April 1, 1982

To: Members of the Executive Board

From: The Secretary

Subject: Final Minutes of Executive Board Meeting 81/42

The following corrections have been made in EBM/81/42 (3/20/81):

Pages 1 and 2, contents: item numbers corrected

Page 3: title of item 1 should read: "SPECIAL DRAWING RIGHTS DEPARTMENT - DESIGNATION PLAN FOR MARCH-MAY 1981; AND OPERATIONAL BUDGET FOR MARCH-MAY 1981"

delete title of item 2

Page 6: decisions should be identified, respectively, to read:

"a. Designation Plan for March-May 1981" and

"b. Operational Budget for March-May 1981"

item "3" should read item "2"

Pages 12, 17, 36, and 37: item numbers corrected.

Corrected pages are attached.

Att: (8)

Other Distribution:
Department Heads

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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 81/42

10:00 a.m., March 20, 1981

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

Executive Directors	Alternate Executive Directors
	O. Kabbaj
	L. D. D. Price
A. Buira	M. A. Senior
	D. E. Syvrud
	H. G. Schneider
B. J. Drabble	M. Casey
M. Finaish	
T. Hirao	A. Nagashima
	R. T. Salazar
M. B. Jalal	H. G. Askari, Temporary
A. Kafka	J. R. Gabriel-Peña
B. Kharmawan	V. Supinit
S. Kiingi	F. Sangare
G. Laske	G. Winkelmann
	C. P. Caranicas
	P. D. Peroz, Temporary
	A. Alfidja
M. Narasimham	
J. J. Polak	
A. R. G. Prowse	P. L. Mapa, Jr.
J. Sigurdsson	L. Vidvei
Zhang Z.	Tai Q.

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

Corrected: 4/1/82

Also Present
H. E. Kastoft, Executive Secretary, Development Committee. African Department: L. M. Goreux, Deputy Director; J. M. Jimenez, J. W. Kratz, J. F. Laker. Asian Department: P. R. Narvekar, Deputy Director; J. T. Boorman, R. G. Di Calogero, W. G. L. Evers, H. P. G. Handy, R. J. Hides, R. J. Niebuhr, J. Schulz, D. A. Scott, S. Shah. European Department: L. Alexander, M. Dakolias, R. H. van Til. Exchange and Trade Relations Department: M. Guitian, R. R. Selby. Legal Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy General Counsel; H. Elizalde, W. E. Holder, Ph. Lachman, J. M. Ogoola, J. K. Oh, S. A. Silard. Middle Eastern Department: H. E. Jakubiak. Research Department: W. C. Hood, Economic Counsellor and Director; C. F. Schwartz, Associate Director and Director of Adjustment Studies; R. R. Rhomberg, Deputy Director; G. I. Brown, K.-Y. Chu, L. U. Ecevit, U. R. Gunjal, N. M. Kaibni, G. Khatchadourian, P. Radhakrishnan, J. S. Smith, P. C. Ugolini. Treasurer's Department: D. Williams, Deputy Treasurer; D. Gupta, R. W. Ley, M. Sami, T. M. Tran. Western Hemisphere Department: S. T. Beza, Deputy Director; P. Habanananda, M. E. Hardy, A. Pera, G. Yadav, E. V. Zayas. Bureau of Statistics: R. J. Walton. Office of

1. SPECIAL DRAWING RIGHTS DEPARTMENT - DESIGNATION PLAN FOR MARCH-MAY 1981; AND OPERATIONAL BUDGET FOR MARCH-MAY 1981

The Executive Directors considered the proposed designation plan for March-May 1981 (EBS/81/48, 3/6/81; Cor. 1, 3/13/81; and Sup. 1, 3/18/81) and the operational budget (EBS/81/49, 3/6/81) for the same period.

The Deputy Treasurer observed that some SDR 700 million in transactions involving designation had taken place since the proposed plan had been issued on March 6, especially in the past few days. Because of the substantial change in excess holdings ratios, the staff had felt it necessary to issue a revised plan at short notice (EBS/81/48, Sup. 1).

A large amount of currencies had been sold under the operational budget, the Deputy Treasurer continued, but the amount was not reflected in the allocation of transfers or receipts because more than half the amount (SDR 300 million) had been in SDRs and thus did not affect members' positions, and the remainder ($200 million) had been in U.S. dollars, which were in the present budget and were also proposed for the new budget for preassigned amounts and thus did not affect the allocations for other members.

Mr. Kafka stated that his authorities had raised no objections to the operational budget or the original designation plan. With respect to the revised designation plan, he had been able to contact only Brazil, which had not objected; he reserved his position on the designation plan for the remaining countries in his constituency--Colombia, Ecuador, Suriname, and Trinidad and Tobago.

Mr. Kharmawan noted that two countries in his constituency--Singapore and Indonesia--had been included in both the operational budget and the designation plan. The Indonesian authorities had indicated that they had no difficulty with Indonesia's inclusion in the operational budget; while there had been no time for a response on the revised designation nation plan, he had no reason to believe that the authorities would object to the proposed higher amount.

He had received no response from the Singapore authorities on either the operational budget or the designation plan, Mr. Kharmawan continued. He doubted that the authorities would object to Singapore's inclusion in the operational budget, but he was certain that the revised designation plan would cause them some difficulty. The organizational structure of the Monetary Authority of Singapore was in a state of transition at present, and the proposed new amounts for Singapore might not be understood. In the circumstances, he asked for Singapore to be included only for the original figure of SDR 2 million.

Mr. Kabbaj observed that, in the revised proposed designation plan, Algeria would be designated for an amount of SDR 8.3 million, which was substantially greater than the SDR 5.5 million figure in the original plan. Time constraints had made it difficult for his authorities to respond to the new figure, so that he wished to reserve their position with respect to the designation plan.

Mr. Kiingi remarked that the countries in his constituency that had been included in the operational budget and designation plan had not responded to the staff proposals. As was normal practice, he assumed their concurrence unless objections were raised.

Mr. Caranicas stated that his Maltese authorities had not objected to Malta's inclusion in the operational budget, although they had not been pleased by the proposed amount. No response had been received from the authorities regarding the revised proposed designation plan, and he reserved Malta's position on the matter. In connection with the revision, he wondered whether in future any way could be found to avoid substantial and sudden changes to the proposed operational budgets and designation plans.

Mr. Polak said that he could support both the proposed operational budget and the designation plan.

Mr. Finaish commented that, of the countries in his constituency included in the designation plan, Kuwait and Libya had indicated no objection to the plan. Qatar and the United Arab Emirates had not replied, but he did not anticipate any objection from them. Libya had indicated acceptance of its inclusion in the operational budget; he had received no reply from Kuwait, Qatar, the United Arab Emirates, or the Yemen Arab Republic. Bahrain had no objection in principle to being included in operational budgets, so long as its balance of payments and reserve positions were strong, the frequency with which it was included was limited, and the amounts were reasonable. The authorities had found the amount for which Bahrain had been included in the proposed budget to be quite large, and he had already spoken to the staff on that matter. In general, it might be useful, when countries were included for the first time in the operational budget, if the staff could explain to the authorities in some detail the legal background for, and mechanics of, the operational budget and designation plan.

Mr. Price indicated that his authorities were content with their inclusion in the operational budget and designation plan for the amounts proposed.

The Deputy Treasurer, responding to a point raised by Mr. Caranicas, noted that the staff would not ordinarily propose a revision in the designation plan based on a normal volume of transactions involving designation. However, the SDR 700 million in transactions that had recently taken place had been too large to ignore, particularly as it had altered the holdings of SDRs substantially. On Mr. Finaish's point, the staff had in the past provided a number of member countries with informal documentation explaining the background and mechanics of the operational budget and designation plan and would be in touch with Mr. Finaish's office on the matter of providing such information to members of his constituency.

Commenting on Mr. Kharmawan's request to reduce the maximum designation amount for Singapore from SDR 6.6 million to SDR 2 million, the Deputy Treasurer stated that the staff would have no difficulty, from a technical point of view, in meeting the request because the amounts were not material. However, such a reduction would breach the principle of proportionate allocations.

Mr. Caranicas suggested that, if an exception was to be made for Singapore, the Board might also be willing to reduce the amount for which Malta had been designated, particularly since the amount in Malta's case was so small.

The Deputy Treasurer remarked that it was precisely because the amount was so small that the staff had felt that the increase would not have caused difficulty for Malta. However, if there was a consensus in the Board for reducing the amount, the change could be made.

Mr. Schneider commented that the amount for Singapore also seemed small, particularly given the level of gross reserves for Singapore at end-October.

Mr. Kharmawan agreed that, in absolute terms, the proposed increase was not large. The difficulty had to do with the suddenness of the pro-oposed increase and the fact that the monetary authorities at the central bank in Singapore were in a state of transition.

Mr. Syvrud wondered whether it was possible tentatively to leave Singapore in the designation plan for the proposed amount, allowing time for Mr. Kharmawan to confer with the authorities. If, after such a conference, the authorities indicated that they had difficulty with the amount, the Board could agree to reduce it.

Mr. Laske agreed with Mr. Syvrud. Since the designation plan and its revision had been prepared on the basis of guidelines that had been agreed in the Board, they should be followed where possible. In the past, where last minute revisions had been proposed, the procedure suggested by Mr. Syvrud had been followed and the designation plan had been adopted subject to the final consent of the authorities once contact with them had been made. Another possibility might be to agree that the additional amount for which Singapore had been designated in the proposed plan would be made use of only toward the end of the plan period, so that the authorities in Singapore could be given more time to consider the effects of the increase.

Mr. Kabbaj wondered whether the Board would be willing to apply Mr. Syvrud's suggestion to the case of Algeria, allowing him to reserve Algeria's position for the time being until he had had an opportunity to consult with the authorities.

Mr. Kafka, Mr. Mapa, Mr. Narasimham, and Mr. Kiingi said that they were prepared to accept Mr. Kharmawan's request.

Mr. Polak inquired whether, as a way of maintaining the principle of proportionate allocations, it could be said that the Executive Board had been prepared to amend the plan at the request of Mr. Kharmawan, but that it would restore the balance of the amount for Singapore if he could convince the authorities to agree to that amount during the plan period.

Mr. Kharmawan stated that he was willing to follow Mr. Polak's suggestion.

After a further brief discussion it was agreed to amend the proposed designation plan by including Singapore for SDR 2 million--and asking Mr. Kharmawan to attempt, during the execution of the plan, to obtain his authorities' agreement to the additional SDR 4.6 million--and by deleting Malta altogether. The staff would take note of the various observations by Executive Directors on other points.

The Executive Board then took the following decisions:

a. Designation Plan for March-May 1981

The Executive Board approves the designation plan for the quarterly period beginning March 20, 1981, as set out in EBS/81/48, Supplement 2 (3/20/81).

Decision No. 6785-(81/42) S, adopted
March 20, 1981

b. Operational Budget for March-May 1981

The Executive Board approves the operational budget for the quarterly period beginning March 20, 1981, as set out in EBS/81/49 (3/6/81).

Decision No. 6786-(81/42), adopted
March 20, 1981

2. ST. VINCENT AND THE GRENADINES - PURCHASE TRANSACTION - COMPENSATORY FINANCING FACILITY

The Executive Directors considered a request by St. Vincent and the Grenadines for a purchase equivalent to SDR 1.3 million under the compensatory financing facility (EBS/81/46, 3/3/81; and Sup. 1, 3/16/81).

Even if the double compensation approach were to be followed, the Deputy Managing Director continued, the figures on page 4 of the staff paper (EBS/81/46) made it clear that the proposed purchase under the compensatory financing facility would be justified in any event because the judgmental shortfall (SDR 2.9 million) was far larger than the proposed purchase under the compensatory financing facility (SDR 1.3 million) together with the amount provided under the emergency drawing (SDR 0.4 million in the first credit tranche and SDR 0.3 million in the reserve tranche).

Mr. Polak stated that he had been satisfied by the answers to his question on double compensation. Still, if a similar case arose in the future, Executive Directors should be willing to state in the decision providing emergency assistance that the Fund would not wish the emergency assistance in question to be duplicated by a compensatory financing transaction for the same shortfall.

The Chairman remarked that he continued to have difficulty with Mr. Polak's suggestion. It was possible to view the emergency assistance provided to St. Vincent as the first installment on a future stand-by arrangement or longer-term arrangement rather than an installment on a future compensatory financing facility drawing. Indeed, at the time of the emergency drawing, it had been stated that "the Government of St. Vincent will discuss with the Fund staff early in 1981 an adjustment program." Such a statement suggested that the emergency assistance would be integrated into a later adjustment program. It had also been stated at the time of the emergency that "in addition, St. Vincent will in all probability qualify by late 1980 or early 1981 for purchases under the compensatory financing facility."

Mr. Sigurdsson considered that Mr. Polak's concern was more with conditionality than with double compensation. Since the emergency assistance had been given to St. Vincent under tranche policy but without a program in place, the usual conditionality had not come into play. Having listened to all the arguments, however, he believed the proposal for a drawing under the compensatory financing facility was fully justified, and he did not feel there was any risk of a precedent for double compensation as between the compensatory financing facility and the emergency assistance.

Mr. Mapa agreed with Mr. Price that, when a proposed compensatory financing facility drawing followed on the heels of emergency assistance that had been provided for a disaster that may have led to the later shortfall, the deciding factor should be the country's balance of payments need. In the case of St. Vincent and the Grenadines, it had been shown that the balance of payments need fully justified the request.

Mr. Casey said that he also tended to side with Mr. Price on the issue under discussion. However, present arrangements for emergency assistance were somewhat vague, and it might be useful in future to discuss and clarify them.

It was still the intention of St. Vincent and the Grenadines to negotiate a medium-term arrangement as soon as possible, Mr. Casey continued, although, as noted by the staff, the country's absorptive capacity made borrowing under such an arrangement at the present time quite difficult. Moreover, the data base in St. Vincent was poor and hampered efforts to establish appropriate performance criteria for an extended Fund facility program. In the circumstances, he believed that the decision to go for the time being with a one-year stand-by arrangement instead of a drawing under the extended Fund facility would be appropriate.

The Executive Board then turned to the proposed decision on St. Vincent's request for a purchase under the compensatory financing facility, which it approved.

The decision was:

1. The Fund has received a request from the Government of St. Vincent and the Grenadines for a purchase of the equivalent of SDR 1.3 million under the Decision on Compensatory Financing of Export Fluctuations (Executive Board Decision No. 6224-(79/135), adopted August 2, 1979).

2. The Fund notes the representation of St. Vincent and the Grenadines and approves the purchase in accordance with the request.

Decision No. 6787-(81/42), adopted
March 20, 1981

3. MALDIVES - 1980 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1980 Article IV consultation with Maldives together with a proposed decision concluding the 1980 Article XIV consultation (SM/81/39, 2/11/81). They also had before them a report on recent economic developments in Maldives (SM/81/40, 2/18/81).

Mr. Finaish made the following statement:

The small, open economy of Maldives has registered substantial progress in recent years. The major thrust for this progress has come from growth in the economy's three main sectors: fishing, tourism, and shipping. Some progress has also been made in further diversifying the productive base of the economy. A large part of this achievement is attributable to the pragmatic development policies pursued by the Government.

These favorable developments continued in 1980. In fact, there was a marked further improvement in the rate of economic

Directors commended the authorities for pursuing pragmatic development and financial policies that have led to rapid economic growth in recent years, mainly through modernization of the traditional fishing industry and development of the tourist sector. They welcomed a number of recent initiatives including a restructuring of the tax system, the formulation of a national plan, and efforts to diversify exports. These actions, in conjunction with continued attention to policies promoting the fishing and tourist sectors, were thought to augur well for the future of Maldives.

Directors noted the need for maintaining tax efforts to raise resources for development and for a more flexible procurement pricing system, and they welcomed the prospective establishment of the Maldives Monetary Authority.

The Executive Board then took the following decision:

Decision Concluding 1980 Article XIV Consultation

1. The Fund takes this decision in concluding the 1980 Article XIV consultation with Maldives, in the light of the 1980 Article IV consultation with Maldives conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Maldives maintains an exchange system that is free from restrictions on the making of payments and transfers for current international transactions.

Decision No. 6788-(81/42), adopted
March 20, 1981

4. FOOD IMPORT COSTS - FUND FINANCIAL ASSISTANCE - PROJECTED OPERATIONAL EXPERIENCE WITH INTEGRATED PLANS

The Executive Directors considered a staff paper outlining variants of a scheme integrated with the compensatory financing facility by which possible assistance could be provided to members adversely affected by higher food import costs (SM/81/52, 3/6/81).

Mr. Kastoft, Executive Secretary of the Development Committee, was present for the discussion.

The Chairman recalled that Executive Directors had discussed the matter of Fund assistance to finance food import costs on various occasions, most recently at EBM/80/179 on December 10, 1980. In its latest paper (SM/81/52), the staff had elaborated on operational aspects of integrated plans and attempted to reply to all remaining unanswered questions that had been put to the staff on December 10, 1980.

What was important was to make as much progress as possible in discussing the matter in preparation for the Interim Committee meeting in Gabon in May, the Chairman continued. Even if a final decision could not be taken until after the meetings in Gabon, it would be helpful if Executive Directors could make their positions clear on the issues for consideration that had been provided by the staff.

In previous discussions, there had seemed to be a drift toward support for an integrated scheme in the compensatory financing facility mechanism, the Chairman noted, and it would be useful in the present discussion to hear from those who had preferred a separate scheme to see whether they might, as a compromise, be able to accept one of the proposed alternatives for an integrated scheme. In that context, he recalled that an 85 per cent majority of the total voting power would be required to approve the food facility, which would float in the reserve tranche. It would be helpful if Directors could speak in particular on the issue of the quota limits as well as on the eight operational questions and staff proposals on pages 35 and 36 of SM/81/52.

The Economic Counsellor noted that there were a number of typographical errors in the text of SM/81/52, which should be corrected. Item c on page 3 of the paper should read: "The net shortfall is calculated as the sum of the geometric shortfall in merchandise exports and the arithmetic excess in gross cereal imports." The words "but up to 12 months" in the fifth line of section 3 on page 35 should be changed to read "for up to 12 months." On page 37, in the paragraph before the footnote, the second line should read: "that overcomes the negativity problem, namely, by calculating the trend of merchandise exports net of cereal imports." The number "16" in the final paragraph on page 38 should read "10," and the reference to "page 16" in the first full paragraph on page 42 should be changed to "page 11."

Mr. Drabble commented that, in general, the staff paper appeared to address all of the questions and many of the problems that had been raised at EBM/80/179. One of the concerns of his authorities--the impact the food facility itself would have on food prices in a period in which there might be an imbalance between supply and demand--had not been directly addressed in the paper. It would have been helpful if some indication could be given of the approximate size of the possible financing involved in the various simulations in relation to total world trade in cereals. He suspected that such a calculation would show that the impact of a food facility on food prices might be fairly marginal, but he would appreciate further elaboration by the staff.

His chair accepted that the food facility scheme was a matter to which Ministers would wish to address themselves at the Interim Committee meeting in Libreville, Mr. Drabble continued. However, the complexity that a developing country was confronted by higher food import costs, its efforts to resolve the problem would be nullified under the integrated scheme because there would be no additional financial assistance available to ameliorate the situation. Faced by such a risk, many members might not use the scheme, even though they had a need for it. Even the staff had recognized implicitly that such a risk would not arise under a separate scheme.

The overall financial requirements of operating the separate scheme, subject to proposed quota limits, appeared to be reasonable and even modest in relation to the magnitude of the problem to be tackled and to the estimates for prospective operations in 1981, Mr. Buira said. He could be flexible with respect to quota limits, although his preference was for ceilings of 100/100/150 per cent of quota.

On other matters of operational policy, Mr. Buira remarked that he could agree with the staff recommendations. First, the facility should be established initially for a specific number of years, and it should be reviewed periodically. Second, if the integrated facility was established, members should be able to declare their decision whether to join the facility on the occasion of their first request after its entry into force. Third, in order to provide for a speedy response in the event of a crop failure, the staff should be permitted to estimate data on cereal imports for up to 12 months of the excess year. He agreed with the view that adjustment should be made to avoid double compensation along the lines suggested by the staff. On the question of coverage, cereals should be defined to include items under Standard International Trade Classification 041-046. Staff suggestions with respect to conditionality and floating were acceptable, and he believed that all Fund members should have access to the facility, although he expected that some groups of members would exercise self-restraint. Finally, since it was important for the Fund to establish a meaningful scheme that would provide significant additionality, he reiterated his reservations about establishing a fully integrated scheme subject to a 125 per cent quota limit. Such a scheme would be of little interest to several countries in his constituency since additionality would be negligible and the risks of joining the scheme would be considerable. He noted that his preference for greater additionality was shared by all potential beneficiaries.

The Executive Directors agreed to continue 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/80/41 (3/13/81) and EBM/81/42 (3/20/81).

5. IVORY COAST - TECHNICAL ASSISTANCE

In response to a request from Ivory Coast for technical assistance, the Executive Board approves the proposal set forth in EBD/81/76 (3/10/81).

Adopted March 13, 1981

6. UGANDA - TECHNICAL ASSISTANCE

In response to a request from Uganda for technical assistance, the Executive Board approves the proposal set forth in EBD/81/75 (3/10/81).

Adopted March 13, 1981

7. RELATIONS WITH GATT - CONSULTATIONS WITH CONTRACTING PARTIES - FUND REPRESENTATION

The Executive Board approves Fund representation at the next round of GATT consultations to be held in Geneva, as set forth in EBD/81/81 (3/13/81).

Adopted March 18, 1981

8. WORKERS' COMPENSATION - WAIVER OF IMMUNITY

The Executive Board approves the proposal set forth in EBAP/81/81 (3/12/81).

Decision No. 6789-(81/42), adopted
March 17, 1981

9. ASSISTANT TO EXECUTIVE DIRECTOR

The Executive Board approves the proposal set forth in EBAP/81/83 (3/13/81).

Adopted March 17, 1981

10. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 80/157 through 80/160 are approved (EBD/81/77, 3/11/81).

Adopted March 17, 1981

11. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 80/161 through 80/164 are approved (EBD/81/80, 3/13/81).

Adopted March 19, 1981

12. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/81/85 (3/16/81) and EBAP/81/87 (3/17/81) is approved.

APPROVED: August 17, 1981

LEO VAN HOUTVEN
Secretary