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To: Participants in the 1991 Retreat — December 23, 1991

From: The Secretary

Subject: Draft Informal Summary Record

Attached is a draft of the informal summary record of the discussion at the Retreat held on December 12-13, 1991.

Please forward any comments on the text to Mr. Friedman (Room 12-420) by January 15, 1992.

DRAFT

INFORMAL SUMMARY RECORD

EXECUTIVE BOARD RETREAT
November 12 and 13, 1991

Executive Directors held informal discussions, under the chairmanship of the Managing Director, during a retreat on November 12-13, 1991 at Westfields Conference Center, in Chantilly, Virginia. A list of the participants appears at the end of this informal summary record.

The Directors' discussion focused on the following topics outlined in memoranda from the Managing Director (12/11/91) and the Secretary (12/10 and 12/11/91): (1) monetary guidance for the U.S.S.R.; (2) the role of the Fund in the 1990s; (3) strengthening surveillance of the major developed countries; and (4) Board procedures. There was not sufficient time to take up the fifth scheduled item--issues related to the financing of the Fund, based on a paper prepared by the Treasurer's Department and circulated in the Secretary's memorandum of December 10, 1991; Directors agreed to discuss that subject on another occasion in the near future.

The following informal summary is meant to reflect the main ideas and themes that Directors discussed and, where applicable, the main conclusions drawn by the Managing Director, and the text is otherwise without personal attribution.

I. Monetary guidance for the U.S.S.R.

The Managing Director asked Directors to comment on the guidance that management and staff should provide to the U.S.S.R. on monetary policy, particularly with respect to the choice between separate currencies and a common currency.

Speakers generally agreed that recent developments underscored the need in the U.S.S.R. for discipline in monetary policy as well as fiscal policy with a view to ensuring, inter alia, financial stability and orderly trade among the Republics and between them and the rest of the world.

There was some feeling that the Fund should strongly encourage the Republics to maintain a uniform monetary policy through a single central institution and currency. Those Directors stressed that the present trend toward separate currencies for each Republic was bound to fuel inflation. In that connection, the Republics should be encouraged to avoid the mistakes of other regions that had tried, at great cost, separate policies and currencies. Those speakers stressed that the relations between the Republics remained important, especially in the trade area.

Other speakers underscored that the conditions in the Republics for a unified policy and currency were clearly unfavorable: the Republics distrusted one another; each Republic seemed determined to express its nationalism through the establishment of a separate currency; and the "center" of the region--Russia--was unlikely to maintain the strong policies that could make the ruble serve as a regional currency. In the final analysis, those speakers said, the relations--economic and otherwise--between the Republics were significantly affected by political developments, and the Fund was not well equipped or duty bound to become involved in politically-based issues. Some of the same speakers added that the Fund should nevertheless point out to the Republics their shared substantial communal interests and help them strengthen their economic polices within a framework of regional cooperation. In that connection, the Republics should be made aware that, given the predominance of Russia, the pursuit of separate currencies could make Republics more--not less--dependent on Russia over time.

The Republics might profitably consider intermediate steps--a currency board or a payments union--to either separate currencies with or without a peg to a single strong currency, or a single currency for the region. However, some speakers cautioned that even such looser ties might not be feasible in the current climate of distrust and upheaval.

Some speakers stressed that the choice of currency was a matter for the Republics to make, and that the Fund's advice must stress the link between sound fiscal policy, appropriate pricing policy, currency stability, and orderly trade flows. The Fund would, nevertheless, need to explain the pros and cons of each currency arrangement alternative in view of the very limited understanding in the Republics other than Russia and the Ukraine of the policy options available and their consequences.

The Managing Director said that, on the basis of the discussion, he would conclude that management and staff should send simple messages to the Republics based on the following basic points:

1. It is the Fund's absolute duty to say to the Republics that they should establish a stable currency with the aim of making it a credible store of value.

2. Such a stable and credible currency can be preserved only in an environment of sound macroeconomic policies; the Fund has ample experience and facts to verify this.

3. The choice of a monetary union or separate currencies is a distinct sovereign choice.

4. Going it alone--with a separate currency--does not necessarily make it easier to stabilize and manage an economy.

5. The Fund must convey a strong message that sound budgetary, monetary, and trade policies would be required under any currency system.

6. A separate currency/monetary system does not make a country less dependent on its neighbors. Regional and international cooperation are an integral part of the economic system of any individual country.

7. A payments union could help, but it is not a panacea--it is a transitional instrument to preserve trade flows while the region is in the process of structural transformation.

In sum, the Fund should make it clear that the Republics should follow two commandments: (1) fiscal and monetary discipline must be pursued under any monetary and currency arrangements; and (2) efforts should be made to avoid the mistakes of other regions, and, in this connection, the main lesson is that it is clearly best for the Republics to cooperate with one another.

II. Role of the Fund in the 1990s

The Managing Director invited Directors to consider the role of the Fund in the 1990s. He noted that the staff had outlined a number of challenges facing the Fund and possible areas of increased Fund activity in the memorandum from the Secretary of December 11, 1991.

Some speakers referred to one vision of the Fund's role that had been developed in Mr. Goos's statement on the medium-term budget outlook at EBM/91/166 (12/11/91). He had maintained that, because of its prolonged financial involvement in developing countries in an attempt to help them deal with structural problems, the Fund had deviated from its monetary character and had become more like a development institution. In that connection, the Fund had developed special instruments--the ESAF, for example--to support adjustment over the longer run, but that kind of adjustment, useful as it might have been, was more properly the responsibility of other institutions. Accordingly, in the 1990s, the Fund should take the following steps to reaffirm its monetary character: stress short-term involvement in solving individual members' balance of payments problems; emphasize that price and balance of payments stability are prerequisites for sustainable economic growth; regain the Fund's intellectual leadership in the areas of macroeconomic policy and systemic issues; and enhance the effectiveness of the Fund's surveillance over the main players in the global economy.

Other speakers said that they fully agreed that the Fund should take a leading role in systemic issues; they noted, for example, that the Fund had not made a significant contribution to EC monetary issues in recent years, owing partly to the unwillingness of EC members to encourage close involvement by the Fund and partly to the Fund's own priorities. There was some feeling that the Group of 7 had too heavy a hand in setting those priorities. Some Directors suggested that the Fund should pay special attention to the monetary aspects of its surveillance, and it was agreed that in the coming six months the Board should hold a discussion on progress toward economic and monetary union in the EC.

Some speakers also said that, while the Fund must continue to respond rapidly and effectively to emergency situations, longer-term involvement in individual countries was inevitable given the problems facing governments. While they agreed that the Fund's main task was to provide advice to help members to improve their macroeconomic management and redress their balance of payments deficits, that task could not always be accomplished in the short run; this had prompted the Fund to adapt its facilities and intervention in dealing with the particular situation of member countries. In these circumstance, the ESAF was an appropriate Fund instrument, as macroeconomic policies and structural adjustment issues were interrelated in many countries. Several speakers considered that the ESAF was an example of the adaptation over time that the Fund must make to meet the current pressing needs of the membership and remain a relevant institution. The interrelationship of macroeconomic and structural policies underscored the importance of cooperation between the Fund and other international organizations. Some speakers considered that the Fund's involvement in structural adjustment should be mainly in those areas that touch on monetary and fiscal policy. It was remarked that if the Articles of Agreement were written anew today, some of them might well be different from the current Articles.

The Managing Director said that, in the light of the discussion, Directors seemed to agree on the following basic points:

1. In discharging it mandate the Fund must of course always have in mind the requirements of the Articles of Agreement. At the same time, the Fund must above all meet the needs of the membership. The Fund must have its own

vision of its role and be ready to step in full force to meet challenges that might affect the Fund's mission. The Fund has been effective in stepping in to handle crises--responding quickly to emergency situations. In doing so, however, the Fund does more than merely fight fires; it paves the way for others--such as the World Bank--to step in.

2. Until recently, the Fund has been able to avoid giving the impression that when it moves to deal forcefully with emergency situations in one region, it may be neglecting other duties and regions. However, with the crisis in the Soviet Union, the Fund has, for the first time, been forced to make difficult choices in the performance of its various duties. It is certainly regrettable to have to reduce the Fund's surveillance efforts temporarily in some regions, but the institution faces a real danger of losing its relevance if it were to stand on the sidelines while major events occur that significantly affect whole regions and the international monetary system.

3. In the current difficult and challenging circumstances, the Fund should enhance its basic work in the following areas:

(a) Surveillance should be strengthened, be more effective, and include a regional dimension, particularly with respect to the EC. In that connection, the monetary aspect of surveillance should be given adequate emphasis. The Fund needs to strike a proper balance between monetary and fiscal policy on the one hand, and structural adjustment reforms on the other.

(b) The Fund should emphasize strong conditionality, and, therefore, where appropriate it should make extensive use of instruments with the strongest conditions, such as the ESAF.

(c) The Fund should enhance and preserve its intellectual leadership, through its work on systemic issues--including the international monetary system--and the world economic outlook. This effort is essential for the Fund's credibility.

(d) In its ongoing efforts in all those areas, the Fund has been acting within its charter and has not gone beyond its legal authority.

III. Strengthening surveillance of the major developed countries

Directors then took some additional time to consider possible ways in which to strengthen the surveillance of the major industrial countries.

Speakers agreed that the Fund had already made a substantial effort to examine and report on developments in the major industrial countries; in addition, the quality of the documents involved had steadily increased in recent years. While those countries may not have followed the Fund's advice all the time, there were indications that the availability of the Fund's views--in staff reports, summings up, and published documents--did influence policymaking in major countries by bolstering the case for adjustment and strengthening the hand of the proponents of these policies within each country. Hence, every effort should be made to continue to improve the quality of the Fund's research and policy advice as presented in various staff documents.

In addition, it was felt that it might be useful for the Managing Director to visit a government of a major industrial country soon after the Board's discussion of the country in order to stress the importance of the policy recommendations contained in the summing up. In some cases, supplementary consultations might prove helpful. There was a broadly based feeling that the Fund should not encourage regular publication of staff reports and summings up; in principle, the Fund's influence tends to be greatest when confidentiality is respected. The decision whether or not to publish should be left to each government.

IV. Board procedures

The Managing Director, noting that the Board's work load was likely to remain very heavy in coming years, invited Directors to consider possible ways of further improving their work procedures, particularly in the context of the lead speaker system.

It was noted that the lead speaker system had helped the Board in handling its heavy meeting schedule. However, there was clearly room for improvement, as the number of lead speakers tended to be large, and nonlead speakers often made unnecessarily long statements. It would be helpful to have the staff circulate, on a regular basis, a reminder of the various procedures that the Board had agreed it would follow in conducting its meetings. In addition, the staff appraisal in reports for Article IV consultations could be recast to emphasize the policy issues on which Directors should focus their statements at Board meetings; the statements should center on the points of difference with the staff appraisal. In addition, speakers stressed that it would be helpful to continue the effort to reduce the length of staff documents.

Directors confirmed the principle--which was an important part of the Board's practice of reaching agreement by consensus--that Board debate should always be unrestrained by firm limits on interventions by individual speakers. At the same time, it would be helpful to experiment over the coming three months with the following informal guidelines: (1) the number of lead speakers would normally be limited to six; (2) each lead speaker would be expected to have in mind an informal time limit of 10 minutes per speaker; (3) if more than six lead speakers were thought to be necessary, all the lead speakers would be asked to have in mind an informal time limit of 7 minutes per speaker; (4) for nonlead speakers the informal time limit would be 3 minutes per speaker; (5) lead and nonlead speakers would be expected to circulate buffs or grays whenever possible; and (6) Directors who wished to be lead speakers should so notify the Secretary by 1:00 p.m. the day before a meeting. The Directors agreed that the informal guidelines should be reviewed after three months.

It would be helpful, some Directors added, to have an understanding that a Director need not be a lead speaker in order to evidence his particular interest in a country on the agenda; he could submit a full statement for the record as a nonlead speaker. Some speakers said that it would be useful to encourage Assistants to stick to the procedures under the lead speaker system.

Directors agreed that it would be useful to hold informal luncheon discussions with the Managing Director on a more regular basis. The Secretary was asked to canvass Directors' offices to determine how often those informal discussions should be held.

There was some discussion of the usefulness of the present practice of having full minutes for most discussions. A few Directors considered that full minutes need not be prepared for all country discussions. Most speakers said that they preferred to have a full record of all interventions as a part of the Board's contribution to policy making and decision making in the Fund.

Participants in Retreat on December 12-13, 1991

Mr. Michel Camdessus

Executive Directors:

Mr. M. Al-Jasser
Mr. P. Che
Mr. C. S. Clark
Mr. T. C. Dawson
Mrs. Q. M. Krosby
Mr. E. A. Evans
Mr. L. E. N. Fernando
Mr. R. Filosa
Mr. M. Finaish
Mr. I. Fridriksson
Mr. H. Fukui
Mr. B. Goos
Mr. A. Kafka
Mr. J.-P. Landau
Mr. A. Mirakhor
Mr. L. B. Monyake
Mr. D. Peretz
Mr. G. A. Posthumus
Mr. C. V. Santos
Mrs. T. Sirivedhin
Mr. A. Torres
Mr. A. Végh

Others:

Mr. P. Andrews
Mr. S. T. Beza
Ms. J. E. Billenstein
Mr. J. T. Boorman
Mr. K. Friedman
Miss G. S. Jacob
Mr. M. Mussa
Mr. P. R. Narvekar
Mr. L. Van Houtven
Mr. D. Williams