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0404

January 19, 1990

To: Members of the Executive Board

From: The Secretary

Subject: Final Minutes of Executive Board Meeting 89/58

The following corrections have been made in the final minutes of EBM/89/58 (5/19/89):

Page 5, last para., line 2: for "reduction would have"
read "reduction and the...would have"

lines 4-6: for "operations. Whether...on the Fund's"
read "operations. Given...on the Fund's"

Page 6, lines 3 and 4 : for "to take place until"
read "to take effect until"

Corrected pages are attached.

Att: (2)

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Department Heads

should not take the contradictory position of allowing explicit additional access without having decided on the quota increase.

Mr. Goos said he shared the concerns and views that the two previous speakers had expressed, in particular Mr. Enoch's comments on the need to give the banks a clear indication on the limits of what they could expect from the international financial institutions, and also the need for consistent application of the Board's decisions to future requests and programs. He also shared the concerns expressed by Mr. Hogeweg with regard to the liquidity situation. The staff, in assessing the liquidity situation, had concluded that it anticipated rather fundamental changes in existing policies with regard to enlarged access policy. The staff had stated that the Fund would, for example, replace borrowed resources--which were an integral part of the enlarged access policy--with ordinary resources, and that if liquidity difficulties emerged, the Fund would consider further borrowing. Those issues were of such a fundamental nature that it was very difficult to accept a passing mention of them. Furthermore, as Mr. Hogeweg had said, even on those assumptions, which first needed to be translated into concrete decisions, the conclusion reached was that the liquidity situation was only satisfactory until the end of the year; by the beginning of 1990 there would apparently be uncertainties. That was an extremely weak basis on which to take the kind of decisions before the Board; those problems also led immediately to the question of the quota increase.

The Chairman commented that neither management nor staff was seeking approval "en passant" for fundamental decisions on the Fund's liquidity policies. The staff had provided a paper on the liquidity situation, but no policy changes were being proposed; those major policy decisions would have to be considered in depth in the appropriate context, and at the time of the discussion on liquidity. He fully recognized the problem of the exhaustion of borrowed resources, which could necessitate policy decisions--such as that taken in the past--to substitute ordinary resources for borrowed resources. However, the Executive Board would have to take that decision, and in time, it would also have to take the correct decision to increase the quotas.

Mr. Ovi said that his authorities certainly accepted that the Fund's role in the debt strategy should be guided by a case-by-case approach and should be flexible. Still, bearing in mind the need for banks and the outside world to know the limits of Fund involvement, there were a few areas where the proposed guidelines needed clarification and in some cases even needed to adopt the character of more general rules.

He welcomed the note on liquidity, Mr. Ovi continued, but it clearly showed that set-asides for debt reduction and the implied trend toward programs under extended Fund arrangements would have a significant impact on the Fund's liquidity position in addition to the possible effect of interest support operations. Given the fact that the Fund would very soon be running out of borrowed resources, the full impact would necessarily fall on the Fund's own ordinary resources. His authorities certainly agreed with the staff assessment that on balance and in the immediate period ahead the Fund's resources were adequate, but there was a clear link to the timing and size of the quota increase. His authorities had a clear preference for no additionality to take effect until a decision was taken on the quota issue; any additionality not only presupposed that a quota decision would be reached later that year, it also carried important implications for the size of the quota increase. Additionality of any sort would come on top of the already very significant demand for higher quotas due to overall growth in the world economy and the need to phase out borrowing. That needed to be recognized in the context of debt reduction, although without a formal link.

Mr. Finaish said that there was a section in the main staff paper on collaboration with the World Bank, and some speakers had already referred to the Bank and the importance of its role, but the Board did not really know what the Bank was or would be doing.

The Chairman replied that the management and staff were in close contact with the World Bank on debt-related issues, and the two institutions were in essence of one mind. They had different calendars for Board discussions, and the two institutions had to take their own decisions within their own regulations and purposes, but they agreed on the importance of and the limits on their actions on debt reduction.

Mrs. Filardo made the following statement:

> We agree with the staff that the Fund should not establish rigid rules which could prove difficult to operate, especially given the uncertainty surrounding the final outcome of the Brady initiative. Much work remains to be done, related in particular to waivers and the harmonization of tax and accountancy regulations, which in many cases depend on legislative modifications in the member countries. Thus, it is important to focus on the experiences of the different cases under consideration, and on those coming before the Board in the future, in which we should aim to review and enhance the procedure when necessary. But we should not delay its implementation, as it is urgent to advance the debt strategy and to obtain results.
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> It is crucial that all countries with debt overhangs and strong programs be eligible for debt reduction operations, taking into account the importance of attaining and sustaining an acceptable rate of economic growth, together with external viability. To this end, it is very important to assess the debt service ratios of a country, evaluating the effect of different financing alternatives--such as new money or refinancing at market interest rates, or debt reduction and debt service reduction--on its balance of payments. Whether there is scope for voluntary market-based operations that would help a country to regain access to credit markets depends in part on the kind of judgment exercised for this purpose. It is fundamental not only