.

Attention was drawn to the weak economic and financial position of the private sector in several Southern Cone countries. This situation, quite different from that prevailing previously, was seen as requiring a more flexible approach by the Fund. In particular, the suggestion was advanced that some control over interest rates and some allowance for multiple exchange rates might be necessary if the private sector is to survive.

The role of fiscal policy in the adjustment process was analyzed in a joint paper by Messrs. Vito Tanzi and Mario Blejer (IMF) and presented by the latter at the fifth session. The paper focused on the pertinent definition of the "core" fiscal deficit in designing an adjustment program and dealt with the impact of fiscal imbalances on the balance of payments taking into account the impact of alternative financing strategies. It concluded that in seeking to eliminate the basic causes of external disequilibria, the Fund has found that a reduction of the fiscal deficit is generally a crucial element in adjustment programs.

Participants agreed with the adverse impact of fiscal deficits on the balance of payments and on the problems it imposes on private sector activities via the crowding-out effect. Some emphasized the political nature of fiscal deficits and others referred to the relevance of analyzing the level and rate of expansion of public expenditures. The latter factor was seen as a possible explanation for the high real interest rates which had prevailed in Chile even though the country was recording significant fiscal surpluses during 1979-81. Some participants regarded the focus on the fiscal deficit as failing to consider the structure of expenditure, particularly its investment component. Attention was drawn to the significance of deficits incurred by the private sector, particularly when, as in Chile, a substantial proportion of Central Bank financing went to the private sector at the same time that it was drawing on foreign financing.

A paper on the role of international reserves and external debt in the adjustment process was presented at the penultimate session by Professor Sebastian Edwards (U.C.L.A.). Following a survey of the literature on the demand for international reserves, the paper concluded that most studies have relied on partial equilibrium analysis, ignoring the role of alternative instruments in adjusting to external payments difficulties. In particular, the literature has ignored the possible role of changes in net external debt levels and/or of exchange rate adjustments in addressing external disequilibria. The paper presented an empirical analysis of the behavior of several variables based on data for a group of 19 developing countries and derived, inter alia, the results that the demand for international reserves has been stable during 1975-80 and showed diseconomies of scale; that movements in international reserves over time responded to discrepancies between desired and actual reserve holdings, as well as to excess supply of money.

On the basis of recent external debt problems in the Southern Cone, the paper raised a number of policy considerations. In relation to excessive foreign borrowing by many countries, particularly those that underwent a process of financial liberalization, it suggested the need to improve domestic bank supervision and to determine an optimum level of foreign indebtedness by the private sector through the imposition of a tax on foreign lending operations. The paper also raised an important aspect of the recent external debt experience of some Latin American countries, namely, the failure of total savings to rise despite the substantial increase in foreign borrowing. While in some cases total savings in relation to GDP have remained constant (Argentina, Brazil), there has been a drop in others (Chile, Peru, Uruguay), suggesting that a significant proportion of foreign borrowing has been used to finance consumption.

Participants raised a number of technical issues such as the need to expand the analysis of the demand for international reserves to include the demand by the private sector and to add foreign private sector debt in the analysis of external debt behavior, especially in view of the trend for private debt to be taken over by the public sector.

A paper on the role of commercial banks in the adjustment process was presented at the final session by Mr. Jack Guenther (Citibank). The pace of foreign borrowing by developing countries during the 1970s was seen to be in line with the debt servicing capacity of those countries. External debt problems arose in the early 1980s due to stagnant exports, historically high interest rates, and inadequate economic policies in some of the major debtor countries. In looking at the future, the paper recognized the need for a slowdown in the growth of debt to a more moderate level and, on the basis of a 10 per cent projected yearly growth in exports of goods and services of developing countries, it proposed that net international bank lending grow by no more than 7 per cent a year during the next 5 years. The paper provided data to refute the charge that international banks are overexposed in developing countries and that their loan portfolios are concentrated in a few countries.

Participants expressed the view that the somewhat optimistic debt growth projections of the paper hinge critically on world recovery and/or a significant reduction in interest rates. Even a 7 per cent annual growth in foreign commercial banking debt would barely cover the interest component of debt service payments. A suggestion was made that the World Bank and the Fund could jointly set up a debt rescheduling service to assist countries to design, on a country-specific basis, the amounts and terms of their commercial debt rescheduling needs as part of contingency planning. Attention was also drawn to the burden of interest rates on the current account of developing countries, with fluctuations in interest rates as important as the terms of trade effect. Some participants voiced concern over the evolving relationship of the Fund with commercial banks while others stressed the need for continued cooperation among the Fund, member countries, commercial banks, and multilateral development banks.

The Role of the International Monetary Fund
in the Adjustment Process

Seminar sponsored jointly by the International Monetary Fund,
the Business School of Valparaiso--Adolfo Ibanez Foundation--University
Federico Santa Maria,
and the Central Bank of Chile,
Vina del Mar, Chile
April 5-8, 1983

Program

April 5, 1983

7:30 p.m. Opening ceremonies followed by welcome reception for invited guests in the Business School of Valparaiso--Adolfo Ibanez Foundation--University Federico Santa Maria.

April 6, 1983

9:30 a.m. Recent Developments in the World Economy and in Non-Oil Developing Countries of the Western Hemisphere

Speaker: Linda Koenig (IMF)

Discussants: Gustavo Luna (Bolivia)
Julio Romero/Jose Paez (Paraguay)

3:00 p.m. The Process of Balance of Payments Adjustment

Speaker: John F.O. Bilson (Univ. of Chicago)

Discussant: Armando Ribas (Argentina)

6:00 p.m. The IMF's Conditionality Re-Examined

Speaker: E. Walter Robichek (IMF)

Discussants: Guido di Tella (Argentina)
Miguel Fabbri (Bolivia)

April 7, 1983

9:30 a.m. The Role of Economy-Wide Prices in the Adjustment Process

Speaker: Claudio Loser (IMF)

Discussants: Carlos Bolona (Peru)
Carlos Rodriguez (Argentina)

3:00 p.m.	The Design of Adjustment and Conditionality: The Role of Fiscal Policy
	Speaker: Mario Blejer (IMF)
	Discussants: Carlos Amat y Leon (Peru) Sergio de la Cuadra (Chile)
6:00 p.m.	The Role of International Reserves and External Debt in the External Adjustment Process
	Speaker: Sebastian Edwards (UCLA)
	Discussants: Juan G. Espinosa (Chile) Sergio Malaga (Peru)

April 8, 1983

9:30 a.m.	The Role of Commercial Banks in the Adjustment Process
	Speaker: Jack Guenther (Citibank)
	Discussants: Carlos Massad (ECLA) Alberto Bension (Uruguay)
12:00 noon	Concluding Session and Summing-Up
1:00 p.m.	Farewell luncheon hosted by IMF

Moderator - Joaquin Muns (Univ. of Barcelona)

Rapporteur - Fernando Ossa (Catholic University of Chile)

Participants

Argentina

Mario Brodersohn	President Financiera Macro Buenos Aires
Guido di Tella	President Estancias Los Nogales, S.A. Buenos Aires
Armando Ribas	Advisor Bolsa de Valores Buenos Aires
Carlos Rodriguez	Director Centro de Estudios Macroeconomicos de la Argentina Buenos Aires

Bolivia

Miguel Fabri	Managing Director Banco Nacional de Bolivia La Paz
Gustavo Luna	Executive Vice President Banco La Paz La Paz
Alfonso Revollo	Executive Secretary Camara Americana de Comercio La Paz
Luis Saavedra	Managing Director Banco de Santa Cruz de la Sierra Santa Cruz

Chile

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Sergio de la Cuadra	Professor Institute of Economics Catholic University of Chile Santiago
Juan G. Espinosa	Professor Interamerican Statistical Training Center (CIENES) Santiago
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Julio Romero	Deputy Director, Finance Yacireta Binacional Asuncion
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Marcial Valiente	Director General Econ Financiera S.A. Asuncion

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Carlos Amat y Leon	Professor University of the Pacific Lima
Carlos Bolona	Professor University of the Pacific Lima
Sergio Malaga	Regional Director General Banco Exterior de los Andes y de Espana Lima
Alonso Polar	Director General Banco Continental Lima

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International Monetary Fund

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Linda Koenig*	Deputy Director Central Banking Department
Claudio Loser*	Division Chief Exchange and Trade Relations Department
Azizali F. Mohammed	Director External Relations Department
Hernan P. Puentes	Senior Information Officer External Relations Department
E. Walter Robichek*	Advisor to the Managing Director

Moderator

Joaquin Muns	Professor University of Barcelona Barcelona, Spain

* Author.

1/ Paper co-authored with Mr. Vito Tanzi, Director, Fiscal Affairs